

EDAP TMS SA  
Form 20-F  
April 30, 2018

As filed with the Securities and Exchange Commission on April 30, 2018

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 20-F**

Registration Statement Pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934,

Or

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 2017

Or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Or

Shell Company Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of the event requiring this shell company report \_\_\_\_\_

000-29374

(Commission file number)

**EDAP TMS S.A.**

(Exact name of registrant as specified in its charter)

France

(Jurisdiction of incorporation or organization)

**Parc d'Activites la Poudrette-Lamartine**

**4/6, rue du Dauphiné**

**69120 Vaulx-en-Velin, France**

(Address of principal executive offices)

**Mrs. Blandine Confort -Tel. +33 4 72 15 31 50, E-mail: bconfort@edap-tms.com**

**Parc d'Activites la Poudrette-Lamartine, 4/6, rue du Dauphiné, 69120 Vaulx-en-Velin, France**

(Name, Telephone, E-mail and Address of Company Contact Person)

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
American Depositary Shares, each representing One Ordinary Share	NASDAQ Global Market
Ordinary Shares, nominal value €0.13 per share	NASDAQ Global Market

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Outstanding shares of each of the issuer's classes of capital or common stock as of December 31, 2017: 28,997,866  
Ordinary Shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes \_\_\_\_\_ No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes \_\_\_\_\_ No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter ) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of "large accelerated filer", "accelerated filer" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer \_\_\_\_\_ Accelerated filer  Non-accelerated filer \_\_\_\_\_ Emerging growth company \_\_\_\_\_

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act. \_\_\_\_\_

† The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP  International Financial Reporting Standards as issued by the International Accounting Standards Board  
If "Other" has been checked in response to the previous question indicate by check mark which financial statement item, the registrant has elected to follow.

Item 17 \_\_\_\_\_ Item 18 \_\_\_\_\_

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes \_\_\_\_\_ No

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## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Unless the context otherwise requires, references herein to “we,” “us,” “our” or “group” are to EDAP TMS S.A. and its consolidated subsidiaries and references herein to the “Company,” “EDAP” or “EDAP TMS” are to EDAP TMS S.A.

We prepare our consolidated financial statements in conformity with United States generally accepted accounting principles (“U.S. GAAP”). In this annual report, references to “euro” or “€” are to the legal currency of the countries of the European Monetary Union, including the Republic of France, and references to “dollars,” “U.S. dollars” or “\$” are to the legal currency of the United States of America. Solely for the convenience of the reader, this annual report contains translations of certain euro amounts into dollars at specified rates. These translations should not be construed as representations that the euro amounts actually represent such dollar amounts or could be converted into dollars at those rates. See Item 3, “Key Information—Exchange Rates” for information regarding certain currency exchange rates and Item 11, “Quantitative and Qualitative Disclosures about Market Risk” for a discussion of the effects of fluctuations in currency exchange rates on the Company.

The following are registered trademarks of the Company in the United States: EDAP TMS® & associated logo, EDAP®, Technomed®, Ablatherm®, Ablasonic®, Ablapak®, Sonolith i-sys®, Sonolith i-move®, Focal.One®. This annual report also makes references to trade names and trademarks of companies other than the Company.

## CAUTIONARY STATEMENT ON FORWARD-LOOKING INFORMATION

This annual report includes certain forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933 (the “Securities Act”) or Section 21E of the U.S. Securities Exchange Act of 1934 (the “Exchange Act”), which may be identified by words such as “believe,” “plan,” “intend,” “should,” “estimate,” “expect” and “anticipate,” or similar expressions, which reflect our views about future events and financial performance. Forward-looking statements involve inherent known and unknown risks and uncertainties including matters not yet known to us or not currently considered material by us. Actual events or results may differ materially from those expressed or implied in such forward-looking statements as a result of various factors that may be beyond our control. Factors that could affect future results or cause actual events or results to differ materially from those expressed or implied in forward-looking statements include, but are not limited to:

- the success of our HIFU technology;
- the clinical and regulatory status of our HIFU devices in various geographical territories;
- the uncertainty of market acceptance for our HIFU devices;
- the uncertainty in the U.S. FDA review and approval process for any of our devices and changes in FDA recommendations and guidance;
- effects of intense competition in the markets in which we operate;

- the uncertainty of reimbursement status of procedures performed with our products;
- the market potential for our Sonolith lithotripter range and our HIFU devices;
- the impact of government regulation, particularly relating to public healthcare systems and the commercial distribution of medical devices;
- dependence on our strategic supplier;
- any event or other occurrence that would interrupt operations at our primary production facility;
- reliance on patents, licenses and key proprietary technologies;
- product liability risk;
- risk of exchange rate fluctuations, particularly between the euro and the U.S. dollar and between the euro and the Japanese yen;
- fluctuations in results of operations due to the cyclical nature of demand for medical devices;
- risks associated with the current uncertain worldwide economic, political and financial environment;
- risks associated with the May 2013 Warrants and April 2016 Warrants;
- risks relating to ownership of our securities; and
- risks relating to securities litigations involving class actions.

You should also consider the information contained in Item 3, “Key Information—Risk Factors” and Item 5, “Operating and Financial Review and Prospects,” or further discussion of the risks and uncertainties that may cause such differences to occur. Forward-looking statements speak only as of the date they are made. Other than required by law, we do not undertake any obligation to update them in light of new information or future developments.

## PART I

**Item 1. Identity of Directors, Senior Management and Advisors**

Not applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not applicable.

**Item 3. Key Information****Selected Financial Data**

The following table sets forth selected consolidated financial data for the periods indicated. This information is qualified by and should be read in conjunction with the consolidated financial statements and the Notes thereto included in Part III of this annual report, as well as Item 5, “Operating and Financial Review and Prospects.” The selected balance sheet data as of December 31, 2017 and 2016 and the selected income statement data for the years ended December 31, 2017, 2016 and 2015 set forth below have been derived from our consolidated financial statements included in this annual report. These financial statements, together with our consolidated financial statements have been prepared in accordance with U.S. GAAP. To date, we have not been required, and presently are not required under French law, to prepare consolidated financial statements under French GAAP or IFRS, nor have we done so.

<b>In thousands of euro, except per share data in euro</b>	<b>Year Ended and at December 31,</b>				
	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>INCOME STATEMENT DATA</b>					
Total revenues	35,746	35,611	32,253	26,785	24,080
Total sales	35,686	35,579	32,218	26,252	24,065
Gross profit	14,808	16,411	13,785	11,201	9,319
Operating expenses	(16,835 )	(16,019 )	(13,298 )	(12,937 )	(12,074 )
Income (loss) from operations	(2,027 )	392	488	(1,736 )	(2,755 )



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Basic Income (loss) from operations per common share	(0.07	)	0.01	0.02	(0.07	)	(0.13	
Diluted Income (loss) from operations per common share	(0.07	)	0.01	0.02	(0.07	)	(0.13	
Income (loss) before income taxes	(294	)	4,444	(907	)	(396	) (4,886	
Income tax (expense) benefit	(388	)	(602	)	(759	)	(116	) (135
Net income (loss)	(681	)	3,842	(1,667	)	(512	) (5,021	
Basic earnings (loss) per share	(0.02	)	0.14	(0.07	)	(0.02	) (0.24	
Diluted earnings (loss) per share	(0.02	)	0.13	(0.07	)	(0.02	) (0.24	
Dividends per share <sup>(1)</sup>	—		—	—	—		—	
Basic weighted average shares outstanding	28,961,928		27,823,313	25,021,966	23,601,428		20,593,	
Diluted weighted average shares outstanding	28,961,928		29,365,583	25,021,966	23,601,428		20,593,	

BALANCE SHEET DATA

Total current assets <sup>(2)</sup>	39,574		40,502	32,992	26,575		22,103
Property and equipment, net	3,682		2,770	2,123	2,122		1,655
Total current liabilities	16,134		15,010	16,271	12,158		11,589
Total assets	46,897		46,591	38,581	32,154		26,874
Capital lease obligations, less current portion	528		313	294	355		378
Long-term debt, less current portion	834		3,665	4,798	2,434		3,678
Total shareholders' equity	25,158		24,451	14,430	15,141		9,284

No dividends were paid with respect to fiscal years 2013 through 2016 and subject to approval of the annual (1) shareholders' meeting to be held in 2018 the Company does not anticipate paying any dividend with respect to fiscal year 2017. See Item 8, "Financial Information — Dividends and Dividend Policy."

(2) Years 2016 to 2013 were amended to reflect deferred tax assets reclassification due to the adoption of ASU 2015-17.

**EXCHANGE RATES**

Fluctuations in the exchange rate between the euro and the dollar will affect the dollar amounts received by owners of American Depositary Shares (“ADSs”) representing ordinary shares of the Company (“Shares”) on conversion by the Depository of dividends, if any, paid on the Shares in the form of ADSs. Moreover, such fluctuations may affect the dollar price of our ADSs on NASDAQ.

The following table sets forth, for each of the years indicated, the high, low, average and year-end Noon Buying Rates expressed in euro per \$1.00. The rate is derived from the noon buying rate in The City of New York for cable transfers in euro as certified for customs purposes by the Federal Reserve Bank of New York (the “Noon Buying Rate”).

<b>Year ended December 31,</b>	<b>High</b>	<b>Low</b>	<b>Average<sup>(1)</sup></b>	<b>End of Year</b>
	€	€	€	€
2013	0.78	0.72	0.75	0.73
2014	0.83	0.72	0.75	0.83
2015	0.95	0.83	0.90	0.92
2016	0.96	0.87	0.90	0.95
2017	0.96	0.83	0.89	0.83

<sup>(1)</sup> The average of the Noon Buying Rates on the last business day of each month during the year indicated. See “Presentation of Financial and Other Information” elsewhere in this annual report.

The following table sets forth, for each of the previous six months, the high and low Noon Buying Rates expressed in euro per \$1.00.

	<b>High</b>	<b>Low</b>	<b>End of Month</b>	
	€	€	<b>Average<sup>(1)</sup></b>	€
	€	€	€	€
2017				
September	0.85	0.83	0.84	0.85
October	0.86	0.84	0.85	0.86
November	0.86	0.84	0.85	0.84
December	0.85	0.83	0.84	0.83
2018				
January	0.84	0.80	0.82	0.80

February	0.82	0.80	0.81	0.82
March	0.82	0.80	0.81	0.81

(1)The average of the Noon Buying Rate on each business day of the month.

On March 30, 2018, the Noon Buying Rate was U.S.\$1.00 = €0.81

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## **RISK FACTORS**

In addition to the other information contained in this annual report, the following risk factors should be carefully considered in evaluating us and our business. These statements are intended to highlight the material risk factors that may cause actual financial, business, research or operating results to differ materially from expectations disclosed in this annual report. See also factors disclosed under “Cautionary statement on forward-looking information”.

### **Risks Relating to Our Business**

*We have a history of operating losses and it is uncertain whether we can maintain profitability.*

Although we achieved operational profitability in 2015 and 2016, we have incurred operating losses in 2017 and in each previous fiscal year prior to 2015, since 1998. We expect that our marketing, selling and research and development expenses will increase as we attempt to develop and commercialize our lithotripsy and particularly our High Intensity Focused Ultrasound (“HIFU”) devices. We may not, however, generate a sufficient level of revenue to offset these expenses and may not be able to adjust spending in a timely manner to respond to any unanticipated decline in revenue. We cannot guarantee that we will realize sufficient revenue to remain profitable in the future. See Item 5, “Operating and Financial Review and Prospects.”

*Our future revenue growth and income depend, among other things, on the success of our HIFU technology.*

Our Extracorporeal Shockwave Lithotripsy (“ESWL”) line of products competes in a mature market that has experienced overall declining unit sales prices in recent years. We depend on the success of our HIFU technology for future revenue growth and net income. In particular, we are dependent on the successful development and commercialization of other product lines, such as medical devices based on HIFU, particularly but not limited to the Ablatherm and the Focal One, to generate significant additional revenues and achieve and sustain profitability in the future. The Ablatherm and the Focal One are commercialized in the European Union, Canada, United States (except for the Focal One which is still under FDA review) and other countries.

Further, even if we do receive the required approvals, we may not receive them on a timely basis and we may not be able to satisfy the conditions of such approval, if any. The failure to receive product approval by the FDA for our Focal One device, or any significant delay in receipt thereof, will have a material adverse effect on our business, financial condition or results of operations. See “—Our clinical trials for products using HIFU technology may not be successful” and Item 4, “Information on the Company—HIFU Division—HIFU Division Clinical and Regulatory Status.” Although we are particularly dependent on the success of our HIFU technology to grow our business, other revenues,

generated by our Urology Devices and Services (“UDS”) division and directly linked to the distribution of other complementary products on behalf of urology companies, continue to increase significantly and contribute to our revenue growth. While we believe that our UDS division can successfully pursue the marketing of its worldwide distribution platform, any termination of distribution commitments could have a material adverse effect on our business, financial condition or results of operations. See “—Item 4, “Information on the Company—UDS Division— UDS Division Services and Distribution.”

***Our clinical trials for products using HIFU technology may not be successful and we may not be able to obtain regulatory approvals necessary for commercialization of all of our HIFU products.***

Before obtaining regulatory approvals for the commercial sale of any of our devices under development, we must demonstrate through preclinical testing and clinical trials that the device is safe and effective for use in each indication. Product development, including pre-clinical studies and clinical trials is a long, expensive and uncertain process, and is subject to delays and failures at any stage. The results from preclinical testing and early clinical trials may not predict the results that will be obtained in large scale clinical trials. Companies can suffer significant setbacks in advanced clinical trials, even after promising results in earlier trials. Furthermore, data obtained from a trial can be insufficient to demonstrate that our products are safe, effective, and marketable. The commencement, continuation or completion of any of our clinical trials may be delayed or halted, or inadequate to support approval of an application to regulatory authorities for numerous reasons including, but not limited to:

that regulatory authorities do not approve a clinical trial protocol or a clinical trial, or place a clinical trial on hold; See Item 4, “Information on the Company—HIFU Division Clinical and Regulatory Status.”

- slower than expected rates of patient recruitment and enrolment;
- inability to adequately monitor patient during or after treatment;
- failure of patients to complete the clinical trial;
- prevalence and severity of adverse events and other unforeseen safety issues;
- third-party organizations not performing data collection and analysis in a timely and accurate manner;
- governmental and regulatory delays or changes in regulatory requirements, policies or guidelines;
- the interim or final results of a clinical trial are inconclusive or unfavorable as to safety or efficacy; and
- that regulatory authorities conclude that our trial design is inadequate to demonstrate safety and efficacy.

Additionally, certain regulatory authorities may disagree with our interpretation of the data from our pre-clinical studies and clinical trials, or may find the clinical trial design, conduct or results inadequate to prove safety or efficacy, and may require us to pursue additional pre-clinical studies or clinical trials, which would increase costs and could further delay the approval of our products. If we are unable to demonstrate the safety and efficacy of our products in our clinical trials, we will be unable to obtain regulatory approval to market our products. The data we collect from our current clinical trials, our pre-clinical studies and other clinical trials may not be sufficient to support requested regulatory approval. Discussions with regulatory authorities to improve our clinical protocols may prove difficult and lengthy. We or the relevant regulatory authorities may suspend or terminate clinical trials at any time and regulating agencies may even refuse to grant exemptions to pursue clinical trials.

We may also be required to abandon previous strategies for regulatory approval, despite having made significant financial and time investments, or refocus our efforts on alternative regulatory strategies, resulting in increased costs and efforts of management, without any guarantee of success, which could materially adversely affect our business, financial condition and results of operations.

Our HIFU devices that have not received regulatory approval may not prove to be effective or safe in clinical trials or may not be approved by the appropriate regulatory authorities. If our HIFU devices do not prove to be effective and safe in clinical trials to the satisfaction of the relevant regulatory authorities, our business, financial condition and results of operations could be materially adversely affected.

***We operate in a highly regulated industry and our future success depends on obtaining and maintaining government regulatory approval of our products, which we may not receive or be able to maintain or which may be delayed for a significant period of time.***

Government regulation significantly impacts the development and marketing of our products, particularly in the United States, EU and Japan. We are regulated in each of our major markets with respect to preclinical and clinical testing, manufacturing, labeling, distribution, sale, marketing, advertising and promotion of our products. To market and sell products, we are required to obtain approval or clearance from the relevant regulatory agencies, including the FDA with respect to the United States. In that respect, the FDA may not act favorably or quickly in its review of our submissions, or we may encounter significant difficulties in our efforts to obtain FDA clearance or approval, all of which could delay or preclude the sale of new products in the U.S. The process of applying for regulatory approval is unpredictable, often lengthy and requires the expenditure of substantial resources.

Further, there can be no assurance that we will receive the required approvals for our products from the required regulatory authorities or, if we do receive the required approvals, that we will receive them on a timely basis, on the conditions and for the indications we seek, or that we will otherwise be able to satisfy the conditions of such approval, if any.

Even if regulatory approval to market a product is granted, it may include limitations on the indicated uses for which the product may be marketed. Failure to comply with regulatory requirements can result in fines, suspension or withdrawal of regulatory approvals, product recalls, seizure of products, operating restrictions and criminal prosecutions. Regulatory policy may change and additional government regulations may be established that could prevent or delay regulatory approval of our products. Any delay, failure to receive regulatory approval or the loss of previously received approvals could have a material adverse effect on our business, financial condition and results of operations. For more information on the regulation of our business, see Item 4, “Information on the Company—Government Regulation” and “Information on the Company—HIFU Division—HIFU Division Clinical and Regulatory Status.”

Furthermore, we are also subject to healthcare laws and regulations pertaining to physician payment transparency, privacy and regulations. These regulations include, but are not limited to (i) the U.S. federal Health Insurance Portability and Accountability Act (“HIPAA”) of 1996, as amended by the Health Information Technology for Economic and Clinical Health Act, which governs the conduct of certain electronic healthcare transactions and protects the security and privacy of protected health information; (ii) the U.S. federal Physician Payment Sunshine Act (the “Sunshine Act”), which requires manufacturers of medical devices for which payment is available under Medicare, Medicaid, to report annually to the Centers for Medicare & Medicaid Services (“CMS”) information related to payments or other “transfers of value” made to physicians, (iii) two main sets of laws enacted in France about transparency requirements: “The French Anti-Gift Law” which regulates the provision of gifts, discounts and other incentives to physicians and the “Loi Bertrand” which imposes disclosure obligations on companies relating to benefits and remunerations granted to, and agreements concluded with, physicians. Any failure to comply with these regulations may have a material adverse effect on our business, financial condition and results of operations.

Furthermore, changes to regulatory policy or the adoption of additional statutes or regulations that affect our business could impose substantial additional costs or otherwise have a material adverse effect on our business, financial condition and results of operations.

***HIFU technology may not be accepted and adopted by the medical community.***

Our HIFU devices represent new therapies for the conditions that they are designed to treat. Notwithstanding any positive clinical results that our HIFU devices may have achieved or may achieve in the future in terms of safety and efficacy and any marketing approvals that we have obtained or may obtain in the future, there can be no assurance that such products will gain acceptance in the medical community. Physician acceptance depends, among other things, on evidence of the cost effectiveness of a therapy as compared to existing therapies and on adequate reimbursement from healthcare payers. Furthermore, acceptance by patients depends in part on physician recommendations, as well as other factors, including the degree of invasiveness, the rate and severity of complications and other side effects associated with the therapy as compared to other therapies.

If our HIFU devices do not achieve an adequate level of acceptance by physicians, patients, health care payers and the medical community, we may not generate or maintain positive cash flows and we may not become profitable or be able to sustain profitability. If we do achieve market acceptance of our products, we may not be able to sustain it or otherwise achieve it to a degree which would support the ongoing viability of our operations.

***Our cash flow is highly dependent on demand for our products.***

Our cash flow has historically been subject to significant fluctuations over the course of any given financial year due to cyclical demand for medical devices, and the resulting annual and quarterly fluctuations in trade and other



receivables and inventories. This has in the past resulted in significant variations in working capital requirements and operating cash flows. Although in 2015 and 2016, our operating cash flow was positive, in 2017 our operating cash flow was negative due to the operating loss and working capital cash requirements, to expand our worldwide activities. Since we anticipate relying on cash flow from operating activities to meet our liquidity requirements, a decrease in the demand for our products, or the inability of our customers to meet their financial obligations to us, would reduce the funds available to us. In the future, our liquidity may be constrained and our cash flows may be uncertain, negative or significantly different from period to period. Our future cash flow will be affected by increased expenses in clinical trials, sales efforts as well as marketing campaigns and promotional tools, particularly to implement our expanded U.S. and global strategy following the FDA clearance of Ablatherm, and Focal One when or if approved, while there is no assurance that this will result in the increase in the demand for our products and services.

*Competition in the markets in which we operate is intense and is expected to increase in the future.*

Competition in the markets in which we operate is intense and is expected to increase in the future. In each of our main businesses, we face competition both directly from other manufacturers of medical devices that apply the same technologies that we use, as well as indirectly from existing or emerging therapies for the treatment of urological disorders.

We believe that because ESWL has long been the standard treatment for urinary tract calculus disease, competition in that market comes principally from current manufacturers of lithotripters, including Wolf, Storz and Dornier. In the markets that we target for our HIFU products, competition comes from new market entrants and alternative therapies, as well as from current manufacturers of medical devices. In the HIFU market, our devices, in particular the Ablatherm and the Focal One, compete with all current treatments for localized tumors, including surgery, external beam radiotherapy, brachytherapy and cryotherapy. Other energies addressing prostate cancer ablation are also currently being developed such as electroporation and microwave. Other companies working with HIFU technology for the minimally invasive treatment of tumors include SonaCare Medical, a U.S. company that markets a device called the Sonablate for the ablation of prostatic tissue. Sonablate was approved by the FDA for commercialization in the U.S. in October 2015. Profound Medical, a Canadian company, is developing transurethral ultrasound therapy for prostate cancer. Profound Medical recently acquired Philips Healthcare's HIFU activity, integrating the development of HIFU devices addressing uterine fibroids, breast tumors and drug delivery activated by HIFU. Insightec, an Israeli company owned mainly by General Electric and Elbit Medical Imaging, has developed a device using HIFU technology to treat uterine fibroids, painful bone tumors and brain disorders. Theraclion, a French company licensed by EDAP to use of some of our HIFU patents, is currently marketing the Echopulse HIFU device to treat thyroid tumors and benign breast tumors. Haifu, a Chinese company, is developing HIFU products addressing various types of cancers. See Item 4, "Information on the Company—HIFU Division— HIFU Competition" and Item 4, "Information on the Company—UDS Division."

Many of our competitors have significantly greater financial, technical, research, marketing, sales, distribution and other resources than we have and may have more experience in developing, manufacturing, marketing and supporting new medical devices. In addition, our future success will depend in large part on our ability to maintain a leading position in technological innovation, and we cannot assure investors that we will be able to develop new products or enhance our current ones to compete successfully with new or existing technologies. Rapid technological development by competitors may result in our products becoming obsolete before we recover a significant portion of the research, development and commercialization expenses incurred with respect to those products.

We also face competition for our maintenance and service contracts. Larger hospitals often utilize their in-house maintenance departments instead of contracting with equipment manufacturers like us to maintain and repair their medical equipment. In addition, third-party medical equipment maintenance companies increasingly compete with equipment manufacturers by offering broad repair and maintenance service contracts to hospitals and clinics. This increased competition for medical devices and maintenance and service contracts could have a material adverse effect on our business, financial condition and results of operations.

***The success of our products depends on whether procedures performed by those products are eligible for reimbursement which depends on the decisions of national health authorities and third-party payers.***

Our success depends, among other things, on the extent to which reimbursement can be obtained from healthcare payers for procedures performed with our products. In the United States, we are dependent upon favorable decisions by CMS for Medicare reimbursement, individual managed care organizations, private insurers and other payers. These decisions may be revised from time to time, which could affect reimbursement for procedures performed using our devices. In May 2017, CMS granted a C-code for the use of HIFU for prostate tissue ablation, effective July 1<sup>st</sup>, 2017. This C-code covers hospital practical fees. We are currently in discussion with private insurers to advance on the reimbursement of HIFU procedures for prostate tissue ablation. Outside the United States, and in particular in the European Union and Japan, third-party reimbursement is generally conditioned upon decisions by national health authorities. In the European Union, there is no harmonized procedure for obtaining reimbursement and, consequently, we must seek regulatory approval in each Member State. Procedures performed with our HIFU devices are not reimbursed in the European Union with the exception of Italy, Germany, in the United Kingdom (where procedures are partially reimbursed by either public healthcare systems or private insurers and in France under certain conditions). On April 18, 2014, the French healthcare government authorities announced the reimbursement of prostate cancer treatment procedures using HIFU as part of an innovative process to further validate breakthrough therapies and to accelerate their related reimbursement process based on clinical trials and data registries. HIFU patients are still being treated and entered into the dedicated registry. Under this innovative process, French healthcare government authorities will review the clinical data gathered following this decision in view of granting definitive reimbursement for HIFU. However, we cannot guarantee that a definitive reimbursement code will be granted.

Lithotripsy procedures currently are reimbursed by public healthcare systems in the European Union, in Japan and in the United States. However, a decision in any of those countries to modify reimbursement policies for these procedures could have a material adverse effect on our business, financial conditions and results of operations. For example, in April 2016, the Japanese authorities decided to stop reimbursing lithotripters' disposables (electrodes)

necessary to perform a lithotripsy procedure. This decision had and will have a material effect on our current and future sales of lithotripsy disposables in Japan.

We cannot assure investors that additional reimbursement approvals will be obtained in the near future. If reimbursement for our products is unavailable, limited in scope or amount or if pricing is set at unsatisfactory levels, and if we fail to establish or maintain reimbursement from healthcare payers or governments and private healthcare payers' policies change, it could have a material adverse effect on our business, financial condition and results of operations.

***Our manufacturing operations are highly regulated and failure to comply with those regulations would harm our business.***

Our manufacturing operations must comply with regulations established by regulatory agencies in the United States, the European Union and other countries, and in particular with the Current Good Manufacturing Practices (“CGMP”) mandated by the FDA and European Union standards for quality assurance and manufacturing process control. Since such standards may change, we may not, at all times, comply with all applicable standards and, as a result would be unable to manufacture our products for commercial sale. Our manufacturing facilities are subject to inspection by regulatory authorities at any time. If any inspection by the regulatory authorities reveals deficiencies in manufacturing, we could be required to take immediate remedial actions, suspend production or close the current and future production facilities, which would disrupt our manufacturing processes. Accordingly, failure to comply with these regulations could have a material adverse effect on our business, financial condition and results of operations.

***We depend on a single site to manufacture our products, and any interruption of operations could have a material adverse effect on our business.***

Most of our manufacturing currently takes place in a single facility located in Vaulx-en-Velin, on the outskirts of Lyon, France. In the event of a significant interruption in the operations of our sole facility for any reason, such as fire, flood or other natural disaster or a failure to obtain or maintain required regulatory approvals, we would have no other means of manufacturing our products until we were able to restore the manufacturing capabilities at our facility or develop alternative facilities, which could take considerable time and resources and have a material adverse effect on our business, financial condition and results of operations. If we are unable to manufacture a sufficient or consistent supply of our products or products we are developing, or if we cannot do so efficiently, our revenue, business and financial prospects would be adversely affected.

***For certain components or services, we depend on a single supplier who, due to events beyond our control may fail to deliver sufficient supplies to us or increase the cost of items supplied, which would interrupt our production processes or negatively impact our results of operations.***

We purchase the majority of the components used in our products from a number of suppliers, but rely on a single supplier for some key components. In addition, we rely on single suppliers for certain services. If the supply of these

components or services were interrupted for any reason, our manufacturing and marketing of the affected products would be delayed. These delays could be extensive, especially in situations where a component substitution would require regulatory approval. In addition, such suppliers could decide unilaterally to increase the price of supplied items and therefore cause additional charges for the Company. We expect to continue to depend upon our suppliers for the foreseeable future. Failure to obtain adequate supplies of components or services in a timely manner and at the agreed price could have a material adverse effect on our business, financial condition and results of operations.

***Intellectual property rights are essential to protect our medical devices, and any dispute with respect to these rights could be costly and have an uncertain outcome.***

Our success depends in large part on our ability to develop proprietary products and technologies and to establish and protect the related intellectual property rights, without infringing the intellectual property rights of third parties. The validity and scope of claims covered in medical technology patents involve complex legal and factual questions and, therefore, the outcome of such claims may be highly uncertain. The medical device industry has been characterized by extensive patents and other intellectual property rights litigation. From time to time we receive letters from third parties drawing our attention to their patent rights. Our products, including our HIFU devices, may be subject to litigation involving claims of patent infringement or violation of other intellectual property rights of third parties. The defense and prosecution of intellectual property suits, patent opposition proceedings and related legal and administrative proceedings are both costly and time consuming and may result in a significant diversion of effort and resources by our technical and management personnel. An adverse determination in any such litigation or proceeding to which we become a party could subject us to significant liability to third parties, require us to seek licenses from third parties and pay ongoing royalties, require us to redesign certain products or subject us to injunctions preventing the manufacture, use or sale of the affected products. In addition to being costly, drawn-out litigation to defend or prosecute intellectual property rights could cause our customers or potential customers to defer or limit their purchase or use of our products until the litigation is resolved. See Item 4, “Information on the Company—HIFU Division—HIFU Division Patents and Intellectual Property” and Item 4, “Information on the Company—UDS Division—UDS Division Patents and Intellectual Property.”

We own patents covering several of our technologies and have additional patent applications pending in the United States, the European Union, Japan and elsewhere. The process of seeking patent protection can be long and expensive and there can be no assurance that our patent applications will result in the issuance of patents. We also cannot assure investors that our current or future patents are or will be sufficient to provide meaningful protection or commercial advantage to us. Our patents or patent applications could be challenged, invalidated or circumvented in the future. The failure to maintain or obtain necessary patents, licenses or other intellectual property rights from third parties on acceptable terms or the invalidation or cancellation of material patents could have a material adverse effect on our business, financial condition or results of operations. Litigation may be necessary to enforce patents issued to us or to determine the enforceability, scope and validity of the proprietary rights of others. Our competitors, many of which have substantial resources and have made substantial investments in competing technologies, may apply for and obtain patents that will interfere with our ability to make, use or sell certain products, including our HIFU devices, either in the United States or in foreign markets.

We also rely on trade secrets and proprietary know-how, which we seek to protect through non-disclosure agreements with employees, consultants and other parties. It is possible, however, that those non-disclosure agreements will be breached, that we will not have adequate remedies for any such breach, or that our trade secrets will become known to, or independently developed by, competitors. Litigation may be necessary to protect trade secrets or know-how owned by us. In addition, effective copyright and trade secret protection may be unavailable or limited in certain countries.

The occurrence of any of the foregoing could have a material adverse effect on our business, financial condition and result of operations.

***We face a significant risk of exposure to product liability claims in the event that the use of our products results in personal injury or death.***

Our products are designed to be used in the treatment of severe affections and conditions. Despite the use of our products, patients may suffer personal injury or death, and we may, as a result, face significant product liability claims. We maintain separate product liability insurance policies for the United States and Canada and for the other markets in which we sell our products. Product liability insurance is expensive and there can be no assurance that it will continue to be available on commercially reasonable terms or at all. In addition, our insurance may not cover certain product liability claims or our liability for any claims may exceed our coverage limits. A product liability claim or series of claims brought against us with respect to uninsured liabilities or in excess of our insurance coverage, or any claim or product recall that results in significant cost to or adverse publicity against us could have a material adverse effect on our business, financial condition and results of operations. Also, if any of our products prove to be defective, we may be required to recall or redesign the product which could result in costly corrective actions and harm to our business reputation, which could materially affect our business, financial condition and results of operations.

*We are exposed to risks related to cybersecurity threats and incidents.*

In the conduct of our business, we collect, use, transmit and store data on information technology systems. This data includes confidential information belonging to us, our customers and other business partners, as well as personally identifiable information of individuals. We also store data related to our clinical trials on our information technology systems. We have experienced no significant nor material cybersecurity threats and incidents. We also rely in part on the reliability of certain tested third parties' cybersecurity measures, including firewalls, virus solutions and backup solutions. Cybersecurity incidents may result in business disruption, the misappropriation, corruption or loss of confidential information and critical data (ours or that of third parties), reputational damage, litigation with third parties, diminution in the value of our investment in research and development, data privacy issues and increased cybersecurity protection and remediation costs. Moreover, we devote significant resources to network security, data encryption and other measures to protect our systems and data from unauthorized access or misuse, including meeting certain information security standards that may be required by our customers, all of which increases cybersecurity protection costs. As these threats, and government and regulatory oversight of associated risks, continue to evolve, we may be required to expend additional resources to enhance or expand upon the security measures we currently maintain.

Future cybersecurity breaches or incidents or further increases in cybersecurity protection costs may have a material adverse effect on our business, financial condition or results of operations.

***The expansion of social media platforms and new technologies present risks and challenges for our business and reputation.***

We increasingly rely on social media and new technologies to communicate about our products and technologies. The use of these media requires specific attention. Unauthorized communications, such as press releases or posts on social media, purported to be issued by the Company, may contain information that is false or otherwise damaging and could have an adverse impact on our stock price. Negative or inaccurate posts or comments about the Company, our business, directors or officers on any social networking website could seriously damage our reputation. In addition, our employees and partners may use social media and mobile technologies inappropriately, which may give rise to liability for the Company, or which could lead to breaches of data security, loss of trade secrets or other intellectual property or public disclosure of sensitive information, including information about our employees, clinical trials or customers. Such uses of social media, mobile technologies, or information technology more generally could have a material adverse effect on our reputation, business, financial condition and results of operations.

***Our international operations expose us to additional costs and legal and regulatory risks, which could have a material adverse effect on our business, results of operations and financial condition.***

We have significant international operations. We have direct distribution channels in over fifty countries outside of France, our country of incorporation, and through our foreign subsidiaries. Compliance with complex foreign and French laws and regulations that apply to our international operations increases our cost of doing business. These numerous and sometimes conflicting laws and regulations include, among others, data privacy requirements (particularly with respect to the recent invalidation of the U.S.-European Union safe harbor by the European Court of Justice), labor relations laws, tax laws, anti-competition regulations, import and trade restrictions, export requirements, U.S. laws such as the FCPA and other U.S. federal laws and regulations established by the Office of Foreign Asset Control, laws such as the UK Bribery Act 2010 or other local laws which prohibit corrupt payments to governmental officials or certain payments or remunerations to customers. On November 8, 2016, the French Parliament passed a law targeting transparency, anti-corruption and the modernization of the economy, known as the Sapin II Law. The provisions related to the implementation of the Sapin II Law, effective mid-2017, are applicable to any company (i) having at least 500 employees, or belonging to any group whose parent company's headquarters is located in France and which has at least 500 employees, and (ii) whose annual turnover is more than €100 million. Presidents and directors of such companies may be held liable for failure to implement compliance programs. We are not subject to provisions of Sapin II Law.

Given the high level of complexity of these laws, there is a risk that we may inadvertently breach some provisions, for example, through fraudulent or negligent behavior of individual employees, our failure to comply with certain formal documentation requirements, or otherwise. Our success depends, in part, on our ability to anticipate these risks and manage these challenges. We have a dispersed international sales organization, and this structure makes it more difficult for us to ensure that our international selling operations comply with our global policies and procedures.



Violations of these laws and regulations could result in fines, criminal sanctions against us, our officers or our employees, requirements to obtain export licenses, cessation of business activities in sanctioned countries and prohibitions on the conduct of our business. Violations of laws and regulations also could result in prohibitions on our ability to offer our products in one or more countries and could materially damage our reputation, our brand, our international expansion efforts, our ability to attract and retain employees, or our business, results of operations and financial condition.

***We have been and we may in the future be the target of securities class action or other litigation, which could be costly and time consuming to defend.***

In the past, securities class action litigation has often been brought against companies following a decline in the market price of its securities. This risk is especially relevant for us because innovative life sciences and medical device companies have experienced significant stock price volatility in recent years.

On August 4, 2014, a purported class action lawsuit was filed in the United States District Court for the Southern District of New York asserting that the Company, Marc Oczachowski, and Eric Soyer (our former Chief Financial Officer) violated federal securities laws by issuing materially false and misleading statements that caused the price of our ADSs to be artificially inflated. An amended complaint alleges that the Company and Mr. Oczachowski breached their obligations under the Exchange Act in various ways, including by misrepresenting and failing to disclose allegedly material information about the safety and efficacy of treatment with Ablatherm-HIFU, and the Company's interactions with the FDA. The complaint sought unspecified damages, interest, costs, and fees, including attorneys' and experts' fees. In February 2015, the defendants, including the Company, filed a motion to dismiss and on November 11, 2015, we announced the dismissal of the class action lawsuit and that no notice of appeal was subsequently filed by the plaintiffs.

Any additional litigation, if instituted, could cause us to incur substantial costs and our management resources may be diverted to defending such litigation, which could adversely affect our financial condition or results of operations.

***We sell our products in many parts of the world and, as a result, our business is affected by fluctuations in currency exchange rates.***

We are exposed to foreign currency exchange rate risk because the mix of currencies in which our costs are denominated is different from the mix of currencies in which we earn our revenue. In 2017, approximately 77% of our total costs of sales and operating expenses were denominated in euro, while approximately 45% of our sales were denominated in currencies other than euro (primarily the U.S. dollar and the Japanese yen). Our operating profitability could be materially adversely affected by large fluctuations in the rate of exchange between the euro and other currencies. For instance, a decrease in the value of the U.S. dollar or the Japanese yen against the euro would have a negative effect on our revenues, which may not be offset by an equal reduction in operating expenses and would therefore negatively impact operating profitability. From time to time we enter into foreign exchange forward sale contracts to hedge against fluctuations in the exchange rates of the principal foreign currencies in which our receivables are denominated (in particular, the U.S. dollar and the Japanese yen), but there can be no assurance that such hedging activities will limit the effect of movements in exchange rates on our results of operations. As of December 31, 2017, we had no outstanding hedging instruments. In addition, since any dividends that we may declare will be denominated in euro, exchange rate fluctuations will affect the U.S. dollar equivalent of any dividends received by holders of ADSs. For more information concerning our exchange rate exposure, see Item 11. “Quantitative and Qualitative Disclosures about Market Risk.”

***Our results of operations have fluctuated significantly from quarter to quarter in the past and may continue to do so in the future.***

Our results of operations have fluctuated in the past and are expected to continue to fluctuate significantly from quarter to quarter depending upon numerous factors, including, but not limited to, the timing and results of clinical trials, changes in healthcare reimbursement policies, cyclicity of demand for our products, changes in pricing policies by us or our competitors, new product announcements by us or our competitors, customer order deferrals in anticipation of new or enhanced products offered by us or our competitors, product quality problems and exchange rate fluctuations. Furthermore, because our main products have relatively high unit prices, the amount and timing of individual orders can have a substantial effect on our results of operations in any given quarter.

***Our results of operations and financial condition could be adversely affected by the adverse economic, geo-political and financial developments.***

The current geo-political, economic and financial environment has affected the level of public and private spending in the healthcare sector generally. A cautious or negative outlook may cause our customers to further delay or cancel investment in medical equipment, which would adversely affect our revenues.

In addition, we rely on the credit market to secure dedicated lease financings to fund the development of our RPP business model related to the sale of treatments' procedures. Due to the limited availability of lending, we may be unable to access sufficient lease financing. Without lease financing, we may be unable to continue the development of our RPP model or we may need to fund such activity out of our existing working capital. Similarly, some of our clients rely on lease financing to finance their purchases of equipment. Limited availability of lease financing facilities may also affect their purchasing decisions and may adversely impact our equipment sales.

***The issuance of ADSs upon exercise of outstanding warrants will cause immediate and substantial dilution to our existing shareholders.***

The issuance of ADSs upon exercise of the warrants issued in May 2013 (the “May 2013 Warrants”) and in April 2016 (the “April 2016 Warrants”) will result in dilution of other shareholders since the selling shareholders may ultimately sell the full amount of ADSs issuable on exercise. Based on the total number of outstanding warrants as of April 2, 2018, and on the total number outstanding options to subscribe to new shares, up to 5,870,784 ADSs are issuable upon exercise, representing approximately 20.3% of our issued and outstanding share capital. Although no single warrant holder may exercise its Warrants if such exercise would cause it to own more than 9.99% of our outstanding ordinary shares, this restriction does not prevent each holder from exercising a portion of its holdings and selling those securities. In this way, each holder could sell more than this limit while never holding more than such limit.

On April 22, 2014, we filed a Form F-3 registration statement with the SEC to register ordinary shares and warrants for a maximum amount of \$50 million, hence providing for registration of any future new ordinary shares issued for the purpose of raising capital. This registration statement was declared effective by the SEC on May 5, 2014. We issued and registered shares under this registration statement on June 2, 2014 and on April 14, 2016, although we did not offer the maximum amount registered under this registration statement.

***The sale of ADSs issued upon exercise of outstanding warrants could encourage short sales by third parties which could further depress the price of our ADSs.***

Any downward pressure on the price of ADSs caused by the sale of ADS issued upon the exercise of the outstanding warrants could encourage short sales by third parties. In a short sale, a prospective seller borrows shares from a shareholder or broker and sells the borrowed shares. The prospective seller hopes that the share price will decline, at which time the seller can purchase shares at a lower price for delivery back to the lender. The seller profits when the share price declines because it is purchasing shares at a price lower than the sale price of the borrowed shares. Such sales could place downward pressure on the price of our ADSs by increasing the number of ADSs being sold, which could further contribute to any decline in the market price of our ADSs.

***We have identified a material weakness in our internal controls over financial reporting, and if we fail to remediate this material weakness and achieve an effective system of internal controls, we may not be able to report our financial results accurately. In addition, the trading price of our securities may be adversely affected by a related negative market reaction***

As a publicly traded company, we are subject to the reporting requirements of the Exchange Act and the Sarbanes-Oxley Act of 2002. We have incurred, and expect to continue to incur, significant continuing costs, including accounting fees and staffing costs, to maintain compliance with the internal control requirements of the

Sarbanes-Oxley Act of 2002. As described in Item 15, we have identified a material weakness in our internal control over financial reporting with respect to the insufficient segregation of duties within the consolidation process directly linked to the limited size of our finance team. Our management has concluded that, as a result, our internal control over financial reporting was not effective as of December 31, 2017. Nevertheless, we have concluded that this material weakness did not result in a material misstatement of the consolidated financial statements for the year ended December 31, 2017 or restatement of any prior period previously reported by the Company

Although we plan to initiate remediation actions to address this material weakness, as a small company, we may have insufficient personnel to allow us to segregate duties, and consistently execute the Company's internal controls.

Furthermore, the ongoing requirements of the Sarbanes-Oxley Act may place a strain on our systems and resources. Our management is required to evaluate the effectiveness of our internal control over financial reporting as of each year-end, and we are required to disclose management's assessment of the effectiveness of our internal control over financial reporting, including any material weakness in our internal control over financial reporting.

Our internal control over financial reporting has been designed to provide our management and Board of Directors with reasonable assurance regarding the preparation and fair presentation of our consolidated financial statements. On an on-going basis, we are reviewing, documenting and testing our internal control procedures. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, and as our business develop, additional resources and management oversight may be required.

In an effort to remediate the identified material weakness and to enhance our overall control environment, we plan to initiate, the following actions: hiring of a person who will be responsible for the consolidation process, so that our Chief Financial Officer can be the preliminary person responsible for performing the review control. As a small business, we may not be in a position to have that person to be hired and operational before the 2018-year end and may decide to engage a third party financial firm in the interim period to enhance segregation of duties and to help assemble robust documentation.

Any failure to complete our assessment of our internal control over financial reporting, to remediate any material weaknesses that we have identified or may identify in the future, any failure to implement new or improved controls, or difficulties encountered in their implementation, could harm our operating results, cause us to fail to meet our reporting obligations or result in material misstatements in our financial statements. Any failure to maintain adequate internal controls over financial reporting and provide accurate financial statements may subject us to litigation, render future financings more difficult or expensive, and could cause the trading price of our common stock to decrease substantially. Inferior controls and procedures could cause investors to lose confidence in our reported financial information, which may give rise to a class action and have a negative effect on the trading price of our common stock. Any such failure could also adversely affect the results of the periodic management evaluations of our internal controls and, in the case of a failure to remediate any material weaknesses that we have identified or may identify in the future, would adversely affect the annual auditor attestation reports regarding the effectiveness of our internal control over financial reporting that are required under Section 404 of the Sarbanes-Oxley Act.

### **Risks Relating to Ownership of Securities**

*Our securities may be affected by volume fluctuations, and may fluctuate significantly in price, causing you to lose some or all of your investment.*

Our ADSs are currently traded on the NASDAQ Global Market. The average daily trading volume of our ADSs in 2017 was 63,553, the high and low bid price of our ADSs for the last two financial years ended on December 31, 2017 and December 31, 2016, was \$3.85 and \$2.25, and \$4.80 and \$2.43, respectively. Our ADSs have experienced, and are likely to experience in the future, significant price and volume fluctuations, which could adversely affect the market price of our ADSs without regard to our operating performance. For example, average daily trading volume of our ADSs in December 2016 was 40,560 as opposed to 61,031 for the same period of 2017. The price of our securities and our ADSs in particular, may fluctuate as a result of a variety of factors, including changes in our business, operations and prospects, and factors beyond our control, including regulatory considerations, results of clinical trials of our products or those of our competitors, developments in patents and other proprietary rights, and general market and economic conditions.

These broad market and industry factors may adversely affect the market price of our ADSs, regardless of our operating performance. If you invest in our ADSs, you could lose some or all of your investment.

In addition, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted. We are currently the subject of such litigation, and such litigation, regardless of its outcome, and any additional litigation, if instituted, causes and could cause us to incur substantial costs and our management resources are and could be diverted to defending such litigation, which could adversely affect our financial condition or results of operations.

***We may issue additional securities that may be dilutive to our existing shareholders.***

On February 18, 2016, our shareholders adopted a resolution allowing the Board of Directors to issue 1 million new shares under the form of subscription options to motivate and reward teams dedicated to successfully implement our U.S. and worldwide expansion plans. As of April 2, 2018, the maximum number of shares available to be issued was 165,000.

The issuance of additional ordinary shares, including any additional ordinary shares issuable pursuant to the exercise of preferential subscription rights that may not be available to all of our shareholders, would reduce the proportionate ownership and voting power of the then-existing shareholders.

***We are subject to different corporate disclosure standards that may limit the information available to holders of our ADSs.***

As a foreign private issuer, we are not required to comply with the notice and disclosure requirements under the Exchange Act relating to the solicitation of proxies for shareholder meetings. Although we are subject to the periodic reporting requirements of the Exchange Act, the periodic disclosure required of foreign private issuers under the Exchange Act is more limited than the periodic disclosure required of U.S. issuers. Therefore, there may be less publicly available information about us than is regularly published by or about other public companies in the United States.

***We currently do not intend to pay dividends, and cannot assure shareholders that we will make dividend payments in the future.***

We have never paid any dividend on our shares and do not anticipate paying any dividends for the foreseeable future. Thereafter, declaration of dividends on our shares will depend upon, among other things, future earnings, if any, the operating and financial condition of our business, our capital requirements, general business conditions and such other factors as our Board of Directors deems relevant. See Item 8, “Financial Information—Dividends and Dividend Policy.”

***Judgments of U.S. courts, including those predicated on the civil liability provisions of the federal securities laws of the United States, may not be enforceable in French courts.***

An investor in the United States may find it difficult to:

- effect service of process upon or obtain jurisdiction over us or our non-U.S. resident directors and officers in the United States;
- enforce U.S. court judgments based upon the civil liability provisions of the U.S. federal securities laws against us and our non-U.S. resident directors and officers in France; or the United States; or
- bring an original action in a French court to enforce liabilities based upon the U.S. federal securities laws against us and our non-U.S. resident directors and officers.

***Holders of ADSs have fewer rights than shareholders and must act through the Depositary to exercise those rights.***

Holders of ADSs do not have the same rights as shareholders and accordingly, cannot exercise rights of shareholders against us. The Bank of New York Mellon, as Depositary (the “Depositary”), is the registered shareholder of the



deposited shares underlying the ADSs, and therefore holders of ADSs will generally have to exercise the rights attached to those shares through the Depositary. We have used and will continue to use reasonable efforts to request that the Depositary notify the holders of ADSs of upcoming votes and ask for voting instructions from them. If a holder fails to return a voting instruction card to the Depositary by the date established by it for receipt of such voting instructions, or if the Depositary receives an improperly completed or blank voting instruction card, or if the voting instructions included in the voting instruction card are illegible or unclear, then such holder will be deemed to have instructed the Depositary to vote its shares and the Depositary shall vote such shares in favor of any resolution proposed or approved by our Board of Directors and against any resolution not so proposed or approved.

***Preferential subscription rights may not be available for U.S. persons.***

Under French law, shareholders have preferential rights to subscribe for cash issuances of new shares or other securities giving rights to acquire additional shares on a *pro rata* basis. U.S. holders of our securities may not be able to exercise preferential subscription rights for their shares unless a registration statement under the Securities Act is effective with respect to such rights or an exemption from the registration requirements imposed by the Securities Act is available. We may, from time to time, issue new shares or other securities giving rights to acquire additional shares (such as warrants) at a time when no registration statement is in effect and no Securities Act exemption is available. If so, U.S. holders of our securities will be unable to exercise their preferential rights and their interests will be diluted. We are under no obligation to file any registration statement in connection with any issuance of new shares or other securities.

For holders of ADSs, the Depositary may make these rights or other distributions available to holders after we instruct it to do so and provide it with evidence that it is legal to do so. If we fail to do this and the Depositary determines that it is impractical to sell the rights, it may allow these rights to lapse. In that case, the holders of ADSs will receive no value for them.

***Holders of our ADSs may be exposed to increased transaction costs as a result of proposed European financial transaction taxes.***

On February 14, 2013, the EU Commission adopted a proposal for a Council Directive (the "Draft Directive") on a common financial transaction tax (the "FTT"). According to the Draft Directive, the FTT should have been implemented and should have entered into effect in 10 EU Member States (Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Spain, Slovakia, and Slovenia, each a "Participating Member State"). In March of 2016, Estonia indicated its withdrawal from enhanced cooperation. Pursuant to the Draft Directive, the FTT was to be payable on financial transactions provided at least one party to the financial transaction was established or deemed established in a Participating Member State and there was a financial institution established or deemed established in a Participating Member State which was a party to the financial transaction, or was acting in the name of a party to the transaction. Under the Draft Directive, the FTT should not have applied, however, to (inter alia) primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006, including the activity of underwriting and subsequent allocation of financial instruments in the framework of their issue. The rates of the FTT were to be fixed by each Participating Member State but for transactions involving financial instruments other than derivatives would have amounted to at least 0.1 per cent of the taxable amount. The taxable amount for such transactions would have been generally determined by reference to the consideration paid or owed in return for the transfer. The FTT would have been payable by each financial institution established or deemed established in a Participating Member State which was either a party to the financial transaction, or acting in the name of a party to the transaction or where the transaction had been carried out on its account. Where the FTT due had not been paid within the applicable time limits, each party to a financial transaction, including persons other than financial institutions, would have become jointly and severally liable for the payment of the FTT due.

The Draft Directive has not been adopted. Following Estonia's withdrawal, a proposal combining a broader scope and lower rates, as well as several specific rules, is currently being discussed between the ten other Participating Member States.

Prospective holders should therefore note, in particular, that any sale, purchase, or exchange of the Shares or ADSs could become subject to the FTT at a minimum rate of 0.1 per cent. The holder may be liable to itself pay this charge or reimburse a financial institution for the charge, and / or may affect the value of the Shares or ADSs.

The FTT proposal is still subject to negotiation between the Participating Member States and therefore may be changed at any time. Moreover, once a final agreement on such FTT proposal will be reached (the "FTT Directive"), it will need to be implemented into the respective domestic laws of the Participating Member States and the domestic provisions implementing the FTT Directive might deviate from the FTT Directive itself. See Item 10, "Certain Income Tax Considerations."

In any case, prospective holders should consult their own advisers in relation to the consequences of the FTT associated with subscribing for, purchasing, holding and disposing of ADSs.



#### **Item 4. Information on the Company**

We develop and market the Ablatherm and Focal One devices, advanced choices for HIFU treatment of localized prostate cancer. HIFU treatment is shown to be a minimally invasive and effective treatment option for localized prostate cancer with a low occurrence of side effects. Ablatherm is generally recommended for patients with localized prostate cancer (stages T1-T2) who are not candidates for surgery or who prefer an alternative option. Focal One is a robot assisted HIFU device dedicated to the focal treatment of prostate cancer. Both HIFU devices are also used for patients who failed a radiotherapy treatment. In addition, we are developing a HIFU platform for the treatment of various types of tumors including rectal endometriosis, liver and pancreatic cancer, but also breast and gynecological tumors. We also produce and commercialize medical equipment for treatment of urinary tract stones using ESWL and distribute other types of urology devices in certain countries.

#### **History and Development of the Company**

Our legal name is EDAP TMS S.A. and our commercial name is EDAP TMS. EDAP TMS S.A. was incorporated on December 3, 1979 as a *société anonyme* organized under the laws of the Republic of France for a duration of 60 years from the date of incorporation. Our principal executive offices are located at Parc d'Activités la Poudrette- Lamartine, 4/6, rue du Dauphiné, 69120 Vaulx-en-Velin, France and our telephone number is +33 (0) 4 72 15 31 50. Corporation Service Company, 1090 Vermont Avenue, Suite 430, Washington, D.C. 20005, United States, is our agent for service of process in the United States.

Founded in 1979, we originally specialized in the manufacturing and distribution of lithotripters (devices which use shockwaves to disintegrate urinary calculi) and produced the first piezoelectric lithotripter (using electric shocks produced by a piezo-component) in 1985. In 1994, we acquired most of the assets of Technomed International S.A. ("Technomed") out of liquidation, including the ownership of, and full distribution rights to, the Prostatron, the Sonolith series of lithotripters (Sonolith Praktis, Sonolith Vision) and the Ablatherm device.

On January 31, 2013, we submitted our PMA application to the FDA for our Ablatherm HIFU device for treatment of low risk, localized prostate cancer. Our submission included data from the ENLIGHT U.S. Phase II/III clinical trial, as well as data from our extensive worldwide database of treatment information and follow-up data from patients who have undergone HIFU therapy for prostate cancer. On June 3, 2013 we held our 100-day meeting with the FDA to discuss our PMA file and address questions and requests from the FDA reviewing team.

On May 28, 2013, we issued 3,000,000 ordinary shares in the form of ADSs to certain institutional investors in a registered direct placement (the "May 2013 Placement"), at a price of \$4.00 per share, with warrants attached that allow investors to purchase up to 1,500,000 shares in the form of ADSs, at an exercise price of \$4.25 per share. We also issued warrants to purchase up to 180,000 shares to the placement agent, HC Wainwright and Co. LLC, at an exercise

price of \$5.00 per share. Following our May 2013 Placement, on June 14, 2013, we fully redeemed our \$8.0 million outstanding long-term debt by using a portion of the net proceeds from the \$12.0 million May 2013 Placement.

On June 2, 2014, we issued 3,000,000 ordinary shares in the form of ADSs to certain institutional investors in a registered direct placement (the “June 2014 Placement”), at a price of \$3.11 per share.

On March 9, 2015, we announced that based on our collaborative discussions with the FDA, we planned to seek clearance of Ablatherm HIFU by way of a direct de novo 510(k) application as opposed to the PMA application amendment we had been considering. The FDA indicated that while PMA approval would be required for specific claims regarding treatment of prostate cancer, a prostate tissue ablation claim could be cleared via a direct de novo 510(k) application.

On October 15, 2015, we announced the withdrawal of our de novo application and the submission of a 510(k) notice, in accordance with the FDA guidelines, following the FDA clearance of the Sonablate 450 for prostatic tissue ablation using HIFU.

On November 9, 2015, we announced the receipt of 510(k) clearance from the FDA to market Ablatherm Integrated Imaging HIFU in the U.S. for the ablation of prostate tissue.

On April 6, 2016, we submitted a 510(k) application for FDA clearance of our Focal One HIFU device.

On April 14, 2016, we issued 3,283,284 ordinary shares in the form of ADSs to certain institutional investors in a registered direct placement (the “April 2016 Placement”), at a price of \$3.50 per share, with warrants attached that allow investors to purchase up to 3,283,284 shares in the form of ADSs, at an exercise price of \$4.50 per share.

On July 17, 2017, we had to withdraw the 510(k) application for our Focal One HIFU device in order to submit a new file including new clinical data to support our file, which we did on September 11, 2017, in accordance with FDA guidance. Our new 510(k) file is still under FDA review.

On October 4, 2017, we obtained FDA clearance for our Ablatherm Fusion device which incorporates our proprietary fusion software which merges MRI and ultrasound images, providing increased accuracy during planning and prostate treatment for physicians.

## **Business Overview & Strategy**

EDAP TMS S.A. is a holding company and is responsible for providing common services to its subsidiaries, including preparation and consolidation of the financial statements for the group, complying with the requirements of various regulatory agencies and maintaining the listing of its publicly held securities and, in conjunction with its Board of Directors, directing the overall strategy of our group.

Our activity is organized in two divisions: HIFU and UDS (including lithotripsy activities). Through these two divisions, we develop, produce and market minimally invasive medical devices, mainly for urological diseases. We believe that the creation of these two divisions has allowed us to expand our market share by optimizing worldwide distribution capabilities, all of which is coordinated through our subsidiaries.

Our HIFU and UDS divisions operate in Europe, the Americas, Asia and the rest of the world. Total net sales for the HIFU division (in net contributions to total consolidated sales) were €9.5 million, €13.8 million and €8.4 million for 2017, 2016 and 2015, respectively. Those sales are generated in Europe, the United States and the rest of the world, excluding certain countries in Asia (including Japan) where our HIFU devices are not approved yet. Total net sales for the UDS division were €26.2 million (including €13.4 million in Asia and €12.8 million in Europe and the rest of the world), €21.8 million (including €10.3 million in Asia and €11.5 million in Europe and the rest of the world), and €23.8 million (including €10.7 million in Asia and €13.0 million in Europe and the rest of the world), each for 2017, 2016 and 2015, respectively.

See Note 27 to our consolidated financial statements for a breakdown of total sales and revenue during the past three fiscal years by operating division and Item 5, “Operating and Financial Review and Prospects.”

## **HIFU Division**

The HIFU division is engaged in the development, manufacturing and marketing of medical devices based on HIFU technology for the minimally invasive treatment of urological and other clinical indications. Our HIFU business is quite cyclical and generally linked to lengthy hospital decision and investment processes. Hence our quarterly revenues are often impacted and fluctuate according to these parameters, generally resulting in a higher purchasing activity in the last quarter of the year. The HIFU division contributed €9.5 million to our consolidated net sales during the fiscal year ended December 31, 2017.

### ***HIFU Division Business Overview***

The HIFU division currently develops, manufactures and markets devices for the minimally invasive destruction of certain types of localized tumors using HIFU technology. HIFU technology uses a high-intensity convergent ultrasound beam generated by high power transducers to produce heat. HIFU technology is intended to allow the surgeon to destroy a well-defined area of diseased tissue without damaging surrounding tissue and organs, thereby eliminating the need for incisions, transfusions and general anesthesia and associated complications. The HIFU Division markets three HIFU devices: the Ablatherm, the Ablatherm Fusion and the Focal One. The Ablatherm and Ablatherm Fusion are dedicated to the treatment of organ-confined prostate cancer, referred to as T1-T2 stage. The Focal One high-end device is a HIFU robotic device fully dedicated to the focal therapy of localized prostate cancer, thereby destroying targeted cancer cells only. All three devices can be used for patients who are not candidates for surgery or who have failed a radiotherapy treatment.

In addition to selling HIFU devices, the HIFU division also records revenues driven from HIFU treatments performance (“HIFU Treatment Driven Revenues”) which include net sales of (i) consumables, (ii) leases (iii) revenue-per-procedure (“RPP”) and (iv) treatment related services. The HIFU mobile treatment option provides access to our HIFU devices without requiring hospitals and clinics to make an up-front investment in the equipment. Instead, hospitals and clinics perform treatments using these devices and remunerate us on a RPP basis (i.e., on the basis of the number of individual treatments provided). With this model, once the treatment is established in the medical community, a permanent installation may become more attractive, leading to the sale of the device in some of the larger locations.

In addition, the HIFU division also generates revenues from net sales of maintenance services associated to our HIFU devices installed base. As of December 31, 2017, the HIFU division had an installed base of 108 Ablatherm machines, 25 Focal One machines and 476 certified trained clinical sites worldwide had access to this technology.

### ***HIFU Division Business Strategy***

The HIFU division’s business strategy is to capitalize on its expertise in HIFU and its position in urology to achieve long-term growth as a leader in the development, manufacturing, marketing and distribution of minimally invasive medical devices for urological and other indications, using HIFU technology, while preserving patient quality of life. The HIFU division believes that minimally invasive treatments using HIFU could provide an alternative to current invasive therapies on the basis of reduced cost and reduced morbidity for a number of different indications. The key elements of the HIFU division’s strategy to achieve that objective are:

*Provide Minimally Invasive Solutions to Treat Localized Prostate Cancer using HIFU.* Building upon our established position in the ESWL market, our HIFU division is striving to become the leading provider of our minimally invasive treatment option for prostate cancer. We believe that there is a large market opportunity with an increase in incidence linked to the aging male population, an increase in screening and recent campaigns to increase awareness. We also believe that HIFU could represent a credible alternative to surgery, external beam radiotherapy, brachytherapy and cryotherapy for the treatment of organ-confined prostate cancer without the cost, in-patient hospitalization and adverse side effects associated with those therapies. With the growing demand for more focused treatments destroying the tumor only (focal therapy) while continuously controlling the disease, HIFU and its focused approach, is well positioned to address this new clinical approach. The HIFU division intends to achieve this through a direct sales network in key European countries and the United States and through selected distributors in other European countries and in Asia. The HIFU division has built a strong clinical credibility based on clinical articles published in peer-reviewed journals. We ensure effective patient and physician education through a focused communication program.

*Achieve Long-Term Growth by Expanding HIFU Applications Beyond Prostate Cancer.* The HIFU division’s long-term growth strategy is to apply our HIFU technology toward the treatment of other medical conditions beyond prostate cancer. We believe that HIFU could represent an alternative to surgery and radiotherapy for the treatment of many tumors without the cost, in-patient hospitalization and adverse side effects associated with those therapies. The HIFU division is working on various other applications such as rectal endometriosis, liver, pancreatic cancers, breast and gynecological tumors where HIFU could provide an alternative to current therapies. In 2017, the HIFU division



maintained expenses at levels similar to 2016 on research and development (“R&D”) projects to develop HIFU applications beyond prostate cancer. The division is considering increasing levels of R&D spending in 2018 and future years to strengthen its technological leadership in HIFU and expand its application beyond urology.

### *HIFU Products*

Currently, we commercialize two products utilizing the HIFU technology. For both HIFU products, cell destruction by HIFU is accomplished by a combination of thermal and cavitation effects caused by focused application of piezoelectric-generated high-intensity ultrasound; HIFU procedures are performed under general or spinal anesthesia.

The Ablatherm is an ultrasound guided HIFU device for the treatment of organ-confined prostate cancer. It consists of a treatment module, including a HIFU endorectal probe, a control table with a computer and a computer screen, and a diagnostic ultrasound device connected to the treatment module. After insertion of an endorectal probe, the physician visualizes the prostate using ultrasound imaging and defines the area to be treated. The computer automatically calculates the optimum treatment distribution of lesions. During the treatment, the probe automatically moves and fires HIFU beams at each predefined lesion until the entire targeted area has been treated. At the same time, the physician is able to control and visualize the treatment in real time due to the integrated imaging system. The Ablatherm is cleared for distribution in the European Union, the United States, South Korea, Canada, South Africa, New Zealand, the Philippines, Mexico, Argentina, Brazil, Russia, Peru, Costa Rica and Ecuador.

Ablatherm Fusion is an evolution of Ablatherm, and incorporates the Company's proprietary fusion software which merges MRI and ultrasound images providing increased accuracy during planning and treatment for physicians. Ablatherm Fusion is cleared by the FDA for distribution in the U.S.

The Focal One is a HIFU robotic device fully dedicated to the focal therapy of prostate cancer. Focal One combines the three essential components to efficiently perform a focal treatment of localized prostate cancer: (i) high-quality imaging to localize tumors with the use of magnetic resonance imaging (MRI) combined with real-time ultrasound, (ii) high precision of HIFU treatment focused on identified targeted cancer areas and (iii) immediate feedback on treatment efficacy utilizing Contrast-Enhanced Ultrasound Imaging. Focal One provides an effective and accurate ablative treatment of localized tumors with the capacities of being flexible and repeatable, while preserving patient quality of life. The Focal One device received CE Marking for European market clearance in June 2013 and is also cleared for distribution in Canada, Russia, Saudi Arabia, South Korea, Malaysia, Brazil, Peru and Chile. We are also working to obtain clearance in other parts of the world.

### ***HIFU Division Patents and Intellectual Property***

As of December 31, 2017, the HIFU division's patent portfolio contained 34 patents consisting of 9 patents in the United States, 20 patents in the European Union and Japan and four patents in both Israel and the rest of the world. They belong to 17 groups of patents covering key technologies related to therapeutic ultrasound principles, systems and associated software.

During 2017, three U.S. patents have expired. They covered old endorectal probe design and treatment sequences that were no longer used. Two new patents have been delivered in the US. Both concern specific ultrasound transducer design. The first one allows the formation of large and deep lesions within biological tissue resulting from a toroidal transducer shape and crossing ultrasound beams. The second one covers a transducer consisting of different individual elements with different emitting surfaces in order to compensate acoustical tissue absorption. The latter patent has been also delivered in Japan.

Nine additional patents covering certain other aspects of our HIFU technology in the European Union and Japan (five), the United States (two), and the rest of the world (two) are currently under review. One new patent covering specific transducer cooling was filed in 2017. Our ongoing research and development objectives are to maintain our leadership position in the treatment of prostate cancer and to extend the HIFU technology to new applications and minimally invasive systems. These research projects are conducted in cooperation with the French National Institute for Health and Medical Research ("INSERM") which give rise in some cases to the filing of patents, followed by the grant of co-owned patents. We have entered into various license agreements with INSERM whereby we commit to pay a fixed amount of royalties to INSERM based on the net revenues generated from the sales of HIFU devices using co-owned patents. Under these agreements, which last for the life of each co-owned patent, we have the exclusive right to the commercial use of the co-owned patents, including the right to out-license such commercial rights.

In August 2004, we licensed our HIFU technology for the specific treatment of the “cervicofacial” lesions, including the thyroid, to Theraclion, a French company created by our former director of research and development. On January 11, 2011, we extended the above license by granting Theraclion exclusivity for the treatment of benign breast tumors and by granting a non-exclusive license for the treatment of malignant breast tumors. This license agreement provides for the payment of certain royalties calculated on the basis of Theraclion’s sales of devices. We determined that we could not invest in these specific applications at that time and this license agreement therefore allows Theraclion to pursue the development of HIFU for these applications. We own no interest in Theraclion. In December 2012, Theraclion obtained CE Marking for their HIFU device dedicated to the treatment of benign breast tumors.

Although we believe that our HIFU patents are valid and should be enforceable against third parties and that our patent applications should, if successfully pursued, result in the issuance of additional enforceable patents, there can be no assurance that any or all of these patents or patent applications will provide effective protection for the HIFU division’s proprietary rights in such technology. HIFU devices, as they are currently or may in the future be designed, may also be subject to claims of infringement of patents owned by third parties, which could result in an adverse effect on our ability to market HIFU systems. See Item 3, “Risk Factors – Risks relating to Intellectual Property Rights.”

## *HIFU Division Clinical and Regulatory Status*

### Clinical and Regulatory Status in Europe

The HIFU division has conducted an extensive clinical trial for the Ablatherm in the European Union. This trial, the European Multicentric Study, involved a total of 652 patients diagnosed with localized prostate cancer and included six sites in France, Germany and The Netherlands. The primary goals of the trial were to assess the safety and effectiveness of the Ablatherm. An interim analysis performed on the first 559 patients included 402 patients treated with the Ablatherm device as a first-line therapy. Of these patients, 81.4% had a normal PSA and 87.2% had negative biopsies at the last follow-up and were considered cancer free. The trials also included 157 patients who underwent an Ablatherm treatment as a salvage therapy after a previous failed therapy (hormone therapy, radiation or prostatectomy). Of these patients, 80.7% and 67.9% had negative biopsies and normal PSA after treatment, respectively.

Based on these results, in May 1999, we obtained a CE Marking that allows us to market the Ablatherm in the European Union.

### Clinical and Regulatory Status in France

In 2001, the French Urology Association (“AFU”) conducted an independent clinical trial to confirm the efficacy and safety results observed in the European Multicentric Study, and to evaluate the therapy-related costs. Patient recruitment was successfully performed at eight investigational sites. Patient enrollment was completed in an 11-month period with 117 patients included. Follow-up with these patients will continue to evaluate the long-term efficacy of the treatment.

In March 2004, we obtained CE Marking, which currently allows us to market Ablatherm for primary care patients and the treatment of patients who failed radiotherapy.

In 2005, a clinical trial was started in France to validate the efficacy and safety of Ablatherm as salvage treatment for patients who did not respond to brachytherapy. This clinical study was successfully completed in 2011 with satisfactory safety and efficacy results. Following the study, in January 2012, we submitted to the European certification body an application for an extension of Ablatherm CE marking addressing brachytherapy failures. Extension was granted in February 2012.

In 2007, a new clinical trial using Ablatherm and dedicated to the treatment of patients with high risk disease who are not candidates for radical surgery because of their age and/or co-morbidities was started in France. This clinical trial was terminated in March 2012 due to low patient enrollment.

Also in 2007, a clinical trial to evaluate the utility of Contrast-Enhanced UltraSound (“CEUS”) for the early diagnosis of local cancer recurrence after HIFU treatment was started in France. The preliminary results assessed that contrast-enhanced ultrasound is efficient in distinguishing residual viable prostate tissue from ablated tissue after HIFU prostate ablation. This study provides evidence that contrast ultrasound can diagnose early cancer recurrences. In May 2011, preliminary results related to good detection potential of CEUS after HIFU treatment were published by Edouard Herriot Hospital, Lyon, France, in the journal *Radiology*. Patient follow-up was completed in February 2012. CEUS technology was adopted for use in the new Focal One HIFU device.

In 2009, a new clinical trial was started in France to validate a new strategy of minimally invasive treatment of prostatic adenocarcinomas localized in a single lobe with HIFU. This concept of partial treatment is proposed as an intermediate option between active surveillance and whole prostate treatment. Partial treatment for this trial is hemiablation of the prostate in which a single prostatic lobe (or hemisphere) is ablated using HIFU in patients with prostate cancer that has a low risk of recurrence and for which the imaging and biopsy assessments show a unilateral cancer. The goal of hemiablation is to reduce the complications associated with standard treatments, notably the risks of incontinence and impotence. Final results were published in 2017 in the European Urology journal (Rischmann et al. *'Focal High Intensity Focused Ultrasound of Unilateral Localized Prostate Cancer: A Prospective Multicentric Hemiablation Study of 111 Patients'*, Eur Urol, 71: 267-73). At 1 year follow-up, HIFU-hemiablation was efficient with 95% absence of clinically significant cancer associated with low morbidity and preservation of quality of life (urinary continence was preserved in 97% of patients and sexual function was preserved in 78%). Radical treatment-free survival rate was 89% at 2 years.

In September 2010, a new clinical trial commenced in France and Norway to validate the new strategy of hemi-ablation treatment in radio-recurrent prostate cancer localized in a single lobe. This objective of focal treatment in patients with prostate cancer recurrence after radiotherapy is to reduce the risks of side effects in a very fragile population of patients. This clinical trial had been expanded to include a cohort of 100 patients and to confirm the published preliminary outcomes. Preliminary results from this study were published in the British Journal of Urology International in 2014. A total of 48 patients were enrolled. The study publication concluded that hemispherical salvage HIFU is a feasible therapeutic option in patients with unilateral radio-recurrent prostate cancer, which offers limited urinary and rectal morbidity, and preserves health-related quality of life. The patient recruitment and evaluation of this hemi-ablation treatment in radio-recurrent prostate cancer localized in a single lobe is still ongoing. This study will allow to gather data from a larger population of patients with a good hindsight.

In June 2011, a new clinical trial began in France and then extended to Belgium in 2012 to evaluate the new technical improvements in HIFU technology: the Dynamic Focusing technology. This technology gives the ability to target a more precise area within the prostate making the dynamic focusing technology the perfect tool for focal therapy. It also allows for the treatment of bigger prostates and for a more precise contouring of the gland providing a better control over sensitive areas responsible for continence and sexual functions. As a result, the Dynamic Focusing technology has been incorporated into the new Focal One HIFU device. Based on clinical data obtained with the first 83 treatments as a primary indication and the 14 treatments as a salvage indication, we obtained a CE Mark in June 2013 that allows us to market the Focal One in the European Union. This clinical trial will be completed in late 2019.

In January 2014, a new clinical trial on multifocal HIFU treatments with the Focal One device began in France in six investigational centers. The aim of this study is to evaluate the efficacy and safety results of different focal HIFU treatment strategies. Thanks to Focal One technical capacities (Dynamic Focusing technology, elastic fusion of MRI and ultrasound images and Contrast Enhanced Ultrasound treatment validation) many focal treatments approaches are possible allowing for treatment that is individually tailored to the patient's disease. In January 2015, the last patient was included in the above study, clinical results analysis is currently ongoing and will be published in the coming months.

In February 2015, the reimbursement evaluation study of HIFU was initiated under the "Forfait Innovation". This process, piloted by French Association of Urology (AFU), compares primary whole-gland or sub-total HIFU and salvage whole-gland and focal HIFU results with those of radical prostatectomy in 42 French urological centers. The primary outcome is the salvage treatment free rate at two years. In December 2017, 1,033 patients have been treated in primary setting and 303 patients as salvage indication.

#### Clinical and Regulatory Status in the United States

In 2005 EDAP started an Investigational Device Exemption ("IDE") study (G050103) to assess the safety and effectiveness of Ablatherm HIFU in the U.S. for the treatment of low risk, localized prostate cancer. This study was designed as a pivotal study to support PMA approval. This study was planned as a multicentric, prospective, non-randomized, concurrently controlled clinical trial comparing Ablatherm HIFU to cryotherapy in patients with low risk, localized prostate cancer.

Due to accrual difficulties, particularly in the cryosurgery arm, this planned study was not completed. Of the planned 205 patients per arm, 136 and five patients were recruited to the Ablatherm HIFU and cryosurgery arms, respectively.

We completed the treatment of 134 patients in June 2010, the required two years' follow-up phase was completed in June 2012. Clinical outcomes from these patients combined with our strong European long-term database formed the foundation of our PMA submission to the FDA on January 31, 2013.

On March 9, 2015, we announced that based on our collaborative discussions with the FDA, we planned to seek clearance of Ablatherm HIFU by way of a direct de novo 510(k) application as opposed to the PMA application amendment we had been considering. The FDA indicated that while PMA approval would be required for specific claims regarding treatment of prostate cancer, a prostate tissue ablation claim could be cleared via a direct de novo 510(k) application.

On October 15, 2015, we announced the withdrawal of our de novo application and the submission of a 510(k) notice, in accordance with the FDA guidelines, following the FDA clearance of the Sonablate 450 for prostatic tissue ablation using HIFU.

On November 9, 2015, we announced the receipt of 510(k) clearance from the FDA to market Ablatherm® Integrated Imaging HIFU in the U.S. for the ablation of prostate tissue.

In April 2016 EDAP submitted to FDA a 510k application for the clearance of the Focal One HIFU Device.

On July 17, 2017, we had to withdraw the 510(k) application for our Focal One device in order to submit a new file including new clinical data to support our file, which we did on September 11, 2017, in accordance with FDA guidance. Our new 510(k) file is still under FDA review.

On July 31, 2017, the Company submitted a 510(k) application to the FDA for its Ablatherm Fusion device, which incorporates our proprietary fusion software which merges MRI and ultrasound images, providing increased accuracy during planning and prostate treatment for physicians. On October 4, 2017, we obtained FDA clearance for our Ablatherm Fusion device.

#### Clinical and Regulatory Status in Japan

In June 2000, the HIFU division applied for approval by the Japanese Ministry of Health for the Ablatherm to be marketed in Japan. We retrieved the application in 2005 to update it and review the process. In December 2016, based on FDA clearance of our Ablatherm HIFU system, we initiated discussions with the Japanese authorities (“PMDA”) on the best process to apply for obtain Japanese approval for our Focal One device. The process of requesting approval to market the Focal One in Japan may be long and may never result in the approval to market the Focal One in Japan. See Item 3, “Key Information—Risk Factors—Our future revenue growth and income depend, among other things, on the success of our HIFU technology.”

#### Clinical and Regulatory Status in China

On August 2, 2010, we entered into an exclusive distribution agreement with Shaw Han Biomedical Co. Ltd to distribute Ablatherm throughout China, once approved by Chinese authorities. This agreement involves a two-stage process: Shaw Han will first be responsible for processing the marketing clearance application with China’s Food and Drug Administration for Ablatherm, then they will lead the marketing and distribution of the device in China for four years post approval. As of the date of this annual report on Form 20-F, the marketing clearance application is still ongoing with the Chinese authorities.

See Item 3, “Risk Factors” – “We operate in a highly regulated industry and our future success depends on government regulatory approval of our products, which we may not receive or which may be delayed for a significant period of time.”



***HIFU Clinical Data***

To date, our clinical Ablatherm results have been published in more than 85 renowned peer-reviewed journals. In 2010, the results of a major multicentric study on 803 patients were published showing a local control of the disease in 77.9% of the patients. In 2013, three long-term studies presenting results obtained over a period of more than 14 years on 538 patients, 704 patients and 1,002 patients were published, showing excellent cancer-specific and metastasis-free survival in primary patients (Ganzer et al. BJU 2013, Thuroff et al. Journal of Urology 2013 and Crouzet et al. European Urology 2013).

In 2014, the first clinical results of focal treatments with Ablatherm were published by Baco et al. in the British Journal of Urology International (“BJUInt”) and Van Velthoven et al. in *Prostate Cancer* magazine. Baco et al. published promising results of hemi-salvage HIFU (treatment of one lobe of the prostate) after External Beam Radiation Therapy (“EBRT”) and brachytherapy recurrences. In this fragile population of patients, the treatment of the infected lobe is reported to provide better functional outcomes and preserves quality of life. A similar approach of HIFU prostate hemi-ablation was presented by Van Velthoven et al. for primary care patients. With a maximum follow-up of 61 months the study showed a rate of 100% full continence and 75% erectile function preservation combined with only 11% of salvage treatment (re-HIFU in the contralateral lobe). Authors concluded primary zonal HIFU is a valid focal therapy strategy which is safe and feasible in a day-to-day practice showing good promising results. This study was updated in 2015 in *Prostate Cancer and Prostatic Diseases* journal with 50 patients treated with Hemi-HIFU strategy and provided 100% five-year cancer specific survival rate. The functional results included 94% pad free patients and 80% erectile function preservation at the end of follow-ups.

We have set up an extensive worldwide patient database called "@-registry." This on-line database was designed to compile treatment information and follow-up data for patients who have undergone HIFU for prostate cancer. The goal of the @-registry was to further demonstrate the safety, effectiveness and durability of Ablatherm. Information from the registry are submitted to medical conferences for presentation and to peer-reviewed medical journals for publication. Based on more than 10,000 patients included into our @-registry database, we presented at the European Association of Urology (EAU) held in Paris in February 2012, an abstract presentation covering 5,662 primary patients, and an abstract covering 929 patients treated with Ablatherm after radiorecurrence with seven years follow-up that was elected "best poster" by the scientific committee. Thüroff et al presented a poster at the American Urology Association (AUA) 2014 on the long term HIFU retreatment rate, evaluating 2,632 patients. Thüroff et al concluded that technical development and adjuvant transurethral radical prostatectomy ("TURP") before HIFU resulted in higher local efficacy and lower HIFU retreatment rates.

In January 2016, Professor Ronald van Velthoven, Head of Urology Department at Institut Bordet Oncology Center, Brussels, Belgium published outcomes of hemiablation HIFU in the journal Prostate Cancer and Prostatic Diseases. With the initial patient treated in early 2007 it is the first prospective study of focal HIFU to enroll patients and had a follow-up of extending to 8 years. The publication reports a 100% cancer specific survival at 5 years, a 97% rate of continence preservation and 80% rate of potency preservation.

The results of the French hemiablation study were electronically published in the peer-reviewed journal European Urology in October 2016. The study included a total of 110 patients at 10 centers whose prostates were treated with Ablatherm HIFU in which half the prostate was ablated. The follow-up of the study was 2 years at which time all patients were required to undergo follow-up biopsy. In the treated side, 5% of subjects had residual or recurrent clinically significant cancer. The survival rate without additional definitive treatment at 24 months was 89%. Urinary continence was preserved in 97% of patients and erectile function was preserved in 78%.

In December 2016, Professor Roland van Velthoven from Institut Bordet Oncology Center, Brussels, Belgium published a matched pair analysis of HIFU hemiablation vs robotic assisted laparoscopic prostatectomy. In this study, 55 patients with unilateral localized prostate cancer were treated using Ablatherm-HIFU and their outcomes were compared 1:1 with patients having similar clinical criteria but underwent robotic assisted laparoscopic prostatectomy. The matched pair analysis concluded that HIFU was comparable to robotic-assisted radical prostatectomy in the management of prostate cancer and showed HIFU to have significantly better functional outcomes.

In 2017, Crouzet et al. reported the oncological outcome of salvage high-intensity focused ultrasound (S-HIFU) for locally recurrent prostate cancer after external beam radiotherapy (EBRT) from the @-registry multicenter database in British Journal of Urology (BJU) International journal. This retrospective study comprises patients from nine centers with local recurrent disease after EBRT treated with S-HIFU from 1995 to 2009. The publication is the largest series of salvage treatment, confirming very positive oncological outcomes for this population (7 year metastasis free rate of 81%). It also insists on the importance of treating recurrence of prostate cancer early after failure, as it largely improves outcomes.

In early 2018, a new database, called the Focal Robotic Ultrasound Ablation Registry (“FoR-UsA”), has been established to collect high quality clinical data of U.S. patients treated with Ablatherm Robotic HIFU. The FoR-UsA Registry is the first in the U.S. that specifically collects data on patients who have had HIFU focal therapy for prostate tissue ablation, giving urologists around the U.S. greater access to short and long term HIFU outcomes. The registry also holds the potential for the FDA, which cleared HIFU for prostate tissue ablation in 2015, to re-evaluate the technology in the future for a prostate cancer indication. Likewise, health insurance reimbursements on a wider scale are also possible with a registry documenting HIFU data from patients in the U.S.

### ***HIFU Division Market Potential***

Prostate cancer is currently the first or second most common form of cancer among men in many populations. In the United States, the American Cancer Society estimates the number of new prostate cancers diagnosed every year to be approximately 165,000, of which approximately 70% are diagnosed with localized stage prostate cancer. Additionally, the HIFU division believes, based on figures provided by the World Health Organization that the worldwide incidence of localized prostate cancer is approximately twice this U.S. figure. A more effective diagnostic method for prostate cancer, the PSA test, has increased public awareness of the disease in developed countries since its introduction. PSA levels jump sharply when cancer is present. Prostate cancer is an age-related disease, and its incidence in developed countries is expected to increase as the population ages.

The HIFU division believes that HIFU therapy could be expanded to other medical conditions, such as certain localized thyroid, breast, gynecological, bladder, kidney, liver, brain, pancreatic and retroperitoneal tumors. We decided to focus on developing HIFU for certain types of pathologies. For example, in late 2016, we initiated a clinical Phase I study to address certain types of deep endometriosis situated in the low rectum, using Focal One HIFU. Nine patients have been treated successfully. A multi-centric study is to take place in 2019. As per the European Society of Human Reproduction and Embryology, endometriosis is estimated to affect approximately one in 10 women of reproductive age. In June 2015, we entered into a multi-partner liver cancer development project organized by the HECAM (“HEpatocellular CArcinoma Multi-technological”) consortium. This project aims at developing innovative diagnostic, imaging and therapeutic technologies to address liver cancer. EDAP’s focus within the HECAM consortium is on developing a novel HIFU treatment for liver cancer in cooperation with its long-term academic partner INSERM and leading cancer centers. To fund this development program, EDAP will receive a maximum of €2.4 million in non-dilutive financing from Bpifrance over the five-year project period of which we received the first instalment of €0.7 million in June 2015 and a second installment of €0.8 million in June 2017 (i.e. a total of €1.5 million including €1.0 million as a conditional subsidy and €0.5 million as a grant). The HECAM project is ongoing and a multicentric study will be initiated mid-2018 based on a first mono-centric study implemented with Lyon’s Centre Leon Bérard cancer center. We also anticipate to develop HIFU technology to address pancreatic, breast and gynecological tumors. However, the expansion of the use of HIFU to other areas of treatment will require a significant investment in research and development, an investment we will undertake gradually while focusing on the acceptance of HIFU as a treatment for localized prostate cancer. For example, our licensee, Theraclion, obtained CE Marking for their HIFU device dedicated to the treatment of benign breast tumors and thyroid tumors. See Item 4, “Information on the Company—HIFU Division Patents and Intellectual Property.”

### ***HIFU Competition***

The principal current therapies for prostate cancer carry side effects that can seriously affect a patient’s quality of life. One of the current therapies is radical prostatectomy (surgery), which involves the ablation of the entire prostate gland. Radical prostatectomy requires several days of hospital stay and several weeks of recovery, usually with catheterization, and may result in partial and/or total urinary incontinence. In addition, it almost invariably renders patients impotent. A new surgical technique, nerve-sparing prostatectomy, has been developed to address that problem. However, the procedure can only be applied when the tumor is not located close to the surface of the prostate and requires a very skilled surgeon. Other therapies for localized prostate cancer include brachytherapy, a therapy that involves the implantation of radioisotopes into the prostate gland, EBRT and cryotherapy.

Our HIFU devices compete with all current treatments for localized tumors, which include surgery, brachytherapy, radiotherapy, cryotherapy and electroporation. We believe that HIFU competes against those treatments on the basis of efficacy, limited side effects and cost-effectiveness.

We also believe that Focal One will be well positioned to address the growing demand for a “focal” approach of localized prostate cancer which cannot be answered by surgery or radiation therapy. “Focal” treatment (also known as “partial” or “zonal” treatment, as opposed to “radical” treatment) provides an effective and accurate ablative treatment of localized tumors with the capacities of being flexible and repeatable, while preserving patient quality of life.

Other companies are working with HIFU for the minimally invasive treatment of tumors. See Item 3, “Risk Factors – Risks Relating to Competition.”

Certain existing and potential competitors of our HIFU division may have substantially greater financial, research and development, sales and marketing and personnel resources than us and may have more experience in developing, manufacturing, marketing and supporting new products. We believe that an important factor in the potential future market for HIFU treatments will be the ability to make the substantial investments in research and development required to advance the technology beyond the treatment of prostate cancer. These future investments are wholly dependent on the successful acceptance of the device for the treatment of prostate cancer.

#### ***HIFU Division Sales and Distribution of Products***

The HIFU division markets and sells its products through our own direct marketing and sales organization as well as through selected third-party distributors and agents in several countries. Using our direct subsidiaries or representative offices network, the HIFU division maintains direct marketing and sales forces in France, United States, Germany, Russia and Italy, which currently represent its largest HIFU markets. Additionally, the HIFU division markets and sells its products through our distribution platform in the Middle East, South Korea and South East Asia.

The HIFU division's customers are located worldwide and have historically been principally public and private hospitals and urology clinics. The HIFU division believes that as it increases its customer base it will gain further access to the medical community, which will enable it to monitor the urological market as well as other new targeted markets, introduce new products and conduct trials addressing new pathologies under satisfactory conditions. No single customer of the HIFU division represents a significant portion of the division's installed base.

The HIFU division's marketing efforts currently include the organization of information and training programs for urologists, mainly in key European countries and in the United States where HIFU awareness is growing, comprehensive media and web programs to educate patients on the availability of HIFU technology to treat localized prostate cancer and strong participation in focused dedicated urological events. Our dedicated web site [www.hifu-prostate.com](http://www.hifu-prostate.com) for patients and physicians is visited regularly. The information contained on that website is not incorporated by reference herein.

The HIFU division is also committed to exclusively distribute HIFU products on behalf of Theraclion, in France, including the Echopulse device dedicated to the treatment of benign breast tumors and thyroid tumors.

## **UDS Division**

The UDS division is engaged in the development, marketing, manufacturing and servicing of medical devices for the minimally invasive diagnosis or treatment of urological disorders, mainly urinary stones, and other clinical indications. The UDS division contributed €26.2 million to our consolidated net sales during the fiscal year ended December 31, 2017.

Our UDS business is quite cyclical and generally linked to lengthy hospital decision and investment processes and their activities. Hence our quarterly revenues are often impacted and fluctuate according to these parameters, generally resulting in a higher selling activity in the last quarter of the year.

### ***UDS Division Business Overview***

The UDS division's primary business is producing and marketing devices, known as lithotripters, for the treatment of urinary tract stones by means of ESWL technology. ESWL uses extracorporeal shockwaves, which can be focused at urinary stones within the human body to fragment the stones, thereby permitting their natural elimination and preventing the need for incisions, transfusions, general anesthesia, and the resulting complications. The UDS division currently manufactures two models of lithotripters: the Sonolith i-move and the Sonolith i-sys. As of December 31, 2017, the UDS division has sold 904 ESWL lithotripters worldwide to this date and actively maintained or otherwise

serviced 701 installed lithotripters.

In addition to its manufacturing and selling of lithotripters, the UDS division also generates revenues from the leasing of lithotripters, as well as from the sale of disposables, spare parts and maintenance services. It also derives revenues from the distribution of urodynamics products and urology lasers.

### ***UDS Division Business Strategy***

The business strategy for the UDS division is to capitalize on its expertise in ESWL and its position in urology to achieve long-term growth as a leader in the development, production, marketing and distribution of minimally invasive medical devices for urological and other clinical indications. The UDS division manufactures its own products as part of EDAP TMS France SAS (“EDAP TMS France”), our wholly owned subsidiary. The key elements of the UDS division’s strategy are:

*Capitalize on the Current ESWL Installed Base.* The UDS division’s long-term growth strategy relies on its ability to capitalize on its extensive installed base of ESWL lithotripters to recognize ongoing revenue from sales of disposables, accessories, services and replacement machines. We believe that offering highly innovative units that are easily adaptable to various treatment environments, as well as a commitment to quality and service will allow the UDS division to achieve this goal. See “Information on the Company—UDS Division Products”.

*Capitalize on an Established Distribution Platform in Urology by Expanding Distribution Possibilities.* We believe that we can achieve additional long-term growth by offering our established distribution platform in urology to other developers of medical technologies and acting as a distributor for their devices. Our distribution platform in urology consists of a series of well-established subsidiaries in Europe, United States, Middle East and Asia as well as a network of third-party distributors worldwide.

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*Provide Manufacturing Solutions to Other Developers of Medical Technologies.* Building upon its established position in the high-tech medical devices market, we believe that the UDS division can become a provider of manufacturing alternatives to other developers of medical technologies that do not have or do not wish to invest in their own manufacturing facilities. We believe that our FDA-inspected and ISO 13485 (V:2003) certified facilities allow us to offer manufacturing services to a wide range of potential medical equipment developers.

### ***UDS Division Products***

The UDS division offers the Sonolith i-move to small and mid-size hospitals, while the Sonolith i-sys is offered to large hospitals that can afford a fully dedicated and integrated lithotripter. The UDS division also sells disposable parts for lithotripters, including the piezoelectric elements of the LT02, (a machine we discontinued manufacturing in 2002) and the electrodes of the Sonolith line, which need to be replaced approximately every ten treatments. These parts incorporate key proprietary technologies, and the UDS division has retained sole marketing rights for these parts.

The Sonolith i-move and the Sonolith i-sys rely on the electroconductive technology for shockwave generation. The electroconductive technology, which is derived from the electrohydraulic technology on which the first ESWL lithotripters were based, permits improved focusing of the shockwave, reduces the variability in the shockwave pressure and allows a better transfer of energy to the calculus. These features result in a faster, more effective treatment as compared to electrohydraulic lithotripters.

The UDS division's ESWL customers are located worldwide and have historically been principally large hospitals, urology clinics and research institutions. To increase its penetration of the market segment of smaller hospitals and outpatient clinics, the UDS division developed the Sonolith i-move, an electroconductive lithotripter designed for smaller clinics. It is more compact than the Sonolith i-sys, which is more fully integrated and dedicated to larger hospitals and can be used as a urological workstation to perform endourological procedures. The Sonolith i-move, launched in 2010, brings a novel approach to the market by offering a wide range of configurations to suit various budgets and various local market needs. The Sonolith range has also been very successful thanks to its innovative *Visio-Track* ultrasound stone localization: a unique three dimensional virtual system that uses infrared stereovision technology to guide the treatment robotically.

### ***UDS Division Patents and Intellectual Property***

As of December 31, 2017, the UDS division's patent portfolio contained 11 patents consisting of one patent in the United States, eight patents in the European Union and Japan and two patents in both Israel and the rest of the world. They belong to five groups of patents covering key technologies relating to ESWL systems and associated software capabilities. The patent covering the ultrasound localization system is also in the examination process in the United States. The UDS division's patents cover both piezoelectric and electroconductive technologies associated to ESWL generator, localization systems and device design. The UDS division's ongoing R&D objectives in ESWL are to



further increase the clinical efficacy, the cost-effectiveness and the ease of use of its products to make them accessible to wider patient and user populations.

As with the development of our HIFU technology, we cooperate with INSERM to develop our ESWL technology. This cooperation gave rise to co-owned patents in some cases. We have entered in the past into various license agreements with INSERM whereby we committed to pay a fixed amount of royalties to INSERM based on the net revenues generated from the sales of ESWL devices using co-owned patents. Under these agreements, we had the exclusive right to the commercial use of the co-owned patents, including the right to out-license such commercial rights. These license agreements expired in 2016, allowing EDAP to freely use the related patents.

### *UDS Division Regulatory Status*

The Sonolith i-move is available for commercial distribution in the European Union, South Korea, Malaysia, Thailand, Taiwan, Singapore, Russia, Serbia, Peru, Colombia, Costa Rica, Japan, United States, Saudi Arabia, Argentina, Mexico and Brazil.

The Sonolith i-sys is available in the European Union, South Korea, Canada, United States, Peru, Colombia, Mexico, Costa Rica, Russia, Serbia, Japan, Australia, Malaysia, Singapore, Saudi Arabia and Taiwan.

The UDS division continues to provide disposables, replacement parts and services for the current installed base of Sonolith Praktis, even though we discontinued the manufacture of these machines.

### ***UDS Division Market Potential***

We estimate that roughly 5% of the world population suffers from kidney or ureteric stones during their lifetime and that urinary calculi are responsible for 10% of urological hospital admissions worldwide. Although urinary calculi may be eliminated naturally by the body, natural elimination is frequently accompanied by considerable pain and very often by serious complications, such as obstruction and infection of the urinary tract.

Since its introduction in clinical practice more than 35 years ago, ESWL has become the standard treatment for urinary calculi. ESWL consists of fragmenting calculi within the body using extracorporeal shockwaves without any surgery. We believe that the market for lithotripters includes both buyers looking for a sophisticated, higher-priced machine (generally hospitals and larger urology clinics) but also buyers looking for simpler and less expensive machines (typically smaller clinics). We also believe that after a period of fast growth in the mid-1980s and early 1990s, the market for lithotripters is now mature and has become primarily a replacement and service and maintenance market in most of the world. Several geographical opportunities remain in under-equipped countries or in some countries where the national health system strategy is being reviewed for hospitals and clinics equipment. ESWL is today in competition with less costly stone laser devices. Consequently, in order to remain competitive, EDAP integrated stone laser products into its ESWL product range.

We believe that companies with a large installed base of ESWL lithotripters will be most successful in the replacement market. Consequently, we intend to capitalize on our share of the installed base of ESWL lithotripters to gain a significant position in the replacement market for those machines. We expect the ESWL business to continue to contribute, at historically consistent levels, to the UDS division's financial results despite the mature nature of the market, due to revenues from maintenance contracts and demand for replacement machines. See Item 5, "Operating and Financial Review and Prospects".

### ***UDS Division Competition***

The ESWL market is characterized by severe price competition among manufacturers, with the result that, in recent years, the average unit price of ESWL lithotripters has declined. The UDS division expects this trend to continue. See Item 5, "Operating and Financial Review and Prospects." The UDS division's major competitors in developed countries are Wolf, Storz and Dornier.

### ***UDS Division Sales and Distribution of Products***

The UDS division markets, sells and services its products through our direct sales and service platform in France, Italy, Germany, United States, Japan, South Korea, Malaysia and, most recently, in the United Arab Emirates through our representative office in Dubai. The UDS division also markets its products through agents and third-party distributors in several other countries.

The UDS division's customers are located worldwide and have historically been mainly public and private hospitals and urology clinics. We believe that the division's customer base provides it with excellent access to the urological community and enables it to introduce new products and conduct trials under satisfactory conditions.

No single customer of the UDS division represents a significant portion of the division's installed base. The UDS division's marketing efforts include the organization of training programs for urologists worldwide.

### ***UDS Division Services and Distribution***

The UDS division is also pursuing various distribution options that use its strong network of worldwide subsidiaries and agents. The UDS division distributes urodynamics products on behalf of Laborie Company, including MMS (Medical Measurement Systems) products, and Andromeda in Japan. The UDS division also distributes laser urology solutions from Lumenis in France and from Quanta System in Asia. We believe that the laser use in endo-urology will increase in the coming years, for both the treatment of urinary stones and for other urological procedures such as HoLEP (Holmium Laser Enucleation of Prostate). We believe that the UDS division can successfully market its worldwide distribution platform to a wide range of medical equipment development companies, thus allowing for quick, easy and economically sound entry for these companies into markets covering most of the world.

## **Manufacturing**

Our current manufacturing operations consist of manufacturing medical products in our facility, which is FDA-approved and certified under international ISO 13485 standards. We believe that this facility could possibly extend its outsourced services to provide device and disposable development and manufacturing services to a range of medical equipment development companies. Each division manufactures its own products through EDAP TMS France.

We manufacture the critical components for our devices and accessories, unless a subcontractor can manufacture the component more cost-effectively, we also perform final assembly and quality control processes and maintain our own set of production standards. We purchase the majority of the raw materials used in our products from a number of suppliers, but for several components of our products, rely on a single source. Furthermore, we conduct regular quality audits of suppliers' manufacturing facilities. Our principal suppliers are located in France, Germany, Denmark, South Korea and the United States. Management believes that the relationships with our suppliers are good.

## **Quality and Design Control**

The manufacturing operations of EDAP TMS France must comply with all regulations of countries where we market our products, including the GMP regulations enacted by the FDA, which establish requirements for assuring quality by controlling components, processes and document traceability and retention, among other things. EDAP TMS France's facilities are also subject to inspections performed by the FDA. The U.S. FDA conducted a routine inspection of our manufacturing site in March 2018 which resulted in the issuance of a Form 483. There was only one observation which was for Management Review procedure(s) but it was deemed by FDA that no further action was indicated at this time. The issue is currently being addressed through our CAPA system. EDAP TMS France has obtained ISO 13485 (V:2003) certifications, which indicate compliance by EDAP TMS France's manufacturing facilities with international standards for quality assurance, design and manufacturing process control. EDAP TMS France also complies with the applicable requirements that will allow it to affix the CE Marking to certain of its products. Our manufacturing site also complies with Taiwanese, Japanese and Canadian regulations, as well as with the U.S. Quality System Regulation. See "Information on the Company—Government Regulation—Healthcare Regulation in the United States" and "—Government Regulation—Healthcare Regulation in the European Union."

## **Property and Equipment**

We have one principal facility, which is located in Vaulx-en-Velin, on the outskirts of Lyon, France. The premises comprise 4,150 square meters and are leased to us under a renewable ten-year commercial lease agreement signed on July 1, 2015. We use this facility to manufacture our device portfolio. We believe the terms of the lease reflect commercial practice and market rates. The manufacturing facility, and principal offices, which we utilize to

manufacture and/or assemble all of our products, have ISO 13485 certifications. We are not aware of any environmental issues that could affect utilization of the facility.

In addition, we lease office and/or warehouse facilities in Kuala Lumpur (Malaysia), Rome (Italy), Flensburg (Germany), Austin (U.S.), Moscow (Russia), Seoul (South Korea), Fukuoka, Osaka, Sapporo and Tokyo (Japan), Dubai (United Arab Emirates).

## Organizational Structure

The following table sets forth the fully consolidated subsidiaries of the Company as of the date of this annual report:

Name of the Company	Jurisdiction of Establishment	Percentage Owned <sup>(1)</sup>
EDAP TMS France SAS	France	100%
EDAP Technomed Inc.	United States	100%
EDAP Technomed Co. Ltd	Japan	100%
EDAP Technomed Sdn Bhd	Malaysia	100%
EDAP Technomed Srl	Italy	100%
EDAP TMS GmbH	Germany	100%

(1) Percentage of equity capital owned by EDAP TMS S.A. directly or indirectly through subsidiaries (percentage of capital owned and voting rights are the same).

## Government Regulation

Government regulation in our major markets, in particular the United States, the European Union and Japan, is a significant factor in the development and marketing of our products and in our ongoing research and development activities. See Item 3, “Risk Factors –Risks Related to Government Regulations.”

### ***Regulation in the United States***

We and our products are regulated in the United States by the FDA under a number of statutes including the Federal Food, Drug and Cosmetic Act (“FDC Act”). Pursuant to the FDC Act, the FDA regulates the preclinical and clinical testing, manufacturing, labeling, distribution, sale, marketing, advertising and promotion of medical devices in the United States. Medical devices are classified in the United States into one of three classes - Class I, II or III - on the basis of the controls reasonably necessary to ensure their safety and effectiveness. Class I devices are those whose safety and effectiveness can be ensured through general controls, such as establishment and registration, medical device listing, FDA-mandated CGMP, labeling. Most Class I devices are exempt from premarket notification (510(k)). Class II devices are those whose safety and effectiveness can reasonably be ensured through the use of general controls and “special controls,” such as special labeling requirements, mandatory performance standards, and post-market surveillance. Class II medical devices require 510(k) submission and clearance. The FDA may also require the submission of clinical data as part of the 510(k) for Class II devices. The FDA introduced the de novo 510(k) process for novel devices that present low to moderate risk where there is no suitable predicate device to support a standard 510(k) submission. Class III devices are those that require submission of a PMA by the FDA to ensure their safety and effectiveness. The PMA process is expensive and often lengthy, typically requiring several years, and may not necessarily result in approval. The manufacturer or the distributor of the device must obtain an IDE approval from the FDA before commencing human clinical trials in the United States in support of the PMA. Some newer PMA devices must also go before a clinical review panel before FDA approval. Our lithotripsy range of products are now classified by the FDA as Class II devices. As far as our Ablatherm or Focal One HIFU devices are concerned, they also have been classified as Class II. Ablatherm was cleared by FDA in November 2015, via a 510(k) application, with a prostate tissue ablation claim, following the approval of another HIFU device via the de novo 510(k) process. In April 2016, we submitted a 510(k) application for our Focal One device. After discussion with the FDA, it was decided to withdraw our 510(k) application and submit a new premarket notification with new clinical data. This second 510(k) for the Focal One was submitted in September 2017 and is currently under FDA review. Our 510(k) application for the Ablatherm Fusion was cleared by FDA in October 2017. Advertising and promotional activities in the United States are subject to regulation by the FDA and, in certain instances, by the U.S. Federal Trade Commission. The FDC Act also regulates quality and manufacturing procedures by requiring us to demonstrate and maintain compliance with current Quality System Regulations (QSR). Our manufacturing facilities are in compliance with the requirements of the QSR. This was last verified in March 2018 when the FDA conducted a routine inspection of our facility and quality processes. There was only one observation recorded on Form 483 which was for Management Review procedure(s) but it was deemed by FDA that no further action was indicated at this time. The issue is currently being addressed through our CAPA system.

### ***Regulation in the European Union***

In the European Union, we annually perform ISO 13485 (V:2003) certification audits, showing that we comply with standards for quality assurance, manufacturing and design control. In the European Union, our products are also subject to legislation implementing the European Union Council Directive 93/42/EEC concerning medical devices (the “Medical Device Directive”). The Medical Device Directive provides that medical devices that meet certain safety standards must bear a certification of conformity, the European Community approval “CE Marking.” Except in limited circumstances, member states of the European Union may not prohibit or restrict the sale, free movement or use for its intended purpose of a medical device bearing the CE Marking. Medical devices marketed throughout the European

Union must comply with the requirement of the Medical Device Directive to bear a CE Marking (subject to certain exceptions). All of our products bear the CE Marking, except for Ablatherm Fusion.

Pursuant to the Medical Device Directive, medical devices are classified into four classes, Class I, Class IIa, Class IIb and Class III, on the basis of their invasiveness and the duration of their use. The classification serves as a basis for determining the conformity assessment procedures that apply to medical devices to be eligible to receive a CE Marking. The conformity assessment procedures for Class I devices can be carried out, as a general rule, under the sole responsibility of the manufacturer, while for devices of other classes, the involvement of an authorized supervisory body is required. The extent of the involvement of such body in the development and manufacturing of a device varies according to the class under which it falls, with Class III devices being subject to the greatest degree of supervision. All of the devices currently marketed by us are Class IIb devices.

On April 27, 2016, the European Union adopted the General Data Protection Regulation (“GDPR”) (Regulation (EU) 2016/679) which intends to strengthen and unify data protection for all individuals within the European Union. It also addresses the export of personal data outside the EU. The GDPR aims primarily to give control back to citizens and residents over their personal data and to simplify the regulatory environment for international business by unifying the regulation within the EU. When the GDPR takes effect, it will replace the data protection directive of 1995 (Directive 95/46/EC). The GDPR becomes enforceable from May 25, 2018 after a two-year transition period and, unlike a directive, it does not require national governments to pass any enabling legislation, and is thus directly binding and applicable.

On May 25, 2017, Europe's new Medical Device Regulation ("MDR") was enacted and came into force. Manufacturers with currently approved medical devices in their portfolio will have a transition time of three years, i.e. until May 26, 2020 to meet new MDR requirements. MDR addresses substantial changes to the way medical device manufacturers bring their devices to the European market and how they maintain compliance throughout the product's life cycle. MDR will replace the EU's current Medical Device Directive (93/42/EEC).

### ***Regulation in Japan***

The import and sales of medical devices in Japan is regulated by the Japanese Ministry of Health, Labor and Welfare (the "MHLW") under the license "Marketing Authorization Holder" Our Japanese subsidiary has obtained a general license as well as specific approvals to import our products that have been approved in Japan. Our Japanese subsidiary is also operating under the statute of Designated Marketing Authorization Holder ("DMAH") on behalf of some companies to act as their representative on the Japanese Territory, before Japanese regulatory authorities. The MHLW also administers various national health insurance programs to which each Japanese citizen is required to subscribe. These programs cover, among other things, the cost of medical devices used in operations. The MHLW establishes a price list of reimbursable prices applicable to certain medical devices under the national health insurance programs and until a new device is included in this list its costs are not covered by the programs. The LT02, the Sonolith Praktis, the Sonolith Vision, the Sonolith i-sys and the Sonolith i-move are all included on the MHLW's list for reimbursement.

### **Item 4A. Unresolved Staff Comments**

None.

### **Item 5. Operating and Financial Review and Prospects**

The following discussion of our results of operations and liquidity and capital resources for the fiscal years ended December 31, 2017, 2016 and 2015 is based on, and should be read in conjunction with our consolidated financial statements and the notes thereto included in Item 18 of this annual report. The consolidated financial statements have been prepared in accordance with U.S. GAAP and refer to the new topic-based FASB Accounting Standards Codification ('ASC').

The following discussion contains certain forward-looking statements that involve risks and uncertainties. Actual results may differ materially from those contained in such forward-looking statements. See "Cautionary Statement on Forward-Looking Information" at the beginning of this annual report.



## **Critical Accounting Policies**

The discussion and analysis of our financial condition and results of operations are based upon the consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, accounts receivable, bad debts, inventories, warranty obligations, litigation and deferred tax assets. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. These estimates and assumptions form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe our more significant judgments and estimates used in the preparation of our consolidated financial statements are made in connection with the following critical accounting policies.

### ***Revenue Recognition***

Sales of goods:

For medical device sales with no significant remaining vendor obligation, payments contingent upon customer financing or acceptance criteria that can be subjectively interpreted by the customer or tied to the use of the device, revenue is recognized when evidence of an arrangement exists, title to the device passes (depending on terms, either upon shipment or delivery), and the customer has the intent and ability to pay in accordance with contract payment terms that are fixed or determinable. For sales in which payment is contingent upon customer financing, acceptance criteria that can be subjectively interpreted by the customer, or payment depends on use of the device, revenue is recognized when the contingency is resolved. We provide training and a minimum of one-year warranty upon installation with a maximum of two-year warranty. We accrue the estimated warranty costs at the time of sale. Revenues related to disposables are recognized when goods are delivered.

Sales of RPP treatments and leases:

Revenues related to the sale of HIFU treatments invoiced on a RPP basis are recognized when the treatment procedure has been completed. Revenues from devices leased to customers under operating leases are recognized on a straight-line basis.

Sales of spare parts and services:

Revenues related to spare parts are recognized when goods are delivered. Maintenance contracts rarely exceed one year and are recognized on a straight-line basis. Billings or cash receipts in advance of services due under maintenance contracts are recorded as deferred revenue.

### ***Warrants***

On May 28, 2013, pursuant to a securities purchase agreement dated May 20, 2013, as amended, the Company issued new ordinary shares in the form of ADSs to selected institutional investors in a registered direct placement (the “May 2013 Placement”) with warrants attached (the “May 2013 Investor Warrants”). The Company also issued warrants to the placement agent, H.C. Wainwright & Co., LLC (the “May 2013 Placement Agent Warrants” and together with the May 2013 Investor Warrants, the “May 2013 Warrants”). As the May 2013 Warrants included an exercise price determined in U.S. dollars while the functional currency of the Company is the euro, the Company determined that the May 2013 Warrants should be accounted for as a liability.

The Company used the Black-Scholes pricing model to value the May 2013 Warrants at inception, with changes in fair value recorded as a financial expense or income.

On April 14, 2016, pursuant to a securities purchase agreement dated April 7, 2016, the Company issued new ordinary shares in the form of ADSs to selected institutional investors in a registered direct placement (the “April 2016 Placement”) with warrants attached (the “April 2016 Investor Warrants”). As the April 2016 Warrants comprised the same structure and provisions than the May 2013 Warrants, including an exercise price determined in U.S. dollars while the functional currency of the Company is the Euro, the Company determined that the April 2016 Warrants should be accounted for as a liability.

The Company used the Black-Scholes pricing model to value the April 2016 Warrants at inception, with changes in fair value recorded as a financial expense or income.

### *Allowance for Doubtful Accounts*

We evaluate the collectability of our accounts receivable based on the individual circumstances of each customer on a quarterly basis. In circumstances where we are aware of a specific customer's inability to meet its financial obligations to us (e.g., bankruptcy filings, substantial downgrading of credit scores), we record a specific reserve for bad debts against amounts due to reduce the net recognized receivable to the amount we reasonably believe we will collect. If circumstances change (i.e. higher than expected defaults or an unexpected material adverse change in a major customer's ability to meet its financial obligations to us), our estimates of the recoverability of amounts due to us could be reduced by a material amount.

### Operating Results

#### *Overview*

Total revenues include sales of our medical devices and sales of disposables ("sales of goods"), sales of RPPs and leases, and sales of spare parts and services, all net of commissions, as well as other revenues.

Sales of goods have historically been comprised of net sales of medical devices (ESWL lithotripters and HIFU devices) and net sales of disposables (mostly Ablapaks and Focalpaks in the HIFU division and electrodes in the UDS division). Sales of goods also included products such as urology laser and urodynamics devices distributed through our agents and third-party distributors. The sale price of our medical devices is subject to variation based on a number of factors, including market competition, warranties and payment terms. Consequently, a particular sale of a medical device may, depending on its terms, result in significant fluctuations in the average unit sale price of the product for a given period, which may not be indicative of a market trend.

Sales of RPP and leases include the revenues from the sale of Ablatherm and Focal One treatment procedures and from the leasing of Ablatherm and Focal One machines. We provide Ablatherm and Focal One machines to clinics and hospitals for free for a limited period, rather than selling the devices. These hospitals and clinics perform treatments using the devices and usually pay us based on the number of individual treatments provided. With this business model, the hospital or clinic does not make an initial investment until the increase in patient demand justifies the purchase of a HIFU machine. Consequently, we are able to make Ablatherm or Focal One treatments available to a larger number of hospitals and clinics, which we believe should serve to create more long-term interest in the product. Compared to the sale of devices, this business model initially generates a smaller, although more predictable stream of revenue and, if successful, should lead to more purchases of Ablatherm and Focal One machines by hospitals and clinics in the long term.

Sales of spare parts and services include revenues arising from maintenance services furnished by us for the installed base of ESWL lithotripters and HIFU devices.

We derive a significant portion of both net sales of medical devices and consumables and net sales of spare parts and services from our operations in Asia, through our wholly-owned subsidiaries or representative offices in Japan (Edap Technomed Co. Ltd), Malaysia (Edap Technomed Sdh Bhd) and South Korea (Edap Technomed Korea). Net sales derived from our operations in Asia represented approximately 38% of our total consolidated net sales in 2017. Net sales of goods in Asia represented approximately 46% of such sales in 2017 and consisted mainly of sales of urology devices and consumables. Net sales of spare parts, supplies and services in Asia represented approximately 39% of such sales in 2017 and related primarily to ESWL lithotripters, reflecting the fact that approximately 43% of the installed base of our ESWL lithotripters that we actively maintain or otherwise serve is located in Asia. See Note 27 of our consolidated financial statements. We sell our products in many parts of the world and, as a result, our business is affected by fluctuations in currency exchange rates. We are exposed to foreign currency exchange rate risk because the mix of currencies in which our costs are denominated is different from the mix of currencies in which we earn revenues. In 2017, approximately 77% of our costs of sales and research and development, selling, marketing and general and administrative expenses were denominated in euro, while approximately 45% of our sales were denominated in currencies other than euro (primarily the U.S. Dollar and Japanese yen). Our operating profitability could be materially affected by large fluctuations in the rate of exchange between the euro and such other currencies. To minimize our exposure to exchange rate risks, we sometimes use certain financial instruments for hedging purposes. See Item 3, “Key Information—Risk Factors—We sell our products in many parts of the world and, as a result, our business is affected by fluctuations in currency exchange rates” and Item 11, “Quantitative and Qualitative Disclosures About Market Risk” for a description of the impact of foreign currency fluctuations on our business and results of operations.

Reserves for slow-moving and obsolete inventory are determined based upon quarterly reviews of all inventory items. Items which are not expected to be sold or used in production, based on management's analysis, are written down to their net realizable value, which is their fair market value or zero in the case of spare parts or disposable parts for devices that are no longer in commercial production.

Consolidated research and development expenses include all costs related to the development of new technologies and products and the enhancement of existing products, including the costs of organizing clinical trials and of obtaining patents and regulatory approvals. We do not capitalize any of our research and development expenses, except for the expenses relating to the production of machines to be used in clinical trials and that have alternative future uses as equipment or components for future research projects.

Consolidated research and development expenses, as described above, amounted to €3.9 million, €3.9 million and €2.7 million in 2017, 2016 and 2015, respectively, representing approximately 10.9%, 10.9% and 8.4% of total revenues in 2017, 2016 and 2015, respectively. Consolidated research and development expenses included research and development government grants and tax credits of €0.7 million, €0.7 million and €0.6 million in 2017, 2016 and 2015, respectively. Beginning in 2018, management expects the budget for research and development expenses in Europe to increase at approximately 13% of total revenues, which we expect will allow us to maintain our strategy to launch new clinical studies (thus strengthening our clinical credibility), to continue to focus our efforts on obtaining regulatory approvals in the U.S. and in Japan in particular, and reimbursement in key countries, to continue to develop our HIFU and ESWL product range and to fund projects to expand the use of HIFU beyond the treatment of prostate cancer.

Consolidated selling and marketing expenses amounted to €9.5 million in 2017, €8.9 million in 2016 and €7.4 million in 2015. Selling and marketing expenses included net impact of allowances for doubtful accounts of €0.1 million in 2017, €(0.02) million in 2016 and €0.02 million in 2015. The €0.7 million or 7.6% increase in selling and marketing expenses from 2016 to 2017 was primarily a result of the increase in global sales and marketing activity. Management expects marketing and sales efforts to stay at significant levels in the future to consolidate the Ablatherm and Focal One HIFU technology's status as a standard of care for prostate pathologies in Europe, and to sustain the Company's worldwide market position in urology. Beginning in 2018, management expects selling and marketing expenses to continue to increase in view of the Company's expansion.

In 2017, 2016 and 2015, our UDS sales activity benefited from the success of our Sonolith i-sys device and our Sonolith i-move device, together with a sustained commercial effort in distributing additional urology devices which allowed us to capture market share worldwide. We believe that the market for ESWL lithotripters is now mature and has become primarily a replacement and maintenance market, with intense competition. As a result, we expect total market volumes for our UDS Division to remain stable in the foreseeable future.

We believe that our results of operations in the near future will be affected by our ability to grow our sales volumes both in the prostate cancer and the lithotripsy markets, along with our ability to control expenses in connection with the development, marketing and commercial expansion of HIFU for prostate cancer and other applications worldwide, . See “—Liquidity and Capital Resources.”

#### Fiscal Year Ended December 31, 2017 Compared to Fiscal Year Ended December 31, 2016

We report our segment information on a “net contribution” basis, so that each segment's results comprise the elimination of our intra-group revenues and expenses and thus reflect the true contribution to consolidated results of the segment. See Note 26 to our consolidated financial statements.

(in millions of euros)	2017	2016
Total revenues	35.7	35.6
Total net sales	35.7	35.6
Of which HIFU	9.5	13.8
Of which UDS	26.2	21.8
Total cost of sales	(20.9)	(19.2)
Gross profit	14.8	16.4
Gross profit as a percentage of total net sales	41.5 %	46.1 %
Total operating expenses	(16.8)	(16.0)
Income (loss) from operations	(2.0 )	0.4
Net income (loss)	(0.7 )	3.8

## **Total revenues**

Our total revenues increased 0.4% from €35.7 million in 2016 to €35.6 million in 2017.

*HIFU division.* The HIFU division's total revenues decreased by 31.2% to €9.5 million in 2017 as compared to €13.8 million in 2016.

The HIFU division's net sales of medical devices decreased 70.7% to €2.3 million in 2017, with two Ablatherm units and three Focal One units sold, as compared to €7.8 million, with six Ablatherm and eight Focal One units sold in 2016.

Treatment-driven revenue, which includes net sales of RPP & leases, net sales of consumables and treatments related services, increased 12.9% to €6.1 million in 2017.

Net sales of HIFU maintenance services increased from €0.6 million in 2016 to €1.1 million in 2017.

Other HIFU-related revenues increased to €36 thousand in 2017 from €28 thousand in 2016 and were comprised of license-based revenues from Theraclion.

*UDS division.* The UDS division's total revenues increased 20.4 % from €21.8 million in 2016 to €26.2 million in 2017, mostly due to the increase in machine sales and maintenance revenues.

The UDS division's net sales of medical devices increased 23.6% from €12.2 million in 2016 to €15.1 million in 2017 with 40 ESWL devices sold in 2017 compared to 36 ESWL units sold in 2016.

Net sales of UDS-related spare parts, supplies, RPP, leasing and services increased 16.1% from €9.6 million in 2016 to €11.1 million in 2017, as a result of the larger installed base of UDS machines and the development of the distribution products revenues.

*Cost of sales.*

Cost of sales increased 9.1% from €19.2 million in 2016 to €20.9 million in 2017, and represented 58.7% as a percentage of net sales in 2017, up from 54.0% as a percentage of net sales in 2016, due primarily to the decrease in HIFU revenues and the adverse mix between HIFU and UDS division, as HIFU margins are higher than UDS margins.

*Operating expenses.*

Operating expenses increased 5.1%, or €0.8 million, from €16.0 million in 2016 to €16.8 million in 2017.

Marketing and sales expenses increased €0.7 million, or 7.6% at €9.5 million, reflecting the sales and marketing efforts on expanding the business.

Research and development expenses increased 0.4% at €3.9 million in 2017 from €3.9 million in 2016, mainly driven by HIFU development projects and comprised R&D grants and tax credits of €0.7 million in 2017 and 2016.

General and administrative expenses increased 4.0% to €3.4 million in 2017, mainly due to implementation of SAP program.



Operating profit.

As a result of the factors discussed above, we recorded a consolidated operating loss of €2.0 million in 2017, as compared to a consolidated operating profit of €0.4 million in 2016.

We realized an operating loss in the HIFU division of €2.7 million in 2017, as compared with an operating profit of €1.0 million in 2016, and an operating profit in the UDS division of €2.1 million in 2017, as compared to an operating profit of €0.7 million in 2016.

*Financial (expense) income, net.* Net financial income was €2.6 million in 2017, including a €2.7 million income for fair value adjustments on the outstanding warrants, compared with a net financial income of €3.9 million in 2016, including a €3.8 million income due to fair value adjustments.

*Foreign currency exchange gains (loss), net.* In 2017, we recorded a net foreign currency exchange loss of €0.9 million, mainly due to the variation of the Euro against the U.S. Dollar and the Japanese Yen, compared to an income of €0.1 million in 2016.

*Income taxes.* Income tax was an expense of €0.4 million in 2017 and €0.6 million in 2016.

*Net income / (loss)*

As a result of the above, we realized a consolidated net loss of €0.6 million in 2017 compared with a consolidated net income of €3.8 million in 2016.

Fiscal Year Ended December 31, 2016 Compared to Fiscal Year Ended December 31, 2015

We report our segment information on a “net contribution” basis, so that each segment’s results comprise the elimination of our intra-group revenues and expenses and thus reflect the true contribution to consolidated results of the segment. See Note 27 to our consolidated financial statements.

(in millions of euros)

2016      2015

Total revenues	35.6	32.3
Total net sales	35.6	32.2
Of which HIFU	13.8	8.5
Of which UDS	21.8	23.8
Total cost of sales	(19.2)	(18.5)
Gross profit	16.4	13.8
Gross profit as a percentage of total net sales	46.1 %	42.8 %
Total operating expenses	(16.0)	(13.3)
Income (loss) from operations	0.4	0.5
Net income (loss)	3.8	(1.7 )

## **Total revenues**

Our total revenues increased 10.4% from €32.3 million in 2015 to €35.6 million in 2016, principally due to the increase in HIFU machine sales.

*HIFU division.* The HIFU division's total revenues increased 63.0% to €13.8 million in 2016 as compared to €8.5 million in 2015.

The HIFU division's net sales of medical devices increased 110.9% to €7.8 million in 2016, with six Ablatherm units and eight Focal One units sold, as compared to €3.7 million, with two Ablatherm and five Focal One units sold in 2015.

Treatment-driven revenue, which includes net sales of RPP & leases and net sales of consumables, increased 25.8% to €5.2 million in 2016.

Net sales of HIFU-related spare parts, and services increased from €0.7 million in 2015 to €0.9 million in 2016.

Other HIFU-related revenues were €28 thousand from €32 thousand in 2015 and were comprised of license-based revenues from Theraclion.

*UDS division.* The UDS division's total revenues decreased 8.3 % from €23.8 million in 2015 to €21.8 million in 2016, mostly due to the decrease in machine sales.

The UDS division's net sales of medical devices decreased 15.5% from €14.5 million in 2015 to €12.2 million in 2016 with 36 devices sold in 2016 compared to 52 units sold in 2015.

Net sales of UDS-related spare parts, supplies, RPP, leasing and services increased 2.8% from €9.3million in 2015 to €9.6 million in 2016, as a result of the larger installed base of UDS machines and despite the Japanese authorities' decision to stop reimbursing lithotripters' disposables.

*Cost of sales.*

Cost of sales increased 4.0% from €18.5 million in 2015 to €19.2 million in 2016, and represented 54.0% as a percentage of net sales in 2016, down from 57.3% as a percentage of net sales in 2015, thanks primarily to the strong growth in HIFU sales.

*Operating expenses.*

Operating expenses increased 20.5%, or €2.7 million, from €13.3 million in 2015 to €16.0 million in 2016. This increase in operating expenses included an adverse exchange rate impact of €0.3 million.

Marketing and sales expenses increased €1.5 million, or 19.6%, reflecting the sales and marketing efforts on expanding the HIFU business.

Research and development expenses increased 43.8% at €3.9 million in 2016 from €2.7 million in 2015, mainly driven by HIFU development projects and comprised R&D grants and tax credits of €0.7 million and €0.6 million in 2016 and 2015, respectively, including costs of the FDA approval of €0.3 million in 2015. Following the Ablatherm FDA clearance received on November 9, 2015, there is no more cost recorded on this segment activity in 2016 compared to €0.3 million recorded in 2015.

General and administrative expenses increased 2.9% to €3.3 million in 2016.

*Operating profit.*

As a result of the factors discussed above, we recorded a consolidated operating profit of €0.4 million in 2016, as compared to a consolidated operating profit of €0.5 million in 2015.

We realized an operating profit in the HIFU division of €1.0 million in 2016, as compared with an operating profit of €0.5 million in 2015, and an operating profit in the UDS division of €0.7 million in 2016, as compared to an operating profit of €1.6 million in 2015.

*Financial (expense) income, net.* Net financial income was €3.9 million in 2016, including a €3.8 million income for fair value adjustments on the outstanding warrants, compared with a net financial expense of €2.1 million in 2015, including a €2.4 million expense due to fair value adjustments.

*Foreign currency exchange gains (loss), net.* In 2016, we recorded a net foreign currency exchange income of €0.1 million, mainly due to the variation of the Euro against the U.S. Dollar and the Japanese Yen, compared to an income of €0.7 million in 2015.

*Income taxes.* Income tax was an expense of €0.6 million in 2016 and €0.8 million in 2015.

*Net income / (loss)*

As a result of the above, we realized a consolidated net income of €3.8 million in 2016 compared with a consolidated net loss of €1.7 million in 2015.

Effect of Inflation

Management believes that the impact of inflation was not material to our net sales or loss from operations in the three years ended December 31, 2017.

Liquidity and Capital Resources

Our cash flow has historically been subject to significant fluctuations over the course of any given financial year due to cyclical demand for medical devices. Cyclical demand has historically resulted in significant annual and quarterly fluctuations in trade and other receivables and inventories, and therefore led to significant variations in working capital requirements and operating cash flows that were not necessarily indicative of changes in our business. We believe our working capital is sufficient for our present working capital requirements although we have in the past

experienced negative cash flows and associated risks to liquidity, and may in the future experience the same. Our cash flow situation is described in more detail below.

We anticipate that cash flow in future periods will be derived mainly from ongoing operations. As of the date of this annual report we do not employ any off-balance sheet financing. Because we anticipate relying principally on cash and cash equivalent balances to meet our liquidity requirements, a decrease in the demand for our products, or the inability of our customers to meet their financial obligations to us due to operating difficulties or adverse market conditions, would reduce the availability of funds to us.

(in thousands of euros)	2017	2016	2015
Net cash generated/(used) in operating activities	(3,058 )	1,209	1,213
Net cash generated/(used) in investing activities	(2,033 )	(384 )	(541 )
Net cash generated/(used) in financing activities	2,871	7,604	2,112
Net effect of exchange rate changes	235	(19 )	(347 )
Net increase/(decrease) in cash and cash equivalents	(1,985 )	8,410	2,436
Cash and cash equivalents at the beginning of the year	21,989	13,578	11,142
Cash and cash equivalents at the end of the year	20,004	21,989	13,578
Total cash and cash equivalents, and short-term investments at the end of the year	20,004	21,989	14,578

Our cash position as of December 31, 2017, 2016 and 2015, was €20.0 million (with no short-term treasury investments), €22.0 million (with no short-term treasury investments) and €14.6 million (including €1.0 million of short-term treasury investments), respectively. We experienced negative cash flows of €2.0 million in 2017 and positive cash flows of €8.4 million in 2016 and €2.4 million in 2015.

In 2017, our negative net cash flow was primarily due to the negative cash flow from operations and the high level of cash used in investing activities. In 2016, our positive net cash flow was due to the April 2016 Placement and our positive cash flow from operations. In 2015, our positive net cash flow was due to a positive cash flow from operations and to warrant exercises for €1.1 million.

In 2017, net cash used in operating activities was €3.1 million compared with net cash generated by operating activities of €1.2 million in 2016 and compared with net cash generation by operating activities of €1.2 million in 2015.

In 2017, net cash used in operating activities reflected principally:

- a net loss of €0.7 million;
- elimination of €0.7 million of net gain without effects on cash, including a gain of €2.7 million due to fair value variations of financial instruments, €1.6 million of depreciation and amortization, and €0.4 million of non-cash compensation linked to stock-options plans.
- an increase in trade accounts and other receivables of €1.7 million;
- a decrease in inventories of €0.7 million;
- an increase in payables of €0.4 million;
- a decrease in accrued expenses and other current liabilities of €1.0 million.

In 2016, net cash generated in operating activities reflected principally:

- a net income of €3.8 million;
- elimination of €2.4 million of net gain without effects on cash, including a gain of €4.0 million due to fair value variations of financial instruments, €1.0 million of depreciation and amortization, and €0.4 million of non-cash compensation linked to stock-options plans.
- a decrease in trade accounts and other receivables of €1.8 million;
- an increase in inventories of €2.0 million;
- a decrease in payables of €0.2 million;
- a increase in accrued expenses and other current liabilities of €0.1 million.

In 2015, net cash generated in operating activities reflected principally:

- a net loss of €1.7 million;
- elimination of €3.1 million of net loss without effects on cash, including €1.0 million of depreciation and amortization and a loss of €2.0 million due to fair value variations of financial instruments;
- a increase in trade accounts receivables of €1.8 million;
- a decrease in other receivables of €0.2 million;

- an increase in inventories of €0.4 million;
- an increase in payables of €0.5 million;
- an increase in prepaid expenses of €0.1 million; and
- an increase in accrued expenses and other current liabilities of €1.3 million.

In 2017, net cash used in investing activities was €2.0 million compared with net cash used of €0.4 million in investing activities in 2016 and net cash used of €0.5 thousand in 2015.

Net cash used in investing activities of €2.0 million in 2017 reflected investments of €1.0 million in capitalized assets produced by the Company, mostly for RPP activity (€0.5 million) and R&D program (€0.3 million) and investment of €1.0 million in property, equipment and software (including new Enterprise Resource Planning “ERP” implementation for €0.5 million), and net proceeds from sales of leased-back assets of €0.1 million.

Net cash used in investing activities of €0.4 million in 2016 reflected investments of €0.9 million in capitalized assets produced by the Company, mostly for commercial demonstrations, training and RPP activity and investment of €0.5 million in property, equipment and software, and net proceeds from sales of short term investments of €1,0 million.



Net cash used in investing activities of €0.5 million in 2015 reflected investments of €0.5 million in capitalized assets produced by the Company, mostly for commercial demonstrations, training and RPP activity and investment of €0.2 million in property, equipment and software, net proceeds from sales of leased-back assets of €0.1 million and net proceeds from sales of assets of €26 thousand.

In 2017, net cash generated in financing activities was €2.9 million compared with net cash generated in financing activities of €7.6 million in 2016 and net cash generated in financing activities of €2.1 million in 2015.

Net cash generated in financing activities of €2.9 million in 2017 reflected principally the net proceeds of €0.7 million from the exercise of stock options and warrants, but also new long term borrowings of €0.8 million related to new investments financing, €0.8 million of conditional advances to finance research HECAM project, repayment of long-term borrowings and lease financing for €0.5 million and an increase of short-term borrowings of €1.1 million.

Net cash generated in financing activities of €7.6 million in 2016 reflected principally the €9.2 million net proceeds from the April 2016 Placement and the net proceeds of €0.1 million from the exercise of warrants, repayment of short-term and long-term borrowings and lease financing for €1.8 million.

Net cash generated in financing activities of €2.1 million in 2015 reflected principally the net proceeds of €1.2 million from the exercise of stock options and warrants, but also new long-term borrowings of €0.5 million, €0.2 million of conditional advances to finance research HECAM project, repayment of short-term and long-term borrowings and lease financing for €0.5 million and an increase of short-term borrowings of €0.7 million.

Our policy is that our treasury department should maintain liquidity with the use of short-term borrowings and the minimal use of long-term borrowings. The treasury department currently adheres to this objective by using fixed-rate debt, which normally consists of long-term borrowing and with certain long-term borrowings consisting of sale and leaseback equipment financing. Currently the short-term debt consists of account receivables factored and for which the Company is supporting the collection risk. We maintain bank accounts for each of our subsidiaries in the local currencies of each subsidiary. The primary currencies in which we maintain balances are the euro, the U.S. dollar and the Japanese yen. To minimize our exposure to exchange rate risks, we may use certain financial instruments for hedging purposes from time to time. As of December 31, 2017, there were no outstanding hedging instruments. See Notes 13 and 14 to the consolidated financial statements for further information on our borrowings.

#### **Contractual Obligations and Commercial Commitments as of December 31, 2017 (in thousands of euro)**

##### Payments Due by Period

	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
Short-Term Debt	2,718	2,718	-	-	-
Long-Term Debt	2,057	1,223	806	29	-
Capital Lease Obligations	783	269	497	42	5
Operating Leases	2,581	401	1,065	642	473
Interest	33	19	14	1	-

## New Accounting Pronouncements

### *New Accounting Pronouncements Recently Adopted*

In November 2015, the FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes* (ASU 2015-17), which requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. ASU 2015-17 is effective for the Company in its first quarter of fiscal 2017. The Company adopted the ASU 2015-17 retrospectively as of December 31, 2017. Deferred tax assets have been reclassified from current assets to non-current assets for the period ended as of December 31, 2016.

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*. ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. For public business entities, the amendments in ASU 2016-09 are effective for annual periods beginning after 15 December 2016, and interim periods within those annual periods. No impact has been identified on Financial Statements upon adoption of ASU 2016-09.

*New Accounting Pronouncements Not Yet Adopted*

In July 2015, the FASB issued ASU 2015-14 Revenue from Contracts with Customers: Deferral of the Effective Date (ASU 2015-14) which deferred the effective date for ASU No. 2014-09, Revenue from Contracts with Customers (ASU 2014-09), by one year. ASU 2014-09 will supersede the revenue recognition requirements in Revenue Recognition (Topic 605) and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is now effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, which for the Company is January 1, 2018. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The new standard can be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the change recognized at the date of the initial application in retained earnings. The Company reviewed the accounting pronouncement with respect to its current accounting principles and did not identify any impact from implementation. .. The impact to the Company of adopting the new revenue standard primarily relates to additional and expanded disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases (ASU 2016-02), which supersedes ASC 840 "Leases" and creates a new topic, ASC 842 "Leases." This update requires lessees to recognize on their balance sheet a lease liability and a lease asset for all leases, including operating leases, with a term greater than 12 months. The update also expands the required quantitative and qualitative disclosures surrounding leases. This update is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years, with earlier application permitted. This update will be applied using a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company is expecting that the impact of this update on its consolidated statements will mainly consist of leases for facilities situated in France, Japan and in the U.S. as described in Note 12.2. The Company will adopt the new standard in fiscal 2019. The Company is currently evaluating the effect of this standard on its consolidated financial statements and related disclosures.

In March 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Costs". The standard requires the service component of pension and other postretirement benefit expense to be presented in the same statement of income lines as other employee compensation costs, however, the other components will be presented outside of operating income. In addition, only the service cost component will be eligible for capitalization in assets. The standard is effective starting in 2018, with early adoption permitted. Retrospective application is required for the guidance on the statement of income presentation. Prospective application is required for the guidance on the cost capitalization in assets. The Company does not believe this standard will materially impact our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment." This update eliminates step 2 from the goodwill impairment test, and requires the goodwill impairment test to be performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge

should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This guidance is effective for the Company in the first quarter of 2020. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company will assess the timing of adoption and impact of this guidance to future impairment considerations.

In August 2016, the FASB issued ASU 2016-15, "*Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*" ASU 2016-15 identifies how certain cash receipts and cash payments are presented and classified in the Statement of Cash Flows under Topic 230. ASU 2016-15 is effective for the Company for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. ASU 2016-15 should be applied retrospectively and early adoption is permitted, including adoption in an interim period. The Company does not believe this standard will materially impact our consolidated financial statements.

## Research and Development, Patents and Licenses

See “—Operating Results—Overview” and Item 4, “Information on the Company—HIFU Division—HIFU Division Patents and Intellectual Property” and “Information on the Company—UDS Division—UDS Division Patents and Intellectual Property.”

The French government provides tax credits to companies for innovative research and development. This tax credit is calculated based on a percentage of eligible research and development costs and it can be refundable in cash.

In 2009, the Company reviewed the presentation of its research tax credit and elected to change for the preferred classification as permitted under ASC 250-10.

The research tax credit amounted to €504 thousand in 2017, €511 thousand in 2016 and €448 thousand in 2015 and was classified as a reduction of research and development expenses.

## Off-Balance Sheet Arrangements

At December 31, 2017, we had no off-balance sheet arrangements other than those specified in Notes 2 and 14-1 of our consolidated financial statements.

## **Item 6. Directors, Senior Management and Employees**

### **Senior Executive Officers**

The following table sets forth the name, age and position of each of our Senior Executive Officers as of April 3, 2018. The Chief Executive Officer and the Chief Financial Officer listed below have entered into employment contracts with us or our subsidiaries (which permit the employee to resign subject to varying notice periods). In addition, in case of a change of control of the Company, or of a termination of their employment contract by the Company without cause, the Senior Executive Officers are entitled to receive severance packages totaling approximately € 0.6 million.

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Name	Position
Marc Oczachowski Age: 48	<p>Chief Executive Officer of EDAP TMS S.A. and Member of the Board of Directors</p> <p>President of EDAP TMS France SAS and EDAP Technomed, Inc.</p> <p>Marc Oczachowski joined the Company in May 1997 as Area Sales Manager, based in Lyon, France. From March 2001 to January 2004, he held management positions as General Manager of EDAP Technomed Malaysia. He was appointed Chief Operating Officer of EDAP TMS in November 2004 and became Chief Executive Officer of the Company on March 31, 2007. In 2012, he relocated to Austin, Texas to manage EDAP's U.S. operations. Previously he worked for Sodem Systems, which manufactures orthopedic power tools, as Area Sales Manager. He is a graduate of Institut Commercial de Lyon, France.</p>
François Dietsch Age: 42	<p>Chief Financial Officer of EDAP TMS S.A.</p> <p>François Dietsch joined EDAP in 2005 as Internal Audit and Consolidation Manager, leading the implementation of internal controls for Sarbanes-Oxley Compliance, consolidation of financial statements from the Company's subsidiaries and preparation of financial statements in accordance with U.S. GAAP, including EDAP's annual report on Form 20-F. In 2012, he was promoted to Group Financial Control Manager and Finance Manager of EDAP's French subsidiary where, in addition to his previous responsibilities, he managed accounting firm relationships at the subsidiary level and was the primary liaison between the Company and its external auditors. He also managed the Finance department at EDAP France. He was appointed Chief Financial Officer of the Company on July 14, 2015. Prior to joining EDAP he held finance positions at Valeo, a leading global supplier of components and systems to the automotive industry. He holds Master's Degrees in Management and Corporate Finance from University of Paris Dauphine.</p>

Board of Directors

The following table sets forth the names and backgrounds of the members of the Board of Directors. None of the directors has service contracts with the Company or any of its subsidiaries providing for benefits upon termination of employment. All of the Board members are independent within the meaning of NASDAQ Marketplace Rule 5605(2). Four Board of Directors mandates terminate in June 2020 at the General Meeting of Shareholders approving the 2019 accounts.

Philippe  
Chauveau

Age: 82

Philippe Chauveau was named chairman of EDAP TMS S.A.'s Supervisory Board in 1997. In 2002, the Company's two-tiered board structure was replaced by a single Board of Directors with Philippe Chauveau serving as Chairman and CEO until 2004 when he was succeeded as CEO. From 2000 to 2007, Philippe Chauveau served as founding Chairman of the Board of Scynexis Inc., funded by private equity, which is an innovative drug discovery company based in the United States. He was Vice-President of research and development at AT&T Bell Labs and has also served as Chairman of Apple Computer Europe, preceded by increasing marketing roles in ITT and in Procter & Gamble. He has an Honours Degree from Trinity College Dublin with a B.A. and a Bsc.

Mandate: 6  
years

Appointment:  
April. 8, 1997  
(renewed in  
2014)

Expiration:  
2019

Pierre Beysson

Age: 76

Pierre Beysson was appointed as a member of the Board of Directors in September 2002. Pierre Beysson was then the Chief Financial Officer of Compagnie des Wagons-Lits ("CWL"), the on-board train service division of Accor, a French multinational Hotel and Business Services Group. In this capacity, he sat on a number of boards of companies related to the Accor Group. Before his assignment at CWL, Pierre Beysson held a number of senior financial positions with Nixdorf Computers, Trane (Air Conditioning), AM International (Office Equipment) and FMC (Petroleum Equipment). Pierre Beysson was trained as a CPA, has auditing experience and holds an MBA from Harvard Business School.

Mandate: 6  
years

Appointment:  
September 27,  
2002

(renewed in  
2014)

Expiration:  
2019

Argil Wheelock

Age: 70

Mandate: 6  
years

Appointment:  
June 25, 2009

(renewed in  
2014)

Expiration:  
2019

Dr. Argil Wheelock was elected as a member of the Company's Board of Directors in June 2009. Dr. Wheelock, a U.S. board certified urologist, is currently Senior Physician at the University of Tennessee Department of Urology at Erlanger Medical Center, a tertiary care and teaching hospital in Chattanooga, Tennessee. He is Chief Medical Advisor to HealthTronics Inc., a privately held company. HealthTronics is a leading U.S. provider of urological services and products. From 1996 to 2005, Dr. Wheelock served as Chairman and CEO of HealthTronics, a publicly traded NASDAQ company where he was a founder. He has built a successful track record introducing new medical devices to the U.S. and navigating the FDA approval process. He is widely known among the U.S. urological community for bringing clinical benefits to patients and economic value to urology practices. Dr. Wheelock graduated from the University of Tennessee College of Medicine and completed urological training at Mount Sinai Hospital in New York City.

Rob Michiels

Age: 68

Mandate: 6  
years

Appointment:  
July 16, 2009

(renewed in  
2014)

Expiration:  
2019

Rob Michiels was elected as a member of the Company's Board of Directors in July 2009. He is a 30-year U.S. veteran of the medical device industry. He most recently serves as Chief Executive Officer (CEO) of CardiAQ Valve Technologies, a venture funded start-up developing Transcatheter Mitral Valve Implantation which was acquired by Edwards Lifesciences during the second half of 2015. He previously served as Chief Operating Officer (COO) of CoreValve (acquired by Medtronic); and as President and COO of InterVentional Technologies (acquired by Boston Scientific). He helped drive both companies from cardiovascular start-ups to established market leaders, using new and innovative technologies which have strong synergies to the HIFU story. Rob Michiels is a director of Aegis Surgical Ltd, Atrius Ltd, FEops NV and Embolization Prevention Technologies, all privately held companies developing cutting edge cardio-vascular less-invasive Technologies. Rob Michiels is a founding partner of CONSILIUM, a medical device market research company active in identifying, funding and greenhousing start-up technologies. Fluent in English, French and Dutch languages, he holds a bachelor's degree in economics from Antwerp University in Belgium and a Master's in business administration (MBA) from Indiana University.



Marc Oczachowski

Age: 48

See Marc Oczachowski's background above (Senior Executive Officers).

Mandate: 6 years

Appointment: July 1, 2017

Expiration: 2022

### Compensation

Aggregate compensation paid or accrued for services in all capacities by the Company and its subsidiaries to Senior Executive Officers and to the Board of Directors as a group for the fiscal year 2017 was approximately €590 thousand including performance bonuses of €57 thousand and benefits in kind of €54 thousand (benefits in kind comprise car allowances for senior management). No amount was set aside or accrued by us to provide pension, retirement or similar benefits for Senior Executive Officers and to the Board of Directors as a group in respect of the year 2017. For information regarding compensation paid in the form of stock options, see "Directors, Senior Management and Employees—Share Ownership" and "Directors, Senior Management and Employees—Options to Purchase or Subscribe for Securities."

### Compensation Committee

The Compensation Committee is comprised of the following independent members: Mr. Philippe Chauveau, Mr. Pierre Beysson, Dr. Argil Wheelock and Mr. Rob Michiels. The Committee gathers once a year to review the compensation of our Chief Executive Officer, as per the approved charter of the Compensation Committee, and to propose to the Board of Directors any changes to the Chief Executive Officer's compensation. The Chief Executive Officer is not present when the Compensation Committee reviews his compensation. In August 2014, the Compensation Committee updated its charter which was subsequently approved by the Board of Directors.

### Audit Committee

The Board of Directors' Audit Committee comprises four independent members of the Board: Mr. Pierre Beysson, acting as Head of the Audit Committee and financial expert, Mr. Philippe Chauveau, Dr. Argil Wheelock and Mr. Rob Michiels. The purpose of the Audit Committee, in accordance with its annually approved charter, is as stated below, but not limited to:

Provide assistance to the Board of Directors in fulfilling their oversight responsibility to the shareholders, potential shareholders, the investment community and others relating to: the integrity of our financial statements, our compliance with legal and regulatory requirements, our accounting practices and financial reporting processes, the effectiveness of our disclosure controls and procedures and internal control over financial reporting,

Review the independent auditor's qualifications, compensation and independence, and the performance of our internal audit function and independent auditors,

Recommend the appointment of the independent auditors for consideration and approval by the Company's shareholders in accordance with French law.

Review and discuss quarterly and annual financial statements with Management and independent auditors and prepare the Audit Committee report, prior to SEC filings, as well as review related press releases.

Request any officer or employee of the Company or our outside counsel or independent auditor to attend a meeting of the Audit Committee or to meet with any members of, or consultants to, the Audit Committee.

For more information on the missions of our Audit Committee, please refer to our web site [www.edap-tms.com](http://www.edap-tms.com), under Investor Relations Section, where our Audit Committee Charter is available.

## Nomination Committee

The Company's Board of Directors recommends for the Board's selection director nominees to submit to the vote of the Company's shareholders. In addition, under specified circumstances and in accordance with French law, shareholders may also submit resolutions to the general meeting to appoint directors.

The Company's nominations practice is formalized in a Board resolution and at its Board meeting in February 2015, the Board resolved that in the event that one or more directors is or are no longer independent, the Board will create a Nominations Committee (composed exclusively of independent Directors). A Nominations Committee Charter was approved accordingly, the terms of which apply to the Board of Directors when considering director nominees. As per this Charter, upon the appointment of Mr. Marc Oczachowski to the Board as a non-independent Director, on June 30, 2017, the Board of Directors, was convened on July 10, 2017, and decided to create a Nominations Committee composed exclusively of independent Directors.

## Employees

As of December 31, 2017, we employed 200 individuals on a full-time basis, as follows:

	Sales & Marketing	Manufacturing	Service	Research & Dvpt	Regulatory	Clinical Affairs	Administrative	Total
France	21	32	21	17	4	9	14	118
Italy	4	0	0	0	0	0	2	6
Germany	4	0	3	0	0	0	2	9
Japan	18	0	15	0	2	0	4	39
Malaysia	2	0	3	0	0	0	2	7
South Korea	2	0	3	0	0	0	1	6
USA	7	0	3	0	0	1	4	15
Total	58	32	48	17	6	10	29	200

As of December 31, 2016, we employed 197 individuals on a full-time basis, as follows:

	Sales & Marketing	Manufacturing	Service	Research & Dvpt	Regulatory	Clinical Affairs	Administrative	Total
France	23	34	23	18	2	8	13	121
Italy	4	0	0	0	0	0	2	6
Germany	4	0	3	0	0	0	2	9

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Japan	17	0	14	0	2	0	4	37
Malaysia	2	0	3	0	0	0	2	7
South Korea	1	0	0	0	0	0	1	2
USA	7	0	3	0	0	1	4	15
Total	58	34	46	18	4	9	28	197

As of December 31, 2015, we employed 165 individuals on a full-time basis, as follows:

	Sales & Marketing	Manufacturing	Service	Research & Dvpt	Regulatory	Clinical Affairs	Administrative	Total
France	19	28	22	14	3	6	11	103
Italy	3	0	0	0	0	0	2	5
Germany	4	0	2	0	0	0	2	8
Japan	18	0	11	0	1	0	3	33
Malaysia	2	0	2	0	0	0	2	6
South Korea	1	0	0	0	0	0	1	2
USA	3	0	1	0	0	1	3	8
Total	50	28	38	14	4	7	24	165

Management considers labor relations to be good. Employee benefits are in line with those specified by applicable government regulations.

#### Share Ownership

As of April 2, 2018, the total number of shares issued was 29,368,394 with 370,528 shares held as treasury shares, thus bringing the total number of shares outstanding to 28,997,866.

As of April 2, 2018, the Board of Directors and the Senior Executive Officers of the Company held a total of 60,623 Shares. The Board of Directors and Senior Executive Officers beneficially own, in the aggregate less than 1% of the Company's shares.

As of April 2, 2018, Senior Executive Officers held a total of 20,001 Shares and an aggregate of 505,000 options to purchase or to subscribe a total of 505,000 ordinary shares, with a weighted average exercise price of €2.64 per share. Of these options, 30,000 expire on June 25, 2020, 200,000 expire on January 18, 2023, 220,000 expire on April 26, 2026 and 55,000 expire on April 25, 2027.

#### Options to Purchase or Subscribe for Securities

On May 22, 2007, the shareholders authorized the Board of Directors to grant up to 600,000 options to subscribe to 600,000 new shares at a fixed price to be set by the Board of Directors.

On June 24, 2010, the shareholders authorized the Board of Directors to grant up to 229,100 options to purchase pre-existing shares at a fixed price to be set by the Board of Directors. All of the shares that may be purchased through the exercise of stock options are currently held as treasury stock.

On December 19, 2012, the shareholders authorized the Board of Directors to grant up to 500,000 options to subscribe to 500,000 new shares at a fixed price to be set by the Board of Directors.

On February 18, 2016, the shareholders authorized the Board of Directors to grant up to 1,000,000 options to subscribe to 1,000,000 new shares at a fixed price to be set by the Board of Directors.

As of April 3, 2018, we had sponsored four stock purchase and subscription option plans open to employees of EDAP TMS group.

On December 31, 2017, the expiration of our stock option contracts was as follows:

Date of expiration    Number of Options

June 25, 2020	170,100
January 18, 2023	297,500
April 26, 2026	525,000
April 25, 2027	215,000

As of December 31, 2017, a summary of stock option activity to purchase or to subscribe to shares under these plans is as follows:

	2017		2016		2015	
	Options	Weighted average exercise price	Options	Weighted average exercise price	Options	Weighted average exercise price
		(€)		(€)		(€)
Outstanding on January 1,	1,427,438	2.94	917,188	2.79	1,095,850	2.76
Granted	260,000	2.39	575,000	3.22	-	-
Exercised	(60,000 )	1.91	-	-	(72,412 )	2.13
Forfeited	(134,750 )	3.11	(64,750 )	3.30	(106,250 )	2.88
Expired	(285,088 )	3.99	-	-	-	-
Outstanding on December 31,	1,207,600	2.61	1,427,438	2.94	917,188	2.79
Exercisable on December 31,	598,850	2.29	774,938	2.87	724,688	3.03
Share purchase options available for grant on December 31	250,428		243,428		232,428	

The following table summarizes information about options to purchase existing shares held by the Company, or to subscribe to new Shares, at December 31, 2017:

Outstanding options				Fully vested options <sup>(1)</sup>			
Exercise price (€)	Options	Weighted average remaining contractual life	Weighted average exercise price (€)	Aggregate Intrinsic Value (2)	Options	Weighted average exercise price (€)	Aggregate Intrinsic Value (2)
3.22	525,000	8.3	3.22	-	131,250	3,22	-
2.39	215,000	9.3	2.39	646	-	-	-
2.38	120,100	2.5	2.38	1,562	120,100	2.38	1,562
1.91	297,500	5.0	1.91	143,694	297,500	1.91	143,694
1.88	50,000	2.5	1.88	25,650	50,000	1.88	25,650
1.88 to 3.22	1,207,600	7.2	2.61	171,553	598,850	2.29	170,907

(1) Fully vested options are all exercisable options

The aggregate intrinsic value represents the total pre-tax intrinsic value, based on the Company's closing stock price

(2) of \$ at December 31, 2017, which would have been received by the option holders had all in-the-money option holders exercised their options as of that date.

## Item 7. Major Shareholders and Related Party Transactions

### Major Shareholders

To our knowledge, we are not directly or indirectly owned or controlled by another corporation, by any foreign government, or by any other natural or legal person or persons acting severally or jointly.

To the best of our knowledge and on the basis of the notifications received or filed with the SEC, there are no shareholders who are beneficial owners of more than 5% of our shares as of December 31, 2017.

There are no arrangements known to us, the operation of which may at a later date result in a change of control of the Company. All shares issued by the Company have the same voting rights, except the treasury shares held by the Company, which have no voting rights.

As of April 2, 2018, 29,368,394 shares were issued, including 28,997,866 outstanding and 370,528 treasury shares. At March 30, 2018, there were 29,342,294 ADSs, each representing one Share, all of which were held of record by 18 registered holders in the United States (including The Depository Trust Company).

#### Related Party Transactions

The General Manager of the Company's Korean branch "EDAP-TMS Korea", who resigned from his position with EDAP on October 11, 2017, was also the Chairman of a Korean company named Dae You. A new independent General Manager was immediately appointed as Head of EDAP-TMS Korea with no relation with the company Dae You, therefore, in the future, transactions with this company will no longer be considered related party transactions. EDAP-TMS Korea subcontracted until October 11, 2017, the service contract maintenance of our medical devices installed in Korea to Dae You. The amounts invoiced by Dae You under this contract were €41 thousand, €62 thousand and €78 thousand, for 2017, 2016 and 2015 respectively. As of December 31, 2017, the Company recorded no payables to Dae You. As of December 31, 2016, payables to Dae You amounted to €9 thousand.



Dae You has purchased medical devices from us, which it operates in partnership with hospitals or clinics. These purchases ('Sales of goods') amounted to €161 thousand, €483 thousand and €408 thousand, in 2017, 2016 and 2015, respectively. As of December 31, 2017, the Company recorded no receivables ('Net trade accounts and notes receivable'). As of December 31, 2016, receivables ('Net trade accounts and notes receivable') amounted to €325 thousand.

#### Interests of Experts and Counsel

Not applicable.

#### Item 8. Financial Information

##### **Consolidated Financial Statements**

See Item 18, "Financial Statements."

##### **Export Sales**

As of December 31, 2017, total consolidated export net sales, which we define as sales made outside of mainland France, were €25.1 million, which represented 70.4% of total net sales.

As part of our business, we are engaged in sales and marketing activities with hospitals, clinics, distributors or agents in countries on a worldwide basis where we can provide our minimally invasive therapeutic solutions to patients with prostate cancer or urinary stones. The following information complies with the sub-section "Disclosure of Certain Activities Relating to Iran" of the Section 13 of the U.S. Securities Exchange Act of 1934 as amended: in 2015 we honored warranty contracts on previous sales of lithotripsy devices to three Iranian public hospitals in order to provide the hospitals with the necessary disposables and services to treat patients with kidney stones using our devices. As part of these warranty commitments, in 2016 and 2017 we did not invoice any medical equipment to the hospitals.

##### Legal Proceedings

From time to time, we may become involved in legal proceedings or be subject to claims arising in the ordinary course of our business. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

On August 4, 2014, Mark Eaton filed a purported class action lawsuit in the United States District Court for the Southern District of New York, asserting that the Company, Marc Oczachowski, and Eric Soyer (our former Chief Financial Officer) violated federal securities laws Section 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder by issuing materially false and misleading statements about the Company's business operations and prospects particularly concerning the Company's Ablatherm-HIFU PMA file under review by the FDA that caused the price of the Company's American Depository Receipts to be artificially inflated during the period from February 1, 2013 to July 30, 2014. On August 6, 2014, Ronnie Haddad filed a second purported class action lawsuit, also in the United States District Court for the Southern District of New York, asserting similar claims.

On October 24, 2014, the related cases were consolidated by the United States District Court for the Southern District of New York and a lead plaintiff and lead counsel were appointed.

On December 22, 2014, the lead plaintiff filed an amended complaint that no longer included Mr. Soyer. The amended complaint alleges that the Company and Mr. Oczachowski breached their obligations under the Exchange Act in various ways, including by misrepresenting and failing to disclose allegedly material information about the safety and efficacy of treatment with Ablatherm-HIFU, and the Company's interactions with the FDA. The complaint seeks unspecified damages, interest, costs, and fees, including attorneys' and experts' fees.

On December 31, 2014, we accrued €206 thousand as legal costs to be incurred by the Company in relation to this litigation.

On February 20, 2015, the defendants, including the Company, filed a motion to dismiss the action.

On September 14, 2015, we received a confirmation of the dismissal of our class action. On November 11, 2015, we announced the appeals period had concluded with no notice of appeal had been filed by the plaintiffs. The remaining accrued amount was reversed as of December 31, 2015.

#### Dividends and Dividend Policy

The payment and amount of dividends depend on our earnings and financial condition and such other factors that our Board of Directors deems relevant. Dividends are subject to recommendation by the Board of Directors and a vote by the shareholders at the shareholders' ordinary general meeting. Dividends, if any, would be paid in euro and, with respect to ADSs, would be converted at the then-prevailing exchange rate into U.S. dollars. Holders of ADSs will be entitled to receive payments in respect of dividends on the underlying shares in accordance with the Deposit Agreement.

No dividends were paid with respect to fiscal years 2013 through 2016, and we do not anticipate paying any dividends for the foreseeable future. Thereafter, any declaration of dividends on our shares as well as the amount and payment will be determined by majority vote of the holders of our shares at an ordinary general meeting, following the recommendation of our Board of Directors. Such declaration will depend upon, among other things, future earnings, if any, the operating and financial condition of our business, our capital requirements, general business conditions and such other factors as our Board of Directors deems relevant in its recommendation to shareholders.

#### Significant Changes as of April 23, 2018

N/A

### **Item 9. The Offer and Listing**

#### **Description of Securities**

The shares are traded solely in the form of ADSs, each ADS representing one ordinary share. Each ADS may be evidenced by an American Depositary Receipt issued by The Bank of New York, our Depositary. The principal United States trading market for the ADSs, which is also the principal trading market for the ADSs overall, is the NASDAQ Global Market of the NASDAQ Stock Market, Inc. (“NASDAQ”), on which the ADSs are quoted under the symbol “EDAP.”

### Trading Market

The following tables set forth, for the years 2013 through 2017, the reported high and low sales prices of the ADSs on NASDAQ.

	NASDAQ	
	High	Low
	\$	
2017	3.85	2.25
2016	4.80	2.43
2015	6.57	2.26
2014	6.05	1.15
2013	4.94	1.98

The following tables set forth, for the years 2016 and 2017, and through March 30, 2018, the reported high and low sales prices of the ADSs on NASDAQ for each full financial quarter:

	NASDAQ	
	High	Low
	\$	
2018:		
Through March 30, 2018	2.86	2.07
2017:		
First Quarter	3.62	2.25
Second Quarter	3.85	2.35
Third Quarter	3.49	2.51
Fourth Quarter	3.50	2.60
2016:		
First Quarter	4.74	2.89
Second Quarter	4.80	3.00
Third Quarter	3.42	2.43
Fourth Quarter	3.60	2.59

The following table sets forth, for the most recent six months (from September 2017 through March 30, 2018), the reported high and low sale prices of the ADSs on NASDAQ for each month:

	NASDAQ	
	High	Low
	\$	
<u>2018:</u>		
January	2.88	2.55
February	2.86	2.55
March (through March 30, 2018)	2.47	2.07
2017:		
September	3.25	2.86
October	3.50	2.73
November	3.18	2.90
December	3.14	2.60

## Item 10. Additional Information

### Memorandum and Articles of Association

Set forth below is a brief summary of significant provisions of our by-laws (or *statuts*) and applicable French laws. This is not a complete description and is qualified in its entirety by reference to our by-laws, a translation of which is provided in Exhibit 1.1 to this annual report. Each time they are modified, which can only occur with the approval of a two third majority of the shareholders present or represented at a shareholders' meeting, we file copies of our *statuts* with, and such by-laws are publicly available from, the Registry of Commerce and Companies in Lyon, France, under number 316 488 204.

Our corporate affairs are governed by our by-laws and by Book II of the French Commercial Code, as amended.

Our by-laws were last updated in January 2018 to reflect the increases in share capital related to the issuance of additional shares following the exercise of warrants and options in the course of 2017.

### *Corporate Purposes*

Pursuant to Article 2 of the by-laws, the corporate purpose of the Company is:

the taking of financial interests, under whatever form, in all French or foreign groups, companies or businesses which currently exist or which may be created in the future, mainly through contribution, subscription or purchasing of stocks or shares, obligations or other securities, mergers, holding companies, groups, alliances or partnerships;

- the management of such financial investments;
- the direction, management, control and coordination of its subsidiaries and interests;
- the provision of all administrative, financial, technical or other services; and

generally, all transactions of whatever nature, whether financial, commercial, industrial, civil, relating to property and/or real estate, which may be connected directly or indirectly, in whole or in part, to the Company's purposes or to any similar or related purposes which may favor the extension or development of such purpose.

### *Board of Directors*

The Board of Directors is currently composed of five members, four of which were appointed by the shareholders for a period of six years expiring on the date of the annual general shareholders' meeting approving the accounts for fiscal year 2019. Mr. Marc Oczachowski, Chief Executive Officer, was appointed director of the Company by the shareholders on June 30, 2017, effective July 1, 2017, for a period of six years expiring on the date of the annual general shareholders' meeting approving the accounts for the fiscal year 2022. See Item 6, "Directors, Senior Management and Employees." A director's term ends at the end of the ordinary general shareholders' meeting convened to vote on the accounts of the then-preceding fiscal year and held in the year during which the term of such director comes to an end. Directors may be re-elected; a director may also be dismissed at any time at the shareholders' meeting.

Each director must own at least one share during his/her term of office. If, at the time of his/her appointment, a director does not own the required number of shares or if during his/her term, he/she no longer owns the required number of shares, he/she will be considered to have automatically resigned if he/she fails to comply with the shareholding requirement within three months.

An individual person may not be a member of more than five Boards of Directors or Supervisory Boards in corporations (*société anonyme*) registered in France; directorships held in controlled companies (as defined by Section L.233-16 of the French Commercial Code) by the Company are not taken into account.

In the event of the death or resignation of one or more directors, the Board of Directors may make provisional appointments to fill vacancies before the next general shareholders' meetings. These provisional appointments must be ratified by the next ordinary shareholders meeting. Even if a provisional appointment is not ratified, resolutions and acts previously approved by the Board of Directors nonetheless remain valid.

If the number of Directors falls below the compulsory legal minimum, the remaining directors must immediately convene an ordinary general shareholders' meeting to reach a full Board of Directors.

Any director appointed in replacement of another director whose term has not expired remains in office only for the remaining duration of the term of his predecessor.

One of our employees may be appointed to serve as a director. His/her employment contract must include actual work obligations. In this case, he/she does not lose the benefit of his/her employment contract.

The number of directors that have employment contracts with the Company may not exceed one third of the directors then in office and in any case, a maximum of five members.

Pursuant to our by-laws, a director may not be over eighty-five years old. If a director reaches this age limit during his/her term, such director is automatically considered to have resigned at the next general shareholders meeting.

A director cannot borrow money from the Company.

The Board of Directors determines the direction of our business and supervises its implementation. Within the limits set out by the corporate purposes and the powers expressly granted by law to the general shareholders' meeting, the Board of Directors may deliberate upon our operations and make any decisions in accordance with our business. A director must abstain from voting on matters in which the director has an interest. The resolutions passed in a meeting of the Board of Directors are valid only if a quorum of half of the Directors is reached.

French law provides that the functions of Chairman of the Board and Chief Executive Officer in a French *société anonyme* may be distinct and held by two separate individuals.

### ***The Chairman of the Board***

The Board of Directors must elect one of its members as Chairman of the Board of Directors, who must be an individual. The Board of Directors determines the duration of the term of the Chairman, which cannot exceed that of his/her tenure as a director. The Board of Directors may revoke the Chairman at any time. The Chairman's compensation is determined by the Board of Directors, upon recommendation of the Compensation Committee.

The Chairman represents the Board of Directors and organizes its work. The Chairman reports on the Board's behalf to the general shareholders' meeting. The Chairman is responsible for ensuring the proper functioning of our governing bodies and that the Board members have the means to perform their duties.

Pursuant to Section 706-43 of the French Criminal Proceedings Code, the Chairman may validly delegate to any person he/she chooses the power to represent us in any criminal proceedings that we may face.



As with any other director, the Chairman may not be over eighty-five years old. In case the Chairman reaches this age limit during his/her tenure, he/she will automatically be considered to have resigned. However, his/her tenure is extended until the next Board of Directors meeting, during which his/her successor will be appointed. Subject to the age limit provision, the Chairman of the Board may also be re-elected.

### *The Chief Executive Officer*

We are managed by the Chairman of the Board of Directors or by an individual elected by the Board of Directors bearing the title of Chief Executive Officer. The choice between these two methods of management belongs to the Board of Directors and must be made pursuant to our by-laws. On March 31, 2007, the Board of Directors appointed Mr. Marc Oczachowski as Chief Executive Officer.

The Chief Executive Officer is vested with the powers to act under all circumstances on behalf of the Company, within the limits set out by the Company's corporate purposes, and subject to the powers expressly granted by law to the Board of Directors and the general shareholders' meeting.

The Chief Executive Officer represents the Company with respect to third parties. The Company is bound by any acts of the Chief Executive Officer even if they are contrary to corporate purposes, unless it is proven that the third party knew such act exceeded the Company's corporate purposes or could not ignore it in light of the circumstances. Publication of the by-laws alone is not sufficient evidence of such knowledge.

The Chief Executive Officer's compensation is set by the Board of Directors, upon recommendation of the Compensation Committee. The Chief Executive Officer can be revoked at any time by the Board of Directors. If such termination is found to be unjustified, damages may be allocated to the Chief Executive Officer, except when the Chief Executive Officer is also the Chairman of the Board.

The Chief Executive Officer may not hold another position as Chief Executive Officer or member of a Supervisory Board in a corporation (*société anonyme*) registered in France except when (a) such company is controlled (as referred to in Section L.233-16 of the French Commercial Code) by the Company and (b) when this controlled company's shares are not traded on a regulated market.

Pursuant to our by-laws, the Chief Executive Officer may not be over seventy years old. In case the Chief Executive Officer reaches this age limit during his/her office, he/she is automatically considered to have resigned. However, his/her tenure is extended until the next Board of Directors meeting, during which his/her successor must be appointed.

***Dividend and Liquidation Rights (French Law)***

Net income in each fiscal year, increased or reduced, as the case may be, by any profit or loss of the Company carried forward from prior years, less any contributions to legal reserves, is available for distribution to our shareholders as dividends, subject to the requirements of French law and our by-laws.

Under French law, we are required to allocate at least 5% of our unconsolidated net profits in each fiscal year to a legal reserve fund before dividends may be paid with respect to that year. Such allocation is compulsory until the amount in such reserve fund is equal to 10% of the nominal amount of the registered capital. The legal reserve is distributable only upon the liquidation of the Company.

Our shareholders may, upon recommendation of the Board of Directors, decide to allocate all or a part of distributable profits, if any, among special or general reserves, to carry them forward to the next fiscal year as retained earnings, or to allocate them to the shareholders as dividends.

Our by-laws provide that, if so agreed by the shareholders, reserves that are available for distribution under French law and our by-laws may be distributed as dividends, subject to certain limitations.

If we have made distributable profits since the end of the preceding fiscal year (as shown on an interim income statement certified by our statutory auditors), the Board of Directors has the authority under French law, without the approval of shareholders, to distribute interim dividends to the extent of such distributable profits. We have never paid interim dividends.

Under French law, dividends are distributed to shareholders pro rata according to their respective shareholdings. Dividends are payable to holders of shares outstanding on the date of the annual shareholders' meeting deciding the distribution of dividends, or in the case of interim dividends, on the date of the Board of Directors meeting approving the distribution of interim dividends. However, holders of newly issued shares may have their rights to dividends limited with respect to certain fiscal years. The actual dividend payment date is decided by the shareholders in an ordinary general meeting or by the Board of Directors in the absence of such a decision by the shareholders. The payment of the dividends must occur within nine months from the end of our fiscal year. Under French law, dividends not claimed within five years of the date of payment revert to the French State.

If the Company is liquidated, our assets remaining after payment of our debts, liquidation expenses and all of our remaining obligations will be distributed first to repay in full the nominal value of the shares, then the surplus, if any, will be distributed pro rata among the shareholders based on the nominal value of their shareholdings and subject to

any special rights granted to holders of priority shares, if any. Shareholders are liable for corporate liabilities only up to the par value of the shares they hold and are not liable to further capital calls of the Company.

*Changes in Share Capital (French Law)*

Our share capital may be increased only with the approval of two thirds of the shareholders voting or represented at an extraordinary general meeting, following a recommendation of the Board of Directors. Increases in the share capital may be effected either by the issuance of additional shares (including the creation of a new class of shares) or by an increase in the nominal value of existing shares or by the exercise of rights attached to securities giving access to the share capital. Additional Shares may be issued for cash or for assets contributed in kind, upon the conversion of debt securities previously issued by the Company, by capitalization of reserves, or, subject to certain conditions, by way of offset against indebtedness incurred by the Company. Dividends paid in the form of shares may be distributed in lieu of payment of cash dividends, as described above under “—Dividend and Liquidation Rights (French law).” French law permits different classes of shares to have liquidation, voting and dividend rights different from those of the outstanding ordinary shares, although we only have one class of shares.

Our share capital may be decreased only with the approval of two thirds of the shareholders voting or represented at an extraordinary general meeting. The share capital may be reduced either by decreasing the nominal value of the shares or by reducing the number of outstanding shares. The conditions under which the registered capital may be reduced will vary depending upon whether or not the reduction is attributable to losses incurred by the Company. The number of outstanding shares may be reduced either by an exchange of shares or by the repurchase and cancellation by the Company of its shares. Under French law, all the shareholders in each class of shares must be treated equally unless the inequality in treatment is accepted by the affected shareholder. If the reduction is not attributable to losses incurred by us, each shareholder will be offered an opportunity to participate in such capital reduction and may decide whether or not to participate therein.

***Repurchase of Shares (French Law)***

Pursuant to French law, the Company may not acquire its own shares except (a) to reduce its share capital under certain circumstances with the approval of the shareholders at an extraordinary general meeting or (b) to provide shares for distribution to employees under a profit sharing or a stock option plan. However, the Company may not hold more than 10% of its shares then-issued. A subsidiary of the Company is prohibited by French law from holding shares of the Company and, in the event it becomes a shareholder of the Company, such shareholder must transfer all the shares of the Company that it holds.

***Attendance and Voting at Shareholders' Meetings (French Law)***

In accordance with French law, there are two types of general shareholders' meetings, ordinary and extraordinary. Ordinary general meetings are required for matters such as the election of directors, the appointment of statutory auditors, the approval of the report prepared by the Board of Directors and the annual accounts and the declaration of dividends.

Extraordinary general meetings are required for approval of matters such as amendments to the Company's by-laws, modification of shareholders' rights, approval of mergers, increases or decreases in share capital (including a waiver of preferential subscription rights), the creation of a new class of shares, the authorization of the issuance of investment certificates or securities convertible or exchangeable into shares and for the sale or transfer of substantially all of the Company's assets.

The Board of Directors is required to convene an annual ordinary general shareholders' meeting, which must be held within six months of the end of our fiscal year, for approval of the annual accounts. Other ordinary or extraordinary meetings may be convened at any time during the year. Shareholders' meetings may be convened by the Board of Directors or, if the Board of Directors fails to call such a meeting, by our statutory auditors or by a court-appointed agent. The court may be requested to appoint an agent either by one or more shareholders holding at least 5% of the our registered capital or by an interested party under certain circumstances, or, in case of an urgent matter, by the Work Council (*Comité d'entreprise*) representing the employees. The notice calling a meeting must state the agenda for such meeting.

French law provides that, at least 15 days before the date set for any general meeting on first notice, and at least ten days before the date set for any general meeting on second notice, notice of the meeting (*avis de convocation*) must be sent by mail to all holders of properly registered shares who have held such shares for more than one month before the date of the notice. A preliminary written notice (*avis de réunion*) must be sent to each shareholder who has requested to be notified in writing. Under French law, one or several shareholders together holding a specified percentage of shares may propose resolutions to be submitted for approval by the shareholders at the meeting. Upon our request,

The Bank of New York Mellon will send to holders of ADSs notices of shareholders' meetings and other reports and communications that are made generally available to shareholders. The Work Council may also require the registration of resolution proposals on the agenda.

Attendance and exercise of voting rights at ordinary and extraordinary general shareholders' meetings are subject to certain conditions. Shareholders deciding to exercise their voting rights must have their shares registered in their names in the shareholder registry maintained by or on behalf of the Company before the meeting. An ADS holder must timely and properly return its voting instruction card to the Depositary to exercise the voting rights relating to the shares represented by its ADSs. The Depositary will use its reasonable efforts to vote the underlying shares in the manner indicated by the ADS holder. In addition, if an ADS holder does not timely return a voting instruction card or the voting instruction card received is improperly completed or blank, that holder will be deemed to have given the Depositary a proxy to vote, and the Depositary will vote in favor of all proposals recommended by the Board of Directors and against all proposals that are not recommended by the Board of Directors.

All shareholders who have properly registered their shares have the right to participate in general shareholders' meetings, either in person, by proxy, or by mail, and to vote according to the number of shares they hold. Each share confers on the shareholder the right to one vote. Under French law, an entity we control directly or indirectly is prohibited from holding shares in the Company and, in the event it becomes a shareholder, shares held by such entity would be deprived of voting rights. A proxy may be granted by a shareholder whose name is registered on our share registry to his or her spouse, to another shareholder or to a legal representative, in the case of a legal entity, or by sending a proxy in blank to the Company without nominating any representatives. In the latter case, the Chairman of the shareholders' meeting will vote such blank proxy in favor of all resolutions proposed by the Board of Directors and against all others.

The presence in person or by proxy of shareholders having not less than 20% (in the case of an ordinary general meeting or an extraordinary general meeting deciding upon any capital increase by capitalization of reserves) or 25% (in the case of any other extraordinary general meeting) of the shares entitled to vote is necessary to reach a quorum. If a quorum is not reached at any meeting, the meeting is adjourned. Upon reconvening of an adjourned meeting, there is no quorum requirement in the case of an ordinary general meeting or an extraordinary general meeting deciding upon any capital increase by capitalization of reserves. The presence in person or by proxy of shareholders having not less than 20% of the Shares is necessary to reach a quorum in the case of any other type of extraordinary general meeting.

At an ordinary general meeting or an extraordinary general meeting deciding upon any capital increase by capitalization of reserves, a simple majority of the votes of the shareholders present or represented by proxy is required to approve a resolution. At any other extraordinary general meeting, two-thirds of the votes cast is required. However, a unanimous vote is required to increase liabilities of shareholders. Abstention from voting by those present or represented by proxy is viewed as a vote against the resolution submitted to a vote.

In addition to his/her rights to certain information regarding the Company, any shareholder may, during the two-week period preceding a shareholders' meeting, submit to the Board of Directors written questions relating to the agenda for the meeting. The Board of Directors must respond to such questions during the meeting.

Under French law, shareholders can nominate individuals for election to the Board of Directors at a shareholders' meeting. When the nomination is part of the agenda of the shareholders' meeting, the nomination must contain the name, age, professional references and professional activity of the nominee for the past five years, as well as the number of shares owned by such candidate, if any. In addition, if the agenda for the shareholders' meeting includes the election of members of the Board of Directors, any shareholder may require, during the meeting, the nomination of a candidate for election at the Board of Directors at the shareholders' meeting, even if such shareholder has not followed the nomination procedures. Under French law, shareholders cannot elect a new member of the Board of Directors at a general shareholders meeting if the agenda for the meeting does not include the election of a member of the Board of Directors, unless such nomination is necessary to fill a vacancy due to the previous resignation of a member.

As set forth in our by-laws, shareholders' meetings are held at the registered office of the Company or at any other locations specified in the written notice. We do not have staggered or cumulative voting arrangements for the election of Directors.

#### ***Preferential Subscription Rights (French Law)***

Shareholders have preferential rights to subscribe for additional shares issued by the Company for cash on a pro rata basis (or any equity securities of the Company or other securities giving a right, directly or indirectly, to equity securities issued by the Company). Shareholders may waive their preferential rights, either individually or at an

extraordinary general meeting under certain circumstances. Preferential subscription rights, if not previously waived, are transferable during the subscription period relating to a particular offering of shares. U.S. holders of ADSs may not be able to exercise preferential rights for Shares underlying their ADSs unless a registration statement under the Securities Act is effective with respect to such rights or an exemption from the registration requirement thereunder is available.

### ***Form and Holding of Shares (French Law)***

#### *Form of Shares*

Our by-laws provide that shares can only be held in registered form.

#### *Holding of Shares*

The shares are registered in the name of the respective owners thereof in the registry maintained by or on behalf of the Company.

Stock certificates evidencing shares, in a manner comparable to that in the United States, are not issued by French companies, but we may issue or cause to be issued confirmations of shareholdings registered in such registry to the persons in whose names the shares are registered. Pursuant to French law, such confirmations do not constitute documents of title and are not negotiable instruments.

### ***Ownership of ADSs or Shares by Non-French Residents (French Law)***

Under current French law, there is no limitation on the right of non-French residents or non-French security holders to own, or where applicable, vote securities of a French company. A non-resident of France must file a *déclaration administrative*, or administrative notice, with French authorities in connection with the acquisition of a controlling interest in any French company. Under existing administrative rulings, ownership, by a non-resident of France or a French corporation which is itself controlled by a foreign national, of 33.33% or more of a company's share capital or voting rights is regarded as a controlling interest, but a lower percentage may be held to be a controlling interest in certain circumstances (depending upon such factors as the acquiring party's intentions, its ability to elect directors or financial reliance by the French company on the acquiring party).

Also, certain foreign investments in companies incorporated under French laws are subject to the prior authorization from the French Minister of the Economy, where all or part of the target's business and activity relate to a strategic sector, such as energy, transportation, public health, telecommunications, etc.

### ***Certain Exemptions (French Law)***

Under the U.S. securities laws, as a foreign private issuer, we are exempt from certain rules that apply to domestic U.S. issuers with equity securities registered under the U.S. Securities Exchange Act of 1934, including the proxy solicitation rules and the rules requiring disclosure of share ownership by directors, officers and certain shareholders. We are also exempt from certain of the current NASDAQ corporate governance requirements. For more information on these exemptions, see Item 16 G, "Corporate Governance —Exemptions from Certain NASDAQ Corporate Governance Rules."

### ***Enforceability of Civil Liabilities (French Law)***

We are a *société anonyme*, or limited liability corporation, organized under the laws of the Republic of France. The majority of our directors and executive officers reside in the Republic of France. All or a substantial portion of our assets and the assets of such persons are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons or to enforce, either inside or outside the United States, judgments against such persons obtained in U.S. courts or to enforce in U.S. court judgments obtained against such persons in courts in jurisdictions outside the United States, in each case, in any action predicated upon the civil liability provisions of the federal securities laws of the United States. In an original action brought in France predicated solely upon the U.S. federal securities laws, French courts may not have the requisite jurisdiction to grant the remedies sought, and actions for enforcement in France of judgments of U.S. courts rendered against French persons referred to in the second sentence of this paragraph would require such French persons to waive their right under Article 15 of the French Civil Code to be sued in France only. We believe that no such French persons have waived such right with respect to actions predicated solely upon U.S. federal securities laws. In addition, actions in the United States under the U.S. federal securities laws could be affected under certain circumstances by the French law of July 16, 1980, which may preclude or restrict obtaining evidence in France or from French persons in connection with such actions.

### **Material Contracts**

On April 14, 2016, pursuant to a securities purchase agreement dated April 7, 2016, we issued Investor Warrants which will expire on October 14, 2018 (the "April 2016 Warrants"). The April 2016 Warrants are exercisable, from October 14, 2016, at the option of the holder, upon the surrender of the Investor Warrants to us and the payment in cash of the exercise price of \$4.50 per ordinary share in the form of ADSs. With respect to the April 2016 Warrants,



the exercise price is subject to appropriate adjustment in the event of stock dividends, stock splits, reorganizations or similar events affecting our ordinary shares. The holders of the April 2016 Warrants are entitled to 20 days' notice before the record date for certain distributions to holders of our ordinary shares. If certain "fundamental transactions" occur, such as a merger, consolidation, sale of substantially all of our assets, tender offer or exchange offer with respect to our ordinary shares or reclassification of our ordinary shares, the holders of the April 2016 Warrants will be entitled to receive thereafter in lieu of our ordinary shares, the consideration (if different from ordinary shares) that the holders of the April 2016 Warrants would have been entitled to receive upon the occurrence of the fundamental transaction as if the April 2016 Warrants had been exercised immediately before the fundamental transaction. If any holder of ordinary shares is given a choice of consideration to be received in the fundamental transaction, then the holders of the April 2016 Warrants shall be given the same choice upon the exercise of the April 2016 Warrants following the fundamental transaction. A copy of the form of Investor Warrant was furnished to the SEC on our report on Form 6-K dated April 14, 2016. The foregoing description is qualified in its entirety by reference to the full text of the Form 6-K.

### **Exchange Controls**

Under current French foreign exchange control regulations, there are no limitations on the amount of cash payments that we may remit to residents of foreign countries. Laws and regulations concerning foreign exchange controls do require, however, that all payments or transfers of funds made by a French resident to a non-resident be handled by an accredited intermediary.

## **Certain Income Tax Considerations**

The following generally summarizes the material French and U.S. tax consequences of purchasing, owning and disposing of shares or ADS (the “Securities”). The statements set forth below are based on the applicable laws, treaties and administrative interpretations of France and the United States as of the date hereof, all of which are subject to change.

This discussion is intended only as a descriptive summary and does not purport to be a complete analysis or listing of all potential tax effects of the purchase, ownership or disposition of Securities. It does not constitute legal or tax advice.

Investors should consult their own tax advisors regarding the tax consequences of the purchase, ownership and disposition of Securities in light of their particular circumstances, including especially the laws of all jurisdictions in which they are resident for tax purposes.

### ***French Taxation***

The following summary of the French tax consequences of purchasing and disposing of Securities does not address the treatment of Securities that are held by a resident of France (except for purposes of describing related tax consequences for other holders) or in connection with a permanent establishment or fixed base through which a holder carries on business or performs personal services in France, or by a person that owns, directly or indirectly, 5% or more of the stock of the Company. Moreover, the following discussion of the tax treatment of dividends only deals with distributions made on or after January 1, 2018.

There are currently no procedures available for holders that are not U.S. residents to claim tax treaty benefits in respect of dividends received on Securities registered in the name of a nominee. Such holders should consult their own tax advisors about the consequences of owning and disposing of Securities.

French law provides for specific rules relating to trusts, in particular specific tax and filing requirements as well as modifications to wealth, estate and gift taxes as they apply to trusts. Given the complex nature of these new rules and the fact that their application varies depending on the status of the trust, the grantor, the beneficiary and the assets held in the trust, the following summary does not address the tax treatment of Securities held in a trust. *If Securities are held in trust, the grantor, trustee and beneficiary are urged to consult their own tax adviser regarding the specific tax consequences of acquiring, owning and disposing of Securities.*

*Taxation of Dividends on Securities - Withholding Tax*

Dividends paid by a French corporation, such as EDAP, to non-residents normally are subject to a 30% French withholding tax (reduced to 12.8% when non-residents are individuals and 15% for distributions made to not-for-profit organizations with a head office in a Member State of the European Economic Area which would be subject to the tax regime set forth under article 206-5 of the French General Tax Code if their head office was located in France and which meet the criteria set forth in the administrative guidelines BOI-RPPM-RCM-30-30-10-70-20171004, n°130).

Dividends paid by a French corporation transferred to non-cooperative States or territories (Etat ou territoire non coopératif), within the meaning of Article 238-0 A of the French General Tax Code (a “Non-Cooperative State”), will be subject to French withholding tax at a rate of 75% irrespective of the tax residence of the beneficiary of the dividends, if the dividends are received in such States or territories (subject to certain exceptions and the more favorable provisions of an applicable double tax treaty, provided that the double tax treaty is found to apply and the relevant conditions are fulfilled). The list of Non-Cooperative States is published by ministerial executive order, which is updated from time to time. However, non-resident holders that are entitled to and comply with the procedures for claiming benefits under an applicable tax treaty may be subject to a reduced rate (generally 15%) of French withholding tax. If a non-resident holder establishes its entitlement to treaty benefits prior to the payment of a dividend, then French tax generally will be withheld at the reduced rate provided under the treaty.

*Taxation on Sale or Disposition of Securities*

Generally, holders, who are not residents of France for tax purposes, will not be subject to any French income tax or capital gains tax upon the sale or the disposal of Securities unless:

- the holders have held more than 25% of EDAP dividend rights, known as (“droits aux bénéfices sociaux”), at any time during the preceding five years, either directly or indirectly, and, as relates to individuals, alone or with relatives; or
- the holders are established or domiciled in a Non-Cooperative State, in which case they will be subject to a 75% tax on your capital gain.

If the holders are resident in a State with which France has signed a double tax treaty that contains more favorable provisions, the holders may be exempt from any French income or capital gains tax when they sell or dispose of any Securities even if one of the above statements applies to them.

Transfers of Securities issued by a listed French company such as EDAP will not be subject to French registration or stamp duty if such transfers are not evidenced by a written agreement (acte). However, if the transfer is evidenced by a written agreement executed either in France or outside France, the transfer of Securities will be subject to a registration duty of 0.1% assessed on the sale price.

Pursuant to Article 235 ter ZD of the French General Tax Code, purchases of shares or ADS are subject to a 0.3% French tax on financial transactions provided that the market capitalization of the issuer exceeds €1.0 billion as of December 1 of the year preceding the taxation year. The list of issuers whose securities are subject to the tax as at January 1, 2018, has been published in the official guidelines of the French tax authorities on December 21, 2017 (BOI-ANX-000467-20171221). EDAP was not included in such list as its market capitalization did not exceed €1.0 billion as at December 1, 2017. Therefore, purchases of EDAP’s securities are not subject to the French tax on financial transactions.

*Estate and Gift Tax*

France imposes estate and gift tax on Securities of a French company that are acquired by inheritance or gift. The tax applies without regard to the tax residence of the transferor. However, France has entered into estate and gift tax treaties with a number of countries pursuant to which, assuming certain conditions are met, residents of the treaty

country may be exempted from such tax or obtain a tax credit.

### *Wealth Tax*

The French Wealth tax (“*impôt de solidarité sur la fortune*”) has been replaced with a French real estate wealth tax (“*impôt sur la fortune immobilière*”) with effect from January 1, 2018. Individuals who are not residents of France for purposes of French taxation are not subject to a real estate wealth tax in France as a result of owning an interest in the share capital of a French corporation, provided that such individuals do not own directly or indirectly a shareholding exceeding 10% of the financial rights and voting rights of the corporation. Double taxation treaties may provide for a more favorable tax treatment.

### *Taxation of U.S. Holders*

#### *Shares*

The following is a summary of the material French and U.S. federal income tax consequences of the purchase, ownership and disposition of Securities by a U.S. holder (as defined above). It deals principally with U.S. holders that are residents of the United States for purposes of the Convention between the Government of the United States of America and the Government of the French Republic for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital of August 31, 1994, (the “Treaty”), which entered into force on December 30, 1995 (as amended by the protocol described below and any subsequent protocols), and the tax regulations issued by the French tax authorities, and are fully eligible for benefits under the Treaty.

This summary does not deal with Securities that are not held as capital assets, and does not address the tax treatment of holders of ADSs that acquire them in “pre-release” transactions or holders that are subject to special rules, such as banks, insurance companies, dealers in securities or currencies, regulated investment companies, persons that elect mark-to-market treatment, persons holding Securities as a position in a synthetic security, straddle or conversion transaction, persons that own, directly or indirectly, 5% or more of our voting stock or 5% or more of our outstanding capital and persons whose functional currency is not the U.S. dollar.

This summary does not discuss the treatment of Securities that are held in connection with a permanent establishment or fixed base through which a holder carries on business or performs personal services in France. The summary is based on laws, treaties, regulatory interpretations and judicial decisions in effect on the date hereof, all of which are subject to change. Such changes could apply retroactively and could affect the consequences described below.

In particular, the United States and France signed a protocol on January 13, 2009, that entered into force on December 23, 2009 and make several significant changes to the Treaty, including changes to the “Limitation of Benefits” provision. U.S. holders are advised to consult their own tax advisors regarding the effect the protocol may have on their eligibility for Treaty benefits in light of their own particular circumstances.

A “U.S. holder” includes (1) a citizen or individual resident of the United States; (2) a corporation or other entity taxable as a corporation created or organized in the United States or under the laws of the United States, any state thereof or the District of Columbia; (3) an estate whose income is subject to U.S. federal income tax regardless of its source; and (4) a trust (i) whose administration is subject to the primary supervision of a U.S. court and which has one or more “U.S. persons” who have the authority to control all substantial decisions of the trust or (ii) which has made an election under applicable Treasury regulations to be treated as a U.S. person.

A U.S. holder generally will be entitled to Treaty benefits in respect of Securities if he is concurrently: (1) the beneficial owner of Securities (and the dividends paid with respect thereto); (2) an individual resident of the United States, a U.S. corporation, or a partnership, estate or trust to the extent its income is subject to taxation in the United States in its hands or in the hands of its partners or beneficiaries; (3) not also a resident of France for French tax purposes; and (4) not subject to an anti-treaty shopping article that applies in limited circumstances.

Special rules apply to pension funds and certain other tax-exempt investors.

If a partnership holds Securities, the tax treatment of a partner generally will depend on the status of the partner and the activities of the partnership. If a U.S. holder is a partner in a partnership that holds Securities, the holder is urged to consult its own tax advisor regarding the specific tax consequences of owning and disposing of its Securities.

**For U.S. federal income tax purposes, a U.S. holder’s ownership of our ADSs will be treated as ownership of our underlying ordinary shares.**

**Holdings should consult their own tax advisors regarding the U.S. tax consequences of the purchase, ownership and disposition of Securities in the light of their particular circumstances, including the effect of any state or local laws.**

*Dividends and Paying Agents*

Generally, dividend distributions to non-residents of France are subject to French withholding tax at a 30% rate (reduced to 12.8% when non-residents are individuals or to 75% if paid in non-cooperative States or territories, as defined in Article 238-0 A of the French General Tax Code, irrespective of the tax residence of the beneficiary of the dividends if the dividends are received in such States or territories. Eligible U.S. holders providing evidence of the entitlement to Treaty benefits with respect to the dividend (art.30) under the “Limitation on Benefits” provision contained in the Treaty who are U.S. residents, as defined pursuant to the provisions of the Treaty and who receive dividends in non-cooperative States or territories, should not be subject to this 75% withholding tax rate.

Under the Treaty, the rate of French withholding tax on dividends paid to an eligible U.S. holder as defined pursuant to the provisions of the Treaty and whose ownership of Securities is not effectively connected with a permanent establishment or fixed base that such U.S. holder has in France is reduced to 15%, or to 5% if such U.S. holder is a corporation and owns directly or indirectly at least 10% of the share capital of the issuing company; such U.S. holder may claim a refund from the French tax authorities of the amount withheld in excess of the Treaty rates of 15% or 5%, if any. For U.S. holders that are not individuals, the requirements for eligibility for Treaty benefits, including the reduced 5% or 15% withholding tax rate, contained in the “Limitation on Benefits” provision of the Treaty are complicated, and certain technical changes were made to these requirements the protocol of January 13, 2009. U.S. holders are advised to consult their own tax advisers regarding their eligibility for Treaty benefits in light of their own particular circumstances.

French withholding tax will be withheld at the domestic rates mentioned above or the 5% or 15% Treaty rate if a U.S. holder has established before the date of payment that the holder is a resident of the United States under the Treaty by following the simplified procedure described below.

The gross amount of dividends that a U.S. holder receives (before the deduction of French withholding tax) generally will be subject to U.S. federal income taxation as ordinary dividend income to the extent paid or deemed paid out of the current or accumulated earnings and profits of the Company (as determined under U.S. federal income tax principles). Such dividends will not be eligible for the dividends received deduction generally allowed to U.S. corporations. To the extent that an amount received by a U.S. holder exceeds the allocable share of current and accumulated earnings and profits of the Company, such excess will be applied first to reduce such U.S. holder's tax basis in its Securities and then, to the extent it exceeds the U.S. holder's tax basis, it will constitute capital gain from a deemed sale or exchange of such Securities. As the Company does not maintain "earnings and profits" computations, holders should assume that all distributions constitute dividends.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual with respect to the Securities is currently subject to taxation at a maximum rate of 20% if the dividends are "qualified dividends." Dividends paid on the Securities will be treated as qualified dividends if (i) the issuer is eligible for the benefits of a comprehensive income tax treaty with the United States that the IRS has approved for the purposes of the qualified dividend rules and (ii) the Company was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a passive foreign investment company, or PFIC. The Treaty has been approved for the purposes of the qualified dividend rules. Based on our audited financial statements and relevant market and shareholder data, we do not believe we were a PFIC for U.S. federal income tax purposes with respect to our 2017 taxable year. In addition, we do not anticipate it becoming a PFIC for the 2018 taxable year (as described under "—Passive Foreign Investment Company Rules" below). Accordingly, dividends, if any, paid by us in 2017 to a U.S. holder would constitute "qualified dividends."

Holders of Securities should consult their own tax advisers regarding the availability of the reduced dividend tax rate in light of their own particular circumstances.

Dividends distributed with respect to the Securities generally will be treated as dividend income from sources outside of the United States, and generally will be treated as "passive category" (or, in the case of certain U.S. holders, "general category") income for U.S. foreign tax credit purposes. Subject to certain limitations, French income tax withheld in connection with any distribution with respect to the Securities may be claimed as a credit against the U.S. federal income tax liability of a U.S. holder if such U.S. holder elects for that year to credit all foreign income taxes. Alternatively, such French withholding tax may be taken as a deduction against taxable income. Foreign tax credits will not be allowed for withholding taxes imposed in respect of certain short-term or hedged positions in securities and may not be allowed in respect of certain arrangements in which a U.S. holder's expected economic profit is insubstantial. U.S. holders should consult their own tax advisors concerning the implications of these rules in light of their particular circumstances.



Dividends paid in euro will be included in the income of a U.S. holder in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date of receipt by the holder (or, in the case of the ADSs, by the Depositary), regardless of whether the payment is in fact converted into U.S. dollars. If such a dividend is converted into U.S. dollars on the date of receipt, a U.S. holder generally should not be required to recognize foreign currency gain or loss in respect of the dividend income.

### *Capital Gains*

Under the Treaty, a U.S. holder will not be subject to French tax on any gain derived from the sale or exchange of Securities, unless the gain is effectively connected with a permanent establishment or fixed base maintained by the holder in France.

For U.S. federal income tax purposes, gain or loss realized by a U.S. holder on the sale or other disposition of Securities will be capital gain or loss, and will be long-term capital gain or loss if the Securities were held for more than one year. The net amount of long-term capital gain recognized by an individual U.S. holder generally is currently subject to taxation at a maximum rate of 20%. U.S. holders' ability to offset capital losses against ordinary income is limited.

*Additional Issues For U.S. Holders*

*Procedures for Claiming Treaty Benefits*

Pursuant to French official administrative guidelines (BOFIP BOI-INT-DG-20-20-20-20-20120912), U.S. holders can either claim Treaty benefits under a simplified procedure or under the normal procedure. The procedure to be followed depends on whether the application for Treaty benefits is filed before or after the dividend payment.

Under the simplified procedure, in order to benefit from the lower rate of withholding tax applicable under the Treaty before the payment of the dividend, a U.S. holder must complete and deliver to the paying agent (through its account holder) a treaty form (Form 5000), to certify in particular that:

- the U.S. holder is beneficially entitled to the dividend;
- the U.S. holder is a U.S. resident within the meaning of the Treaty;
- the dividend is not derived from a permanent establishment or a fixed base that the U.S. holder has in France; and
- the dividend received is or will be reported to the tax authorities in the United States.

For partnerships or trusts, claims for Treaty benefits and related attestations are made by the partners, beneficiaries or grantors who also have to supply certain additional documentation.

In order to be eligible for Treaty benefits, pension funds and certain other tax-exempt U.S. holders must comply with the simplified procedure described above, though they may be required to supply additional documentation evidencing their entitlement to those benefits.

If Form 5000 is not filed prior to the dividend payment, a withholding tax will be levied at the 30% rate, and a holder would have to claim a refund for the excess under the normal procedure by filing both Form 5000 and Form 5001 no later than December 31 of the second calendar year following the year in which the dividend is paid.

Pension funds and certain other tax-exempt entities are subject to the same general filing requirements as other U.S. holders except that they may have to supply additional documentation evidencing their entitlement to these benefits.

Copies of Form 5000 and Form 5001 may be downloaded from the French tax authorities' website ([www.impots.gouv.fr](http://www.impots.gouv.fr)) and are also available from the U.S. Internal Revenue Service and from the *Centre des Impôts des Non-Résidents* in France (10 rue du Centre 93160, Noisy-le-Grand).

### *Medicare Tax*

Certain U.S. holders that are individuals, estates or trusts are required to pay an additional 3.8% tax on, among other things, dividends on and capital gains from the sale or other disposition of stock. U.S. holders that are individuals, estates or trusts should consult their tax advisors regarding the effect of this legislation on their ownership and disposition of the Securities.

### *Passive Foreign Investment Company Rules*

Unfavorable U.S. tax rules such as the PFIC rules, apply to companies that are considered PFICs. The Company will be classified as a PFIC in a particular taxable year if either (a) 75% or more of its gross income is treated as passive income for purposes of the PFIC rules; or (b) the average percentage of the value of its assets that produce or are held for the production of passive income is at least 50%.

As explained above, the Company believes that it was not a PFIC for U.S. tax purposes with respect to the year 2017, and also does not anticipate becoming a PFIC with respect to the year 2018. However, as discussed in Form 20-Fs filed by the Company with respect to certain prior years the Company believes that it was a PFIC in the past. Moreover, because the PFIC determination is made annually and is dependent upon a number of factors, some of which are beyond the Company's control (including whether the Company continues to earn substantial amounts of operating income as well as the market composition and value of the Company's assets), there can be no assurance that the Company will not become a PFIC in future years.

U.S. holders that held Securities at any time during the years when the Company was a PFIC and did not make certain U.S. tax elections (a "mark-to-market election" or a "QEF election") will be subject to adverse tax treatment. For instance, such holders will be subject to a special tax at ordinary income tax rates on certain dividends that the Company pays and on gains realized on the sale of Securities ("excess distributions") in all subsequent years, even though the Company ceased to qualify as a PFIC. The amount of this tax will be increased by an interest charge to compensate for tax deferral, calculated as if the excess distributions had been earned ratably over the period the U.S. holder held its Securities. It may be possible, in certain circumstances, for a holder to avoid the application of the PFIC rules by making a "deemed sale" election for its taxable year that includes the last day of the Company's last taxable year during which it qualified as a PFIC. The PFIC rules are extremely complex, and holders should consult their own tax advisors regarding the possible application of the PFIC rules to their Securities and the desirability and availability of the above elections.



### ***French Estate and Gift Tax***

Under the estate and gift tax convention between the United States and France dated November 24, 1978 (as amended by the protocol signed on December 8, 2004), a transfer of Securities by gift or by reason of the death of a U.S. holder entitled to benefits under that convention generally will not be subject to French gift or inheritance tax, so long as the donor or transferor was not domiciled in France at the time of the transfer, and Securities were not used or held for use in the conduct of a business or profession through a permanent establishment or fixed base in France.

### ***French Real Estate Wealth Tax***

The French real estate wealth tax (“*impôt sur la fortune immobilière*”), which replaced the French wealth tax (“*impôt de solidarité sur la fortune*”) with effect from January 1, 2018, does not generally apply to Securities of a U.S. holder if the holder is a resident of the United States for purposes of the Treaty and does not own directly or indirectly a shareholding exceeding 10% of the financial rights and voting rights of EDAP.

### **U.S. Information Reporting and Backup Withholding Rules**

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup withholding unless the holder (i) is a corporation or other exempt recipient or (ii) provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. Holders that are not U.S. persons generally are not subject to information reporting or backup withholding. However, such a holder may be required to provide a certification of its non-U.S. status in connection with payments received within the United States or through a U.S.-related financial intermediary.

### ***Information with Respect to Foreign Financial Assets***

In addition, U.S. holders that are individuals (and, to the extent provided in future regulations, entities) are subject to reporting obligations with respect to the shares, securities, debt instruments and other obligations of a French corporation if the aggregate value of such assets and certain other “specified foreign financial assets” exceeds \$50,000. Significant penalties can apply if a U.S. holder fails to disclose its specified foreign financial assets.

U.S. holders should also consider their possible obligation to file online a FinCEN Form 114 Foreign Bank and Financial Accounts Report as a result of holding the Securities. U.S. holders are urged to consult their tax advisors regarding these and any other reporting requirements that may apply with respect to their Securities.

**The discussion above is a general summary. It does not cover all tax matters that may be important to you. You should consult your tax advisors regarding the application of the U.S. federal tax rules to your particular circumstances, as well as the state, local, non-U.S. and other tax consequences to you of the purchase, ownership and disposition of the Securities.**

#### **Statement by Experts**

Not applicable.

#### **Documents on Display**

We file annual, periodic, and other reports and information with the SEC. These materials, including this annual report and the exhibits hereto, may be inspected and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the SEC's Public Reference Room by calling the SEC in the United States at +1 800 SEC 0330. Certain of our public filings are also available on the SEC's website at <http://www.sec.gov> (such documents are not incorporated by reference in this annual report).

## Subsidiary Information

Not applicable.

## Item 11. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk from changes in both foreign currency exchange rates and interest rates. We do not hold or issue derivative or other financial instruments. As of December 31, 2017, we had no outstanding foreign exchange sale or purchase contracts.

### Exchange Rate Risk

#### *Revenues and Expenses in Foreign Currencies*

We are exposed to foreign currency exchange rate risk because a significant portion of our costs are denominated in currencies other than those in which we earn revenues. In 2017, approximately 77% of our total costs of sales and operating expenses were denominated in euro. During the same period, approximately 55% of our sales were denominated in euro, the rest being denominated primarily in U.S. dollars and Japanese yen.

A uniform 10% strengthening in the value of the euro as of December 31, 2017 relative to the U.S. dollar and the Japanese yen would have resulted in an increase in income before taxes and minority interests of approximately €93,000 for the year ended December 31, 2017, compared to a decrease of approximately €9,000 for the year ended December 31, 2016. A uniform 10% decrease in the value of the euro as of December 31, 2017 relative to the U.S. dollar and the Japanese yen would have resulted in a decrease in income before taxes and minority interests of approximately €102,000 for the year ended December 31, 2017 as compared to an increase of approximately €10,000 for the year ended December 31, 2016. This calculation assumes that the U.S. dollar and Japanese yen exchange rates would have changed in the same direction relative to the euro. In addition to the direct effect of changes in exchange rates quantified above, changes in exchange rates also affect the volume of sales.

We regularly assess the exposure of our receivables to fluctuations in the exchange rates of the principal foreign currencies in which our sales are denominated (in particular, the U.S. dollar and the Japanese yen) and, from time to time, hedge such exposure by entering into forward sale contracts for the amounts denominated in such currencies that we expect to receive from our local subsidiaries. As of December 31, 2017 we had no outstanding hedging

instruments.

### **Financial Instruments and Indebtedness**

Over the past three years, we also had exchange rate exposures with respect to indebtedness and assets denominated in Japanese yen and U.S. dollars. Approximately €40 thousand, €0.1 million and €0.2 million of our outstanding indebtedness at December 31, 2017, 2016 and 2015, respectively, were denominated in Japanese yen. Approximately €0.8 million, €3.9 million and €4.4 million of our outstanding indebtedness at December 31, 2017, 2016 and 2015, respectively, were denominated in U.S. dollars. In addition, we had approximately €2.1 million, €2.8 million and €2.1 million of cash denominated in U.S. dollars at December 31, 2017, 2016 and 2015, respectively, and €3.9 million, €1.5 million and €0.9 million of cash denominated in Japanese yen at December 31, 2017, 2016 and 2015, respectively.

### **Equity Price Risk**

In connection with the funds we raised in 2013 and 2016, we have issued a certain number of Investor and Placement Agent Warrants (see Item 5. “Operating and Financial Review and Prospects—Warrants”). We recorded such Warrants as a liability at fair value and we adjust the carrying value of the Warrants to their estimated fair value at each reporting date. The fair value increases (decreases) are recorded as a financial income (loss) in our consolidated Statement of Income. We use a Black-Scholes option pricing model to adjust the fair value of the Warrants. A 10% increase in our stock price from its December 31, 2017 closing price of \$2.87 per ADR would result in an increase of €0.4 million in the fair value of the Warrants with a corresponding financial loss in our Statement of Income. See Note 24 of our consolidated financial statements.



**Item 12. Description of Securities Other than Equity Securities**

**American Depositary Shares**

*Fees Payable to ADS Holders*

The Bank of New York Mellon, as the Company's Depositary, currently collects its fees for the delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. With respect to the outstanding 2013 and 2016 warrants, fees for delivery of ADSs directly linked to a warrant exercise or the payment of quarterly interest shares are supported by the Company.

The Depositary may collect fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The Depositary may collect its annual fee for Depositary services by deductions from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The Depositary may generally refuse to provide fee-attracting services until the fees for those services are paid.

Fees:

For:

\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)

- Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property,
- Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates.

\$0.2 (or less) per ADS

- Any cash distribution to ADS registered holders.

A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited to issuance of ADSs

- Distribution of securities distributed to holders of deposited securities which are distributed by the Depositary to ADS registered holders.

Registration or transfer fees

- Transfer and registration of shares on our share register to or from the name of the Depositary or its agent when you deposit or withdraw shares

Expenses of the Depositary

- Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)
- Converting foreign currency to U.S. dollars

Taxes and other governmental charges the Depositary or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes

- As necessary

Any charges incurred by the Depositary or its agents for servicing the deposited securities

- As necessary

***Fees Payable to the Company by the Depositary***

From January 1, 2017 to March 16, 2018, the following amounts were paid by the Depositary to the Company: \$90,000.00 and \$9,927.13 respectively for the administration of the ADR program and for expenses linked to the assistance in identifying shareholders of the Company.

## **PART II**

### **Item 13. Defaults, Dividend Arrearages and Delinquencies**

None.

### **Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

Not applicable.

### **Item 15. Controls and Procedures**

#### **Disclosure Controls and Procedures**

The Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, conducted an evaluation, pursuant to Rule 13a-15 promulgated under the Securities Act of 1934, as amended (the "Exchange Act"), of the effectiveness of our disclosure controls and procedures as of December 31, 2017. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective because of the material weakness described below.

In response to the identification of the material weakness described below, the Company performed additional analysis and other post-closing procedures. Based upon the work performed, management believes that the Company's consolidated financial statements for the periods covered by and included in this Annual Report on Form 20-F fairly present in all material respects the Company's financial position, results of operations and cash flows, in conformity with U.S. generally accepted accounting principles.

Disclosure controls and procedures means controls and other procedures 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 SEC's rules and forms, and that such information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons

performing similar functions, as appropriate to allow timely decisions regarding required disclosures.

### **Management's Annual Report on Internal Control Over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) and for the assessment of the effectiveness of our internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

The Company's internal controls over financial reporting include those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of the Company's management and directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of internal control over financial reporting as of December 31, 2017 based upon the framework as set forth by the Committee of Sponsoring Organizations of the Treadway Commission (2013 COSO) in Internal Control-Integrated Framework. Based on the management's assessment, management concluded that the Company's internal control over financial reporting was not effective as of December 31, 2017 because of the material weakness described below. This annual report includes an attestation report of the Company's registered independent public accounting firm on the Company's internal control over financial reporting because the Company's market capitalization is above \$75 million at June 30, 2017.



Under the supervision and with the participation of our Chief Executive Officer (*principal executive officer*) and Chief Financial Officer (*principal financial officer*), management assessed our internal control over financial reporting based upon the framework in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on this evaluation, management identified a material weakness in our internal control with respect to the insufficient segregation of duties linked to the small size of our structure, as further described below. As a result of this material weakness, management has concluded that our internal control over financial reporting was not effective as of December 31, 2017. This material weakness did not result in a material misstatement of the consolidated financial statements for the year ended December 31, 2017 or restatement of any prior period previously reported by the Company.

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

We did not maintain sufficient segregation of duties within the consolidation process given the limited size of our finance team. Specifically, our Chief Financial Officer has the ability to prepare consolidated financial statements without sufficient evidence of independent review, and we have insufficient evidence of supporting documentation, calculations and assumptions used to prepare the consolidated financial statements.

As stated above, this deficiency did not result in a material misstatement of the consolidated financial statements for the year ended December 31, 2017 or a restatement of any prior period previously reported by the Company. However, there is a reasonable possibility that a material misstatement of the consolidated financial statements would not have been prevented or detected on a timely basis due to the failure in designing and implementing appropriate controls over the consolidation process, and therefore, our management has determined this deficiency constitute a material weakness.

### **Remediation Activities**

In an effort to remediate the identified material weakness and to enhance our overall control environment, we plan to initiate the following actions:

- Hiring a person who will be responsible for the consolidation process, so that our Chief Financial Officer can be the preliminary person responsible for performing the controls over the consolidation process. As a small business, we

may not be in a position to have that person hired and operational before the 2018-year end and we may decide to engage in the interim a third party financial firm to enhance segregation of duties and to help assemble robust documentation.

We will also review the design of our review controls so that re-performance is an option available to us to demonstrate that the controls are operating effectively.

### **Change in Internal Control over Financial Reporting**

Other than the material weakness and remediation activities described above, there was no change in the Company's internal control over financial reporting occurred as of the end of the period covered by this report that has materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting.

### **Attestation Report of Registered Public Accounting Firm**

The effectiveness of the Company's internal control over financial reporting has been audited by PricewaterhouseCoopers Audit, an independent registered public accounting firm, as stated in its report on the Company's internal control over financial reporting as of December 31, 2017, which is included herein. See report of PricewaterhouseCoopers Audit, an independent registered public accounting firm, included within the financial statements on page F-2.



**Item 16. [Reserved]****Item 16A. Audit Committee Financial Expert**

Our Board of Directors has determined that the chair of the Board's Audit Committee, Mr. Pierre Beysson, an independent director, qualifies as an audit committee financial expert.

**Item 16B. Code of Ethics**

We have adopted a code of ethics applicable to our Chief Executive Officer, Chief Financial Officer, principal accounting officers and to any persons performing similar functions. The code of ethics is reviewed every year by the Board of Directors, and an update of the code of ethics was approved by the Board of Directors on January 25, 2017. Our code of ethics is filed herewith as Exhibit 11.1 and we have made it available on our website at <http://www.edap-tms.com>. You may request a copy of our code of ethics free of charge upon request to Blandine Confort, Investor Relations Officer, at [bconfort@edap-tms.com](mailto:bconfort@edap-tms.com).

**Item 16C. Principal Accountant Fees and Services**

The "Audit and Non-Audit Services Pre-Approval Policy" was approved by our Audit Committee on December 22, 2003 (the "2003 Rules") and reviewed on November 20, 2012. This requires all services which are to be performed by our external auditors to be pre-approved. Pre-approval may be in the form of a general pre-approval or as pre-approval on a case-by-case basis. All services to be performed by the external auditors were subjected to the above policy and approved in advance. The Audit Committee has been regularly informed of the services and the fees to be paid. Our external auditor PricewaterhouseCoopers Audit ("PwC") billed the following services related for our 2017 and 2016 financial years.

**Nature of the Fees**

	<b>2017</b>	<b>2016</b>
	<b>(in €)</b>	<b>(in €)</b>
Audit fees	329,000	336,500
Audit-related fees	-	3,500
Tax fees	-	-
All other fees	-	-
Total	329,000	340,000

***Audit Fees***

The following services were billed under the category “audit services”: audit of financial statements and services performed in relation to legal obligations, including the formulation of audit opinions and reports, domestic and international legal audits and support in the preparation and auditing of the documents to be filed.

***Audit-Related Fees***

Audit-related services billed under this category only consists of attestation services related to financial reporting that are not required by statute or regulation.

**Item 16D. Exemptions from the Listing Standards for Audit Committees**

Not applicable.

**Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

In 2017, the Company recorded no purchase of EDAP ADRs of the Company registered pursuant to Section 12 of the Exchange Act by the Company or by affiliated purchasers.

## **Item 16F. Change in Registrant's Certifying Accountant**

Not applicable.

## **Item 16G. Corporate Governance Requirements**

### **Exemptions from Certain NASDAQ Corporate Governance Rules**

EDAP is incorporated under the laws of France, with securities listed on the NASDAQ Global Market in the United States. As a foreign private issuer listed on the NASDAQ, under the NASDAQ corporate governance requirements, we may follow French law corporate governance practices in lieu of following certain NASDAQ corporate governance rules. We summarize below the main practices we follow in lieu of the NASDAQ corporate governance rules.

We are exempt from NASDAQ's quorum requirements applicable to meetings of shareholders. In keeping with French law and generally accepted business practices in France, the presence in person or by proxy of shareholders having not less than 20% (in the case of an ordinary general meeting or an extraordinary general meeting deciding upon any capital increase by capitalization of reserves) or 25% (in the case of an extraordinary general meeting) of the shares is necessary for a quorum. If a quorum is not present at any meeting, the meeting is adjourned. Upon recommencement of an adjourned meeting, there is no quorum requirement in the case of an ordinary general meeting or an extraordinary general meeting deciding upon any capital increase by capitalization of reserves. The presence in person or by proxy of shareholders having not less than 20% of the shares is necessary for a quorum in the case of any other type of extraordinary general meeting.

Under French law, the committees of our Board of Directors are advisory only, and where the NASDAQ requirements would vest certain decision-making powers with specific committees by delegation (e.g., nominating, compensation or audit committees), our Board of Directors is, pursuant to French law the only competent body to take such decisions, albeit taking into account the recommendation of the relevant committees. Additionally, under French corporate law, it is the shareholder meeting of the Company that is competent to appoint our auditors upon the proposal of our Board of Directors. On February 4, 2015, in order to conform with NASDAQ rules, the Board approved the creation of a Nominations Committee (composed exclusively of independent Directors), should one or more Directors become non-independent. A Nominations Committee Charter was approved accordingly. As per this Charter, upon the appointment of a non-independent Director to the Board on June 30, 2017, the Board of Directors, was convened on July 10, 2017 and decided to create a Nominations Committee composed exclusively of independent Directors.

Our Compensation Committee is composed of four members who meet the definition of independence contained in NASDAQ Listing Rule 5602(a) and is governed by a charter which sets forth its composition and defines its scope of authority. However, in accordance with French law, the Compensation Committee is not vested with the same scope of authority and responsibilities as set out in NASDAQ Listing Rules.

**Item 16H. Mine Safety Disclosure**

Not applicable.

**PART III**

**Item 17. Financial Statements.**

See Item 18, "Financial Statements."

**Item 18. Financial Statements**

The financial statements listed in the Index to Financial Statements are filed as a part of this annual report.

**Item 19. Exhibits**

The exhibits listed in the Index to Exhibits are filed or incorporated by reference as a part of this annual report.

## INDEX TO EXHIBITS

Pursuant to the rules and regulations of the Securities and Exchange Commission, the Company has filed certain agreements as exhibits to this annual report on Form 20-F. These agreements may contain representations and warranties by the parties. These representations and warranties have been made solely for the benefit of the other party or parties to such agreements and (i) may be intended not as statements of fact, but rather as a way of allocating the risk to one of the parties to such agreements if those statements turn out to be inaccurate; (ii) may have been qualified by disclosures that were made to such other party or parties and that either have been reflected in the Company's filings or are not required to be disclosed in those filings; (iii) may apply materiality standards different from what may be viewed as material to investors; and (iv) were made only as of the date of such agreements or such other date(s) as may be specified in such agreements and are subject to more recent developments. Accordingly, these representations and warranties may not describe the Company's actual state of affairs at the date hereof.

Number: Exhibit Description

- 1.1 By-laws (*statuts*) of EDAP TMS S.A. as amended as of January 19, 2018.
- 4.1 French version of Commercial Lease dated July 1, 2015 between Maison Antoine Baud and EDAP TMS France<sup>(1)</sup>
- 4.2 English language summary of Commercial Lease dated July 1, 2015 between Maison Antoine Baud and EDAP TMS France<sup>(1)</sup>
- 4.3 Form of Amended and Restated Depositary Agreement between EDAP TMS SA and The Bank of New York Mellon, as depositary (incorporated herein by reference to Exhibit 1.2 to Form F-6 dated September 15, 2011, SEC File No. 333-176843).<sup>(1)</sup>
- 4.5 Form of Ordinary Share Purchase Warrant (incorporated herein by reference to Exhibit 4.1 to Form 6-K dated May 28, 2013).<sup>(1)</sup>
- 4.6 Form of Securities Purchase Agreement dated March 23, 2013 among EDAP TMS S.A. and each purchaser identified on the signature pages thereto (incorporated herein by reference to Exhibit 99.1 to Form 6-K dated May 28, 2013).<sup>(1)</sup>
- 4.7 Form of Securities Purchase Agreement dated April 7, 2016 among EDAP TMS S.A. and each purchaser identified on the signature pages thereto (incorporated herein by reference to Exhibit 99.1 to Form 6-K dated April 14, 2016).<sup>(1)</sup>
- 4.8 Form of Ordinary Share Purchase Warrant (incorporated herein by reference to Exhibit 4.1 to Form 6-K dated April 14, 2016).<sup>(1)</sup>
- 8.1 List of subsidiaries of EDAP TMS S.A. as of April 30, 2018.
- 11.1 Code of Ethics as amended as of January 25, 2017.<sup>(1)</sup>
- 12.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 12.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 13.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes- Oxley Act of 2002.
- 15.1 Consent of PricewaterhouseCoopers Audit.
- 101 Interactive Data File

(1)

Previously filed.



SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

EDAP TMS S.A.

Dated: April 30, 2018

/s/ Marc Oczachowski  
Marc Oczachowski  
Chief Executive Officer

Dated: April 30, 2018

/s/ François Dietsch  
François Dietsch  
Chief Financial Officer



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**Report of Independent Registered Public Accounting Firm**

**To the Board of Directors and Shareholders of EDAP TMS S.A.**

***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated balance sheets of EDAP TMS S.A. and its subsidiaries as of December 31, 2017 and 2016, and the related consolidated statements of income (loss), comprehensive income (loss), of shareholders' equity and of cash flows for each of the three years in the period ended December 31, 2017, including the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO because a material weakness in internal control over financial reporting related to insufficient segregation of duties within the consolidation process given the limited size of the Company's finance team, existed as of that date.

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 annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness referred to above is described in the Management's Annual Report on Internal Control over Financial Reporting appearing in Item 15. We considered this material weakness in determining the nature, timing, and extent of audit tests applied in our audit of the 2017 consolidated financial statements, and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements.

***Basis for Opinions***

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial

reporting included in management's report referred to above. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

*Definition and Limitations of Internal Control over Financial Reporting*

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Lyon, France, April 30, 2018

/s/ PricewaterhouseCoopers Audit

/s/ Elisabeth L'hermite

We has served as the Company's auditor since 2012.

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**EDAP TMS S.A. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

As of December 31, 2017 and 2016

(in thousands of euros unless otherwise noted)

ASSETS	Notes	2017	2016
Current assets			
Cash and cash equivalents	2	20,004	21,989
Current portion of net trade accounts and notes receivable	3	11,277	9,143
Other receivables	4	1,066	884
Inventories	5	6,739	8,030
Other assets, current portion	6	489	457
Short-term investment	2	-	-
Total current assets		39,574	40,502
Non-current assets			
Property and equipment, net	7	3,682	2,770
Intangible assets, net	8	527	149
Goodwill	8	2,412	2,412
Deposits and other non-current assets		462	448
Deferred tax assets	21-3	165	12
Net Trade accounts and notes receivable, non-current	3	77	299
Total assets		46,897	46,591
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade accounts and notes payable	9	6,310	5,960
Deferred revenues, current portion	10	2,295	1,878
Social security and other payroll withholdings taxes		1,075	1,214
Employee absences compensation		575	573
Income taxes payable		147	363
Other accrued liabilities	11	1,536	2,316
Short-term borrowings	13	2,718	1,629
Current portion of capital lease obligations	12	255	222
Current portion of financial instruments carried at fair value	14-2	840	640
Current portion of long-term debt	14-1	383	215
Total current liabilities		16,134	15,010
Non-current liabilities			
Deferred revenues, non-current	10	562	333
Capital lease obligations, non-current	12	528	313
Financial instruments carried at fair value, non-current	14-2	-	3,281
Long-term debt, non-current	14-1	834	384

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Other long-term liabilities	15	3,681	2,818
Total liabilities		21,739	22,140
Shareholders' equity			
Common stock, €0.13 par value; 29,368,394 shares issued and 28,997,866 shares outstanding; 29,098,144 shares issued and 28,727,616 shares outstanding; at December 31, 2017 and 2016, respectively		3,818	3,783
Additional paid-in capital		65,694	64,685
Retained earnings		(39,608)	(38,927)
Cumulative other comprehensive loss		(3,604 )	(3,948 )
Treasury stock, at cost; 370,528 at December 31, 2017 and at December 31, 2016	16	(1,142 )	(1,142 )
Total shareholders' equity	16	25,158	24,451
Total liabilities and shareholders' equity		46,897	46,591

The accompanying notes are an integral part of the consolidated financial statements.

## EDAP TMS S.A. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME (LOSS)

For the years ended December 31, 2017, 2016 and 2015

(in thousands of euros except per share data and where otherwise noted)

	Notes	2017	2016	2015
Sales of goods		22,580	24,045	21,906
Sales of RPPs & leases		5,095	4,906	4,408
Sales of spare parts and services		8,011	6,628	5,904
Total sales		35,686	35,579	32,218
Other revenues	17	60	32	35
Total revenues		35,746	35,611	32,253
Cost of goods		(13,170 )	(12,288 )	(12,256 )
Cost of RPPs & leases		(2,667 )	(2,527 )	(2,556 )
Cost of spare parts and services		(5,101 )	(4,385 )	(3,656 )
Total cost of sales	18	(20,938 )	(19,200 )	(18,468 )
Gross profit		14,808	16,411	13,785
Research and development expenses	19	(3,881 )	(3,868 )	(2,690 )
Selling and marketing expenses		(9,526 )	(8,856 )	(7,406 )
General and administrative expenses		(3,428 )	(3,296 )	(3,202 )
Income (loss) from operations		(2,027 )	392	488
Financial (expense) income, net	20	2,643	3,949	(2,094 )
Foreign currency exchange gain (loss), net		(909 )	103	699
Income (loss) before taxes	21-1	(293 )	4,444	(907 )
Income tax (expense) benefit	21-2	(388 )	(602 )	(759 )
Net income (loss)		(681 )	3,842	(1,667 )
Basic income (loss) per share	22	(0.02 )	0.14	(0.07 )
Diluted income (loss) per share	22	(0.02 )	0.13	(0.07 )
Basic Weighted average shares outstanding	22	28,961,928	27,823,313	25,021,966
Diluted Weighted average shares outstanding	22	28,961,928	29,365,583	25,021,966

The accompanying notes are an integral part of the consolidated financial statements.



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EDAP TMS S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

**For the years ended December 31, 2017, 2016 and 2015**

**(in thousands of euros unless otherwise noted)**

	2017	2016	2015
Net income (loss)	(681)	3,842	(1,667)
Other comprehensive income (loss):			
Foreign currency translation adjustments	16-6 288	(144 )	(374 )
Provision for retirement indemnities	16-6 57	(238 )	18
Comprehensive income (loss), net of tax	(336)	3,460	(2,023)

The accompanying notes are an integral part of the consolidated financial statements.

**EDAP TMS S.A. AND SUBSIDIARIES**

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the years ended December 31, 2017, 2016 and 2015

(in thousands of euros unless otherwise noted)

	Number of Shares	Common Stock	Additional paid-in Capital	Retained Earnings	Cumulative Other Comprehensive Income (loss)	Treasury Stock	Total
Balance as of December 31, 2014	24,865,420	3,282	57,344	(41,102 )	(3,211 )	(1,172 )	15,141
Net (loss) / income	-	-	-	(1,667 )	-	-	(1,667 )
Translation adjustment	-	-	-	-	(374 )	-	(374 )
Warrants and stock options granted or exercised	-	-	63	-	-	30	92
Capital increase	518,041	66	1,153	-	-	-	1,219
Provision for retirement indemnities	-	-	-	-	18	-	18
Balance as of December 31, 2015	25,383,461	3,348	58,560	(42,769 )	(3,567 )	(1,142 )	14,430
Net (loss) / income	-	-	-	3,842	-	-	3,842
Translation adjustment	-	-	-	-	(144 )	-	(144 )
Warrants and stock options granted or exercised	-	-	360	-	-	-	360
Capital increase	3,344,155	435	5,765	-	-	-	6,200
Provision for retirement indemnities	-	-	-	-	(238 )	-	(238 )
Balance as of December 31, 2016	28,727,616	3,783	64,685	(38,927 )	(3,949 )	(1,142 )	24,451
Net (loss) / income	-	-	-	(681 )	-	-	(681 )
Translation adjustment	-	-	-	-	288	-	288
Warrants and stock options granted or exercised	-	-	382	-	-	-	382
Capital increase	270,250	35	627	-	-	-	662
Provision for retirement indemnities	-	-	-	-	57	-	57
Balance as of December 31, 2017	28,997,866	3,818	65,694	(39,608 )	(3,604 )	(1,142 )	25,158

The accompanying notes are an integral part of the consolidated financial statements.

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**EDAP TMS S.A. AND SUBSIDIARIES**

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2017, 2016 and 2015

(in thousands of euros unless otherwise noted)

	2017	2016	2015
Cash flows from operating activities			
Net income (loss)	(681 )	3,842	(1,667 )
Adjustments to reconcile net income (loss) to net cash generated by (used in) operating activities:			
Depreciation and amortization	1,573	1,025	1,002
Change in warrants fair value	(2,669 )	(3,985 )	2,047
Other Non-cash compensation	382	360	66
Change in allowances for doubtful accounts & slow-moving inventories	28	(75 )	(218 )
Change in long-term provisions	105	116	73
Net capital loss on disposals of assets	47	58	68
Deferred tax expense (benefit)	(153 )	65	23
Operating cash flow	(1,368 )	1,408	1,394
Increase/Decrease in operating assets and liabilities:			
Decrease (Increase) in trade accounts and notes and other receivables	(1,741 )	1,752	(1,752 )
Decrease (Increase) in inventories	669	(1,985 )	(381 )
Decrease (Increase) in other assets	(47 )	46	183
(Decrease) Increase in trade accounts and notes payable	426	(153 )	518
(Decrease) Increase in accrued expenses, other current liabilities	(998 )	143	1,250
Net increase (decrease) in operating assets and liabilities	(1,691 )	(197 )	(180 )
Net cash generated by (used in) operating activities	(3,059 )	1,209	1,213
Cash flows from investing activities:			
Additions to capitalized assets produced by the Company	(988 )	(853 )	(470 )
Net proceeds from sale of leased back assets	85	-	95
Acquisitions of property and equipment	(631 )	(321 )	(160 )
Acquisitions of intangible assets	(453 )	(151 )	(20 )
Proceeds from sale of short term investments	-	1,000	-
Net proceeds from sale of assets	-	-	26
Increase in deposits and guarantees	(45 )	(59 )	(12 )
Net cash generated by (used in) investing activities	(2,032 )	(384 )	(541 )
Cash flow from financing activities:			
Proceeds from capital increase	548	6,200	1,091
Proceeds from stock-option exercise	115	-	128
Proceeds from long term borrowings, net of financing costs	1,638	3,168	687
Repayment of long term borrowings	(243 )	(305 )	(241 )
Repayment of obligations under capital leases	(297 )	(277 )	(241 )
Increase (decrease) in bank overdrafts and short-term borrowings	1,110	(1,182 )	688

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Net cash generated by (used in) financing activities	2,871	7,604	2,112
Net effect of exchange rate changes on cash and cash equivalents	235	(19 )	(347 )
Net increase (decrease) in cash and cash equivalents	(1,985 )	8,410	2,436
Cash and cash equivalents at beginning of year	21,989	13,578	11,142
Cash and cash equivalents at end of year	20,004	21,989	13,578

The accompanying notes are an integral part of the consolidated financial statements.

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**EDAP TMS S.A. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(in thousands of euros unless otherwise noted, except per share data)**

**1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*1-1 Nature of operations*

EDAP TMS S.A. and its subsidiaries (“the Company”) are engaged in the development, production, marketing, distribution and maintenance of a portfolio of minimally-invasive medical devices for the treatment of urological diseases. The Company currently produces innovative robotic devices for treating stones of the urinary tract and localized prostate cancer. We also derive revenues from the distribution of urodynamics products and urology lasers. Net sales consist primarily of direct sales to hospitals and clinics in France and Europe, export sales to third-party distributors and agents, and export sales through subsidiaries based in Germany, Italy, the United States and Asia.

Moreover, the Company develops a novel HIFU treatment for liver cancer in cooperation with its long-term academic partner INSERM and leading cancer centers (the “HECAM” project).

The Company purchases the majority of the components used in its products from a number of suppliers but for some components, relies on a single source. Delay would be caused if the supply of these components or other components was interrupted and these delays could be extended in certain situations where a component substitution may require regulatory approval. Failure to obtain adequate supplies of these components in a timely manner could have a material adverse effect on the Company’s business, financial position and results of operation.

*1-2 Basis of preparation*

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

Certain prior year comparative information in the financial statements has been revised to conform to the current year presentation. The revision relates to the reclassification of conditional advance cash flows from operating activities (“net increase (decrease) in operating assets and liabilities”) to financing activities (“proceeds from long term borrowings, net of financing cost” and “repayment of long-term borrowings”). This revision results in (1) an increase in net cash

generated by operating activities and a decrease in net cash generated by financing activities of € 90k in 2016 and (2) a decrease in net cash generated by operating activities and an increase in net cash generated by financing activities of € 125k in 2015. The Company has determined that this revision, is immaterial to the previously reported financial statements and does not impact any of the key financial indicators.

### ***1-3 Management estimates***

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (“U.S. GAAP”) requires management to make estimates and assumptions, such as business plans, stock price volatility, duration of standard warranty per market, price of maintenance contract used to determine the amount of revenue to be deferred and life duration of our range of products. These estimates and assumptions 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 reporting period. Actual results could differ from those estimates.

### ***1-4 Consolidation***

The accompanying consolidated financial statements include the accounts of EDAP TMS S.A. and all its domestic and foreign owned subsidiaries, which include EDAP TMS France SAS, EDAP Technomed Inc., Edap Technomed Sdn Bhd, Edap Technomed Italia S.R.L, EDAP Technomed Co. Ltd. and EDAP TMS Gmbh. Edap Technomed Sdn Bhd was incorporated in early 1997. Edap Technomed Co. Ltd. was created in late 1996. EDAP TMS Gmbh was created in July 2006. EDAP SA, a subsidiary incorporating HIFU activities merged all of its activity into EDAP TMS France SAS in 2008. All intercompany transactions and balances are eliminated in consolidation.

### ***1-5 Revenue recognition***

Sales of goods:

For medical device sales with no significant remaining vendor obligation, payments contingent upon customer financing, acceptance criteria that can be subjectively interpreted by the customer, or tied to the use of the device, revenue is recognized when evidence of an arrangement exists, title to the device passes (depending on terms, either upon shipment or delivery), and the customer has the intent and ability to pay in accordance with contract payment terms that are fixed or determinable. For sales in which payment is contingent upon customer financing, acceptance criteria can be subjectively interpreted by the customer, or payment depends on use of the device, revenue is recognized when the contingency is resolved. The Company provides training and provides a minimum of one-year warranty upon installation. The Company accrues for the warranty costs at the time of sale. Revenues related to disposables are recognized when goods are delivered.



Our device sale arrangements may contain multiple elements, including device(s), consumables and service. We generally deliver all the devices within days of entering into the system sale arrangement, and consumables and service over the period agreed in the arrangement. Each of these elements is a separate unit of accounting. Devices, consumables and service are also sold on a stand-alone basis.

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## **EDAP TMS S.A. AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(in thousands of euros unless otherwise noted, except per share data)**

For multiple-element arrangements, revenue is allocated to each unit of accounting based on their relative selling prices. Relative selling prices are based first on vendor specific objective evidence of fair value (“VSOE”), then on third-party evidence of selling price (“TPE”) when VSOE does not exist, and then on management's best estimate of the selling price (“ESP”) when VSOE and TPE do not exist.

Consumables revenues are deferred until delivery and services revenues are deferred until execution.

Sales of RPPs and leases:

Revenues related to the sale of HIFU treatments invoiced on a “Revenue-Per-Procedure” (“RPP”) basis are recognized when the treatment procedure has been completed. Revenues from devices leased to customers under operating leases are recognized on a straight-line basis.

Sales of spare parts and services:

Revenues related to spare parts are recognized when goods are delivered. Maintenance contracts rarely exceed one year and are recognized on a straight line basis. Billings or cash receipts in advance of services due under maintenance contracts are recorded as deferred revenue.

#### ***1-6 Costs of sales***

Costs of sales include all direct product costs, costs related to shipping, handling, duties and importation fees, as well as certain indirect costs such as service and supply chain departments expenses. Indirect costs are allocated by type of sales (goods, RPP and leases, spare parts and services) using an allocation method determined by management by type of costs and segment activities and reviewed on an annual basis.

#### ***1-7 Shipping and handling costs***

The Company recognizes revenue from the shipping and handling of its products as a component of revenue. Shipping and handling costs are recorded as a component of cost of sales.

### ***1-8 Cash equivalents and short term investments***

Cash equivalents are cash investments which are highly liquid and have initial maturities of 90 days or less.

Cash investments with a maturity higher than 90 days are considered as short-term investments.

### ***1-9 Accounts Receivables***

Accounts receivables are stated at cost net of allowances for doubtful accounts. The Company makes judgments as to its ability to collect outstanding receivables and provides allowances for the portion of receivables when collection becomes doubtful. Provision is made based upon a specific review of all significant outstanding invoices. These estimates are based on our bad debt write-off experience, analysis of credit information, specific identification of probable bad debt based on our collection efforts, aging of accounts receivables and other known factors. Accounts receivables also include receivables factored for which the Company is supporting the collection risk.

### ***1-10 Inventories***

Inventories are valued at the lower of cost (manufacturing cost, which is principally comprised of components and labor costs for our own manufactured products, or purchase price for urology products we distribute), or on net realizable value. Cost is determined on a first-in, first-out basis for components and spare parts and by specific identification for finished goods (medical devices). The Company establishes reserves for inventory estimated to be obsolete, unmarketable or slow moving, first based on a detailed comparison between quantity in inventory and historical consumption and then based on case-by-case analysis of the difference between the cost of inventory and the related estimated market value.

**EDAP TMS S.A. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(in thousands of euros unless otherwise noted, except per share data)*****1-11 Property and equipment***

Property and equipment is stated at historical cost. Depreciation and amortization of property and equipment are calculated using the straight-line method over the estimated useful life of the related assets, as follows:

Leasehold improvements (in years or lease term if shorter)	10
Equipment (in years)	3- 10
Furniture, fixtures, fittings and other (in years)	2- 10

Equipment includes industrial equipment and research equipment that has alternative future uses. Equipment also includes devices that are manufactured by the Company and leased to customers through operating leases related to Revenue-Per-Procedure transactions and devices subject to sale and leaseback transactions. This equipment is depreciated over a period of seven years.

***1-12 Long-lived assets***

The Company reviews the carrying value of its long-lived assets, including fixed assets and intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. Recoverability of long-lived assets is assessed by a comparison of the carrying amount of the assets (or the Group of assets, including the asset in question, that represents the lowest level of separately-identifiable cash flows) to the total estimated undiscounted cash flows expected to be generated by the asset or group of assets. If the future net undiscounted cash flows is less than the carrying amount of the asset or group of assets, the asset or group of assets is considered impaired and an expense is recognized equal to the amount required to reduce the carrying amount of the asset or group of assets to its then fair value. Fair value is determined by discounting the cash flows expected to be generated by the assets, when the quoted market prices are not available for the long-lived assets. Estimated future cash flows are based on assumptions and are subject to risk and uncertainty.

***1-13 Goodwill and intangible assets***

Goodwill represents the excess of purchase price over the fair value of identifiable net assets of businesses acquired. Goodwill is not amortized but instead tested annually for impairment or more frequently when events or change in circumstances indicate that the assets might be impaired by comparing the carrying value to the fair value of the reporting units to which it is assigned. Under ASC 350, "Goodwill and other intangible assets", the impairment test is performed in two steps. The first step compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit is less than its carrying amount, a second step is performed to measure the amount of impairment loss. The second step allocates the fair value of the reporting unit to the Company's tangible and intangible assets and liabilities. This derives an implied fair value for the reporting unit's goodwill. If the carrying amount of the reporting units' goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized equal to that excess. For the purpose of any impairment test, the Company relies upon projections of future undiscounted cash flows and takes into account assumptions regarding the evolution of the market and its ability to successfully develop and commercialize its products.

Changes in market conditions could have a major impact on the valuation of these assets and could result in additional impairment losses.

Intangible assets consist primarily of purchased patents relating to lithotripters, purchased licenses, a purchased trade name and a purchased trademark. The basis for valuation of these assets is their historical acquisition cost. Amortization of intangible assets is calculated by the straight-line method over the shorter of the contractual or estimated useful life of the assets, as follows:

Patents (in years)	5
SAP Licenses (in years)	10
Other licenses (in years)	5
Trade name and trademark (in years)	7

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**EDAP TMS S.A. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(in thousands of euros unless otherwise noted, except per share data)**

***1-14 Treasury Stocks***

Treasury stock purchases are accounted for at cost. The sale of treasury stocks is accounted for using the first in first out method. Gains on the sale or retirement of treasury stocks are accounted for as additional paid-in capital whereas losses on the sale or retirement of treasury stock are recorded as additional paid-in capital to the extent that previous net gains from sale or retirement of treasury stocks are included therein; otherwise the losses shall be recorded to accumulated benefit (deficit) account. Gains or losses from the sale or retirement of treasury stock do not affect reported results of operations. Treasury stocks held by a Company cannot exceed 10% of the total number of shares issued.

***1-15 Warranty expenses***

The Company provides customers with a warranty for each product sold and accrues warranty expense at time of sale based upon historical claims experience. Standard warranty period may vary from 1 year to 2 years depending on the market. Actual warranty costs incurred are charged against the accrual when paid and are classified in cost of sales in the statement of income. Warranty expense amounted to €316 thousand, €319 thousand and €354 thousand for the years ended December 31, 2017, 2016 and 2015, respectively.

***1-16 Income taxes***

The Company accounts for income taxes in accordance with ASC 740, “Accounting for Income Taxes” Under ASC 740, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured by applying enacted tax rates and laws to taxable years in which such differences are expected to reverse. A valuation allowance is established if, based on the weight of available evidence, it is more likely than not that some portion, or all of the deferred tax assets, will not be realized. In accordance with ASC740, no provision has been made for income or withholding taxes on undistributed earnings of foreign subsidiaries, such undistributed earnings being permanently reinvested.

As of January 1, 2007, the Company adopted FIN48 (now ASC 740) “Accounting for uncertainty in income tax”. Under ASC740, the measurement of a tax position that meets the more-likely-than-not recognition threshold must take into consideration the amounts and probabilities of the outcomes that could be realized upon ultimate settlement using the

facts, circumstances and information available at the reporting date.

***1-17 Research and development costs***

Research and development costs are recorded as an expense in the period in which they are incurred.

The French government provides tax credits to companies for innovative research and development. This tax credit is calculated based on a percentage of eligible research and development costs and it can be refundable in cash and is not contingent on future taxable income. As such, the Company considers the research tax credits as a grant, offsetting operating expenses.

The research tax credit amounted to €504 thousand, €511 thousand and €448 thousand for the years ended December 31 2017, 2016 and 2015, respectively.

***1-18 Advertising costs***

Advertising costs are recorded as an expense in the period in which they are incurred. Advertising costs amounted to €672 thousand, €744 thousand and €461 thousand for the years ended December 31, 2017, 2016 and 2015, respectively.

**EDAP TMS S.A. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(in thousands of euros unless otherwise noted, except per share data)**

***1-19 Foreign currency translation and transactions***

*Translation of the financial statements of consolidated companies*

The reporting currency of EDAP TMS S.A. for all years presented is the euro (€). The functional currency of each subsidiary is its local currency. In accordance with ASC 830, all accounts in the financial statements are translated into euro from the functional currency at exchange rate as follows:

- assets and liabilities are translated at year-end exchange rates;
- shareholders' equity is translated at historical exchange rates (as of the date of contribution);
- statement of income items are translated at average exchange rates for the year; and
- translation gains and losses are recorded in a separate component of shareholders' equity.

*Foreign currencies transactions*

Transactions involving foreign currencies are translated into the functional currency using the exchange rate prevailing at the time of the transactions. Receivables and payables denominated in foreign currencies are translated at year-end exchange rates. The resulting unrealized exchange gains and losses are carried to the statement of income.

*Presentation in the Income Statement*

Aggregate foreign currency transactions gains and losses are disclosed in a single caption in the income statement under section "Foreign currency exchange gain (loss), net".

***1-20 Earnings per share***



Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of shares of common stock outstanding for the period. Diluted earnings per share reflects potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. The dilutive effects of the Company's common stock options and warrants is determined using the treasury stock method to measure the number of shares that are assumed to have been repurchased using the average market price during the period, which is converted from U.S. dollars at the average exchange rate for the period.

### ***1-21 Derivative instruments***

ASC 815 requires the Company to recognize all of its derivative instruments as either assets or liabilities in the statement of financial position at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, the Company must classify the hedging instrument, based upon the exposure being hedged, as fair value hedge, cash flow hedge or a hedge of a net investment in a foreign operation.

Gains and losses from derivative instruments are recorded in the income statement.

### ***1-22 Employee stock option plans***

At December 31, 2017, the Company had four stock-based employee compensation plans. The Company adopted ASC 718, "Share-Based Payment", effective January 1, 2006. ASC 718 requires the recognition of fair value of stock compensation as an expense in the calculation of net income (loss).

On May 22, 2007, the shareholders of EDAP TMS S.A. authorized the Board of Directors to grant up to 600,000 options to subscribe to 600,000 new Shares at a fixed price to be set by the Board of Directors.

Conforming to this stock option plan, on June 25, 2010, the Board of Directors granted the remaining 95,912 options to subscribe to new Shares to certain employees of EDAP TMS. The exercise price was fixed at €1.88 per share. Options were to begin vesting one year after the date of grant and will be fully vested as of June 25, 2014 (i.e., four years after the date of grant). Shares acquired pursuant to the options cannot be sold prior to four years from the date of grant. The options expire on June 25, 2020 (i.e., ten years after the date of grant) or when employment with the Company ceases, whichever occurs earlier. At June 25, 2010 the total fair value of the options granted under this plan was €143 thousand. This non-cash financial charge will be recognized in the Company's operating expenses over a period of 48 months (using the graded vesting method). There was no impact on 2015, 2016 and 2017 operating expenses, in accordance with ASC 718. . Under this plan, 50,000 options are still in force on December 31, 2017.

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**EDAP TMS S.A. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(in thousands of euros unless otherwise noted, except per share data)**

On June 24, 2010, the shareholders authorized the Board of Directors to grant up to 229,100 options to purchase pre-existing Shares at a fixed price to be set by the Board of Directors. All of the Shares that may be purchased through the exercise of stock options are currently held as treasury stock. Conforming to this stock option plan, on June 25, 2010, the Board of Directors granted 229,100 options to purchase existing Shares to certain employees of EDAP TMS. The exercise price was fixed at €2.38 per share. Options were to begin vesting one year after the date of grant and will be fully vested as of June 25, 2014 (i.e., four years after the date of grant). Shares acquired pursuant to the options cannot be sold prior to four years from the date of grant. The options expire on June 25, 2020 (i.e., ten years after the date of grant) or when employment with the Company ceases, whichever occurs earlier. At June 24, 2010 the total fair value of the options granted under this plan was €328 thousand. This non-cash financial charge will be recognized in the Company's operating expenses over a period of 48 months (using the graded vesting method). There was no impact on 2015, 2016 and 2017 operating expenses, in accordance with ASC 718. Under this plan, 120,100 options are still in force on December 31, 2017.

On December 19, 2012, the shareholders authorized the Board of Directors to grant up to 500,000 options to subscribe to 500,000 new shares at a fixed price to be set by the Board of Directors. Conforming to this stock option plan, the Board of Directors granted 500,000 options to subscribe Shares to certain employees of EDAP TMS on January 18, 2013. The exercise price was fixed at €1.91 per share. Options were to begin vesting one year after the date of grant and all options will be fully vested as of January 18, 2017 (i.e., four years after the date of grant). Shares acquired pursuant to the options cannot be sold prior to four years from the date of grant. The options expire on January 18, 2023 (i.e., ten years after the date of grant) or when employment with the Company ceases, whichever occurs earlier. At December 31, 2013 the total fair value of the options granted under this plan was €660 thousand. This non-cash financial charge has been recognized in the Company's operating expenses over a period of 48 months (using the graded vesting method). The impact on operating income, in accordance with ASC 718, was €66 thousand, €29 thousand and €2 thousand, in 2015, 2016 and 2017, respectively. Under this plan, 297,500 options are still in force on December 31, 2017.

On February 18, 2016, the shareholders authorized the Board of Directors to grant up to 1,000,000 options to subscribe to 1,000,000 new shares at a fixed price to be set by the Board of Directors. Conforming to this stock option plan, the Board of Directors granted 575,000 options to subscribe Shares to certain employees of EDAP TMS on April 26, 2016. The exercise price was fixed at €3.22 per share. Options were to begin vesting one year after the date of grant and all options will be fully vested as of April 26, 2020 (i.e., four years after the date of grant). Shares acquired pursuant to the options cannot be sold prior to four years from the date of grant. The options expire on April 26, 2026 (i.e., ten years after the date of grant) or when employment with the Company ceases, whichever occurs earlier.

At December 31, 2016 the total fair value of the options granted under this plan was €960 thousand. This non-cash financial charge has been recognized in the Company's operating expenses over a period of 48 months (using the graded vesting method). Conforming to this February 18, 2016 stock option plan, the Board of Directors granted

260,000 options to subscribe Shares to certain employees of EDAP TMS on April 25, 2017. The exercise price was fixed at €2.39 per share. Options were to begin vesting one year after the date of grant and all options will be fully vested as of April 25, 2021 (i.e., four years after the date of grant). Shares acquired pursuant to the options cannot be sold prior to four years from the date of grant. The options expire on April 25, 2027 (i.e., ten years after the date of grant) or when employment with the Company ceases, whichever occurs earlier.

At December 31, 2017, the total fair value of the options granted on April 25, 2017 under this plan was €335 thousand. This non-cash financial charge has been recognized in the Company's operating expenses over a period of 48 months (using the graded vesting method).

The impact on operating income, in accordance with ASC 718, was €331 thousand and €282 thousand, in 2016 and 2017 respectively. Under this plan, 740,000 options are still in force on December 31, 2017.

**EDAP TMS S.A. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(in thousands of euros unless otherwise noted, except per share data)**

The fair value of each stock option granted during the year is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Year Ended December 31,			
	2017	2016	2015 <sup>(1)</sup>	
Weighted-average expected life (years)	6.25	6.25		—
Expected volatility rates <sup>(2)</sup>	57.4 %	60.60 %		—
Expected dividend yield	0 %	0 %		—
Risk-free interest rate	0.02 %	0.01 %		—
Weighted-average exercise price (€)	2.39	3.22		—
Weighted-average fair value of options granted during the year (€)	1.29	1.67		—

(1) The Company did not make any grants during the year ended December 31, 2015.

(2) Historical volatility calculated over 10 years.

***1-23 Warrants***

On March 28, 2012, pursuant to a securities purchase agreement dated March 22, 2012, as amended, the Company issued new ordinary shares in the form of ADSs to selected institutional investors in a registered direct placement (the “March 2012 Placement”) with warrants attached (the “March 2012 Investor Warrants”). The Company also issued warrants to the placement agent, Rodman & Renshaw LLC (the “March 2012 Placement Agent Warrants” and together with the March 2012 Investor Warrants, the “March 2012 Warrants”). The Company has accounted for the March 2012 Warrants as a liability and reflected this analysis in the Company’s financial statements filed for the year 2012.

The Company used the Black-Scholes pricing model to value the March 2012 Warrants at inception, with subsequent changes in fair value recorded as a financial expense or income.

On May 28, 2013, pursuant to a securities purchase agreement dated May 20, 2013, as amended, the Company issued 3,000,000 new ordinary shares in the form of ADSs to selected institutional investors in a registered direct placement (the “May 2013 Placement”) with warrants attached (the “May 2013 Investor Warrants”). The Company also issued warrants to the placement agent, H.C. Wainwright & Co., LLC (the “May 2013 Placement Agent Warrants” and

together with the May 2013 Investor Warrants, the “May 2013 Warrants”). As the May 2013 Warrants comprised the same structure and provisions than the March 2012 Warrants, including an exercise price determined in U.S. dollars while the functional currency of the Company is the euro, the Company determined that the May 2013 Warrants should be accounted for as a liability.

The Company used the Black-Scholes pricing model to value the May 2013 Warrants at inception, with subsequent changes in fair value recorded as a financial expense or income.

On April 14, 2016, pursuant to a securities purchase agreement dated April 7, 2016, as amended, the Company issued new ordinary shares in the form of ADSs to selected institutional investors in a registered direct placement (the “April 2016 Placement”) with warrants attached (the “April 2016 Investor Warrants”). As the April 2016 Warrants comprised the same structure and provisions than the March 2012 and May 2013 Warrants, including an exercise price determined in U.S. dollars while the functional currency of the Company is the Euro, the Company determined that the April 2016 Warrants should be accounted for as a liability.

The Company used the Black-Scholes pricing model to value the April 2016 Warrants at inception, with subsequent changes in fair value recorded as a financial expense or income.

**EDAP TMS S.A. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(in thousands of euros unless otherwise noted, except per share data)**

***1-24 Leases and Sales and leaseback transactions***

In accordance with ASC 840, Accounting for Leases, the Company classifies all leases at the inception date as either a capital lease or an operating lease. A lease is a capital lease if it meets any one of the following criteria; otherwise, it is an operating lease:

- Ownership is transferred to the lessee by the end of the lease term;
  - The lease contains a bargain purchase option;
  - The lease term is at least 75% of the property's estimated remaining economic life;
- The present value of the minimum lease payments at the beginning of the lease term is 90% or more of the fair value of the leased property to the lessor at the inception date.

For sales type leases, the following two additional criteria are applied:

- Collectability of the minimum lease payment is reasonably predictable;
- No important uncertainties surround the amount of un-reimbursable costs yet to be incurred by the lessor under the lease.

The Company enters into sale and leaseback transactions from time to time. In accordance with ASC 840, any profit or loss on the sale is deferred and amortized prospectively over the term of the lease, in proportion to the leased asset if a capital lease, or in proportion to the related gross rental charged to expense over the lease term, if an operating lease.

***1-25 New accounting pronouncements***

***New Accounting Pronouncements Recently Adopted***

In November 2015, the FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes* (ASU 2015-17), which requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. ASU 2015-17 is effective for the Company in its first quarter of fiscal 2017. The Company adopted the ASU 2015-17 retrospectively as of December 31, 2017. Deferred tax assets have been reclassified from current assets to non-current assets for the period ended as of December 31, 2016.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. For public business entities, the amendments in ASU 2016-09 are effective for annual periods beginning after 15 December 2016, and interim periods within those annual periods. No impact has been identified on Financial Statements upon adoption of ASU 2016-09.

*New Accounting Pronouncements Not Yet Adopted*

In July 2015, the FASB issued ASU 2015-14 Revenue from Contracts with Customers: Deferral of the Effective Date (ASU 2015-14) which deferred the effective date for ASU No. 2014-09, Revenue from Contracts with Customers (ASU 2014-09), by one year. ASU 2014-09 will supersede the revenue recognition requirements in Revenue Recognition (Topic 605) and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is now effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, which for the Company is January 1, 2018. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The new standard can be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the change recognized at the date of the initial application in retained earnings. The Company reviewed the accounting pronouncement with respect to its current accounting principles and did not identify any impact from implementation. The impact to the Company of adopting the new revenue standard primarily relates to additional and expanded disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases (ASU 2016-02), which supersedes ASC 840 "Leases" and creates a new topic, ASC 842 "Leases." This update requires lessees to recognize on their balance sheet a lease liability and a lease asset for all leases, including operating leases, with a term greater than 12 months. The update also expands the required quantitative and qualitative disclosures surrounding leases. This update is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years, with earlier application permitted. This update will be applied using a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company is expecting that the impact of this update on its consolidated statements will mainly consist of leases for facilities situated in France, Japan and in the U.S. as described in Note 12.2. The Company will adopt the new standard in fiscal 2019. The Company is currently evaluating the effect of this standard on its consolidated financial statements and related disclosures.



**EDAP TMS S.A. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(in thousands of euros unless otherwise noted, except per share data)**

In March 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) No. 2017-07, “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Costs”. The standard requires the service component of pension and other postretirement benefit expense to be presented in the same statement of income lines as other employee compensation costs, however, the other components will be presented outside of operating income. In addition, only the service cost component will be eligible for capitalization in assets. The standard is effective starting in 2018, with early adoption permitted. Retrospective application is required for the guidance on the statement of income presentation. Prospective application is required for the guidance on the cost capitalization in assets. The Company does not believe this standard will materially impact our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, “Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment.” This update eliminates step 2 from the goodwill impairment test, and requires the goodwill impairment test to be performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This guidance is effective for the Company in the first quarter of 2020. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company will assess the timing of adoption and impact of this guidance to future impairment considerations.

In August 2016, the FASB issued ASU 2016-15, “*Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*” ASU 2016-15 identifies how certain cash receipts and cash payments are presented and classified in the Statement of Cash Flows under Topic 230. ASU 2016-15 is effective for the Company for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. ASU 2016-15 should be applied retrospectively and early adoption is permitted, including adoption in an interim period. The Company does not believe this standard will materially impact our consolidated financial statements.

**2—CASH EQUIVALENTS AND SHORT TERM INVESTMENTS**

Cash and cash equivalents and short-term investments are comprised of the following:

	December 31,	
	2017	2016
Total cash and cash equivalents	20,004	21,989

Short term investments	-	-
Total cash and cash equivalents, and short term investments	20,004	21,989

Short-term investments are comprised of money market funds. The aggregate fair value of the short-term investments is consistent with their book value. As of December 31, 2017, the company does not record any short term investments.

### 3—TRADE ACCOUNTS AND NOTES RECEIVABLE, NET

Trade accounts and notes receivable consist of the following:

	December 31,	
	2017	2016
Trade accounts receivable	12,202	10,286
Notes receivable	181	116
Less: allowance for doubtful accounts	(1,029 )	(960 )
Total	11,354	9,442
Less current portion	(11,277)	(9,143 )
Total long-term portion	77	299

Notes receivable usually represent commercial bills of exchange (drafts) with initial maturities of 90 days or less.

Bad debt expenses amount to a cost of €107 thousand, an income of €18 thousand and a cost of €17 thousand, respectively for the years ended December 31, 2017, 2016 and 2015.

**EDAP TMS S.A. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(in thousands of euros unless otherwise noted, except per share data)**

Long term portion consists of sales type leases of medical devices.

Future minimum payments to be received over the five coming years are as follows:

	Sales type leases
2018	217
2019	45
2020	21
2021	10
2022	-
Total minimum payments	293

**4—OTHER RECEIVABLES**

Other receivables consist of the following:

	December 31,	
	2017	2016
Research and development tax credit receivable from the French State	560	476
Value-added taxes receivable	216	209
Other receivables from Government and public authorities	238	138
Others	52	60
Total	1,066	884

**5—INVENTORIES**

Inventories consist of the following:

	December 31,	
	2017	2016
Components, spare parts	3,909	4,683
Work-in-progress	729	809
Finished goods – own manufactured products	1,167	2,214
Finished goods – distribution products	1,656	1,128
Total gross inventories	7,461	8,834
Less: allowance for slow-moving inventory and net realizable value	(722 )	(804 )
Total	6,739	8,030

The provision for slow moving inventory relates to components and spare parts. The allowance for slow moving inventory (excluding exchange rate impact), the changes in which are classified within cost of sales, amounted to an income of €41 thousand for the year ended December 31, 2017, a cost of €55 thousand for the year ended December 31, 2016 and an income of €8 thousand for the year ended December 31, 2015, respectively.

**EDAP TMS S.A. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(in thousands of euros unless otherwise noted, except per share data)****6—OTHER ASSETS**

Other assets consist of the following:

	December 31,	
	2017	2016
Prepaid expenses, current portion	489	457
Total	489	457

Prepaid expenses mainly consist of rental and future congresses expenses.

**7—PROPERTY AND EQUIPMENT, NET**

Property and equipment consist of the following:

	December 31,	
	2017	2016
Equipment	7,588	7,002
Furniture, fixture, and fittings and other	3,766	3,500
Total gross value	11,354	10,502
Less: accumulated depreciation and amortization	(7,672 )	(7,732 )
Total	3,682	2,770

Depreciation expense related to property and equipment amounted to €1,153 thousand, €843 thousand and €683 thousand for the years ended December 31, 2017, 2016 and 2015, respectively.

*Assets under capital leases:*

Capitalized costs on equipment held under capital leases of €2,081 thousand and €2,220 thousand are included in property and equipment at December 31, 2017 and 2016, respectively. Accumulated amortization of these assets under capital leases was €2,018 thousand and €2,129 thousand, at December 31, 2017 and 2016, respectively.

Capitalized costs on vehicles and office and IT equipment held under capital leases of €981 thousand and €743 thousand are included in property and equipment at December 31, 2017 and 2016, respectively. Accumulated amortization of these assets under capital leases was €528 thousand and €462 thousand, at December 31, 2017 and 2016, respectively.

Amortization expense on assets held under capital leases is included in total amortization expense and amounted to €218 thousand, €164 thousand and €207 thousand, for the years ended December 31, 2017, 2016 and 2015, respectively.

*Assets leased to customers:*

Capitalized costs on equipment leased to customers of €474 thousand and €138 thousand are included in property and equipment at December 31, 2017 and 2016, respectively. Accumulated amortization of these assets leased to third parties was €27 thousand and €2 thousand, at December 31, 2017 and 2016, respectively.

Amortization expense on equipment leased to customer is included in total amortization expense and amounted to €24 thousand, €2 thousand and €0 thousand, for the years ended December 31, 2017, 2016 and 2015, respectively.

## **8—GOODWILL AND INTANGIBLE ASSETS**

As discussed in Note 1-13, the Company adopted ASC 350, “Goodwill and Other Intangible Assets”, on January 1, 2002. ASC 350 requires that goodwill and other intangible assets that have indefinite lives not be amortized but instead be tested at least annually for impairment, or more frequently when events or change in circumstances indicate that the asset might be impaired, by comparing the carrying value to the fair value of the reporting unit to which they are assigned. The Company considers its ASC 280 operating segment — High Intensity Focused Ultrasound (HIFU) and Urology Devices and Services (UDS) — to be its reporting units for purposes of testing for impairment. Goodwill amounts to €1,767 thousand for the UDS division and to €645 thousand for the HIFU division, at December 31, 2017.

**EDAP TMS S.A. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(in thousands of euros unless otherwise noted, except per share data)**

The Company completed the required annual impairment test in the fourth quarter of 2017. To determine the fair value of the Company's reporting units, the Company used the discounted cash flow approach for each of the two reportable units. The main assumptions used are the following: (i) a five-year business plan approved by management, (ii) a discount rate of 15% for HIFU, 10% for UDS, (iii) a residual value specific to each segment. In both cases, the fair value of the reporting unit was in excess of the reporting unit's book value, which resulted in no goodwill impairment.

A one percentage point increase in the HIFU discount rate assumed in the impairment testing would not lead the Company to record an impairment charge. Similarly, a one percentage point increase in the UDS discount rate assumed in the impairment testing would not lead the Company to record an impairment charge. The fair value of reporting units exceeds their carrying value by 84% for UDS and 35% for HIFU.

Intangible assets consist of the following:

	December 31,	
	2017	2016
Licenses	993	613
Trade name and trademark	393	430
Patents	412	412
Organization costs	320	363
Total gross value	2,118	1,818
Accumulated amortization for licenses	(477 )	(475 )
Accumulated amortization for trade name and trademark	(383 )	(419 )
Accumulated amortization for patents	(411 )	(412 )
Accumulated amortization for organization costs	(320 )	(363 )
Less: Total accumulated amortization	(1,591)	(1,669)
Total	527	149

Licenses increase is mainly due to SAP program implementation. Amortization expenses related to intangible assets amounted to €74 thousand, €42 thousand and €6 thousand, for the years ended December 31, 2017, 2016 and 2015, respectively.

For the five coming years, the annual estimated amortization expense will consist of the following:

	December 31, 2017
2018	79
2019	69
2020	49
2021	48
2022	47
Total	292

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**EDAP TMS S.A. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(in thousands of euros unless otherwise noted, except per share data)****9—TRADE ACCOUNTS AND NOTES PAYABLE**

Trade accounts and notes payable consist of the following:

	December 31,	
	2017	2016
Trade accounts payable	6,220	5,562
Notes payable	90	398
Total	6,310	5,960

Trade accounts payable usually represent invoices with a due date of 90 days or less and invoices to be received.

Notes payable represent commercial bills of exchange (drafts) with initial maturities of 90 days or less.

**10—DEFERRED REVENUES**

Deferred revenues consist of the following:

	December 31,	
	2017	2016
Deferred revenues on maintenance contracts	2,173	1,487
Deferred revenue on RPP	405	350
Deferred revenue on sale of devices	218	173
Deferred research and development grants	61	201
Total	2,857	2,211
Less long term portion	(562 )	(333 )
Current portion	2,295	1,878

**11—OTHER ACCRUED LIABILITIES**

Other accrued liabilities consist of the following:

	December 31,	
	2017	2016
Retirement indemnities	2,076	2,004
Provision for warranty costs	449	548
Accruals for payroll and associated taxes	611	1,311
Conditional government advances	1,039	267
Value added tax payable	125	182
Advances received from customers	108	115
Provision for Asset Retirement Obligation (Japan)	100	80
Provision for employee termination indemnities (Italy)	349	320
Others	360	307
Total	5,217	5,134
Less non-current portion	(3,681)	(2,818)
Current portion	1,536	2,316

We receive government conditional advances and grants for advanced research programs we conduct alone or in connection with other unrelated entities (mainly HECAM project) which are provided for and managed by French state-owned entities, and specifically “Banque Publique d’Investissement” (“Bpifrance”). We, alone or with other unrelated entities, enter into multi-year contractual arrangements for the financing of specific research programs. These arrangements consist of both grants and conditional advances which are paid in fixed instalments at predetermined contractual dates, subject generally to milestones based on progress of the research and documentation. Grants received are non-refundable. Conditional advances received are subject to a fixed 1.44% interest rate. If and when the research program is considered a commercial success, contractual repayment is required. In addition, if we decide to stop the research program, the conditional advance may be repayable. Grants that relate to expenses we incur for this research program are recognized in the line item “Research and Development Expenses” in the period in which the expenses subject to the grants have been incurred (see Note 19).

**EDAP TMS S.A. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(in thousands of euros unless otherwise noted, except per share data)**

Conditional advances as of December 31, 2017, mature as follows, should Research Program advances as per contract:

2018	-
2019	-
2020	-
2021	-
2022 and thereafter	1,039
Total	1,039

Changes in the provision for warranty costs are as follows:

	December 31,	
	2017	2016
Beginning of year	548	576
Amount used during the year	(415 )	(347 )
New warranty expenses	316	319
End of year	449	548
Less current portion	(265 )	(346 )
Long term portion	184	201

**EDAP TMS S.A. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(in thousands of euros unless otherwise noted, except per share data)****12—LEASE OBLIGATIONS***12-1 Capital leases*

The Company leases certain of its equipment under capital leases. At December 31, 2017, this equipment consists of medical devices for a liability amount of €58 thousand and vehicles and other IT equipment for a liability amount of €726 thousand. Future minimum lease payments under capital leases for the years ending December 31, 2017 are as follows:

	December 31,	
2018	269	
2019	215	
2020	177	
2021	105	
2022 and thereafter	47	
Total minimum lease payments	813	
Less: amount representing interest	(30	)
Present value of minimum lease payments	783	
Less: current portion	(255	)
Long-term portion	528	

Interest paid under capital lease obligations was €13 thousand, €18 thousand and €24 thousand, for the years ended December 31, 2017, 2016 and 2015, respectively.

*12-2 Operating leases*

As of December 31, 2017, operating leases having initial or remaining non-cancelable lease terms greater than one year consist of one lease for the facilities of TMS S.A. in Vaulx-en-Velin, France, several leases for facilities in Japan and one lease for the facilities in United States. The French lease contract signed on July 1, 2015 has a lease term of ten years expiring on June 30, 2025, including nine firm years.

Future minimum lease payments for these operating leases consist of the following amounts:

	France	Japan	USA
2018	321	33	47
2019	321	-	48
2020	321	-	50
2021	321	-	4
2022 and thereafter	1,115	-	-
Total	2,399	33	149

Total rent expenses under operating leases amounted to €904 thousand, €841 thousand and €772 thousand, for the years ended December 31, 2017, 2016 and 2015, respectively. These total rent expenses include the above-mentioned operating leases, but also lease expenses related to subsidiaries office rentals, office equipment and car rentals.

**EDAP TMS S.A. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(in thousands of euros unless otherwise noted, except per share data)****13—SHORT-TERM BORROWINGS**

As of December 31, 2017, short-term borrowings consist mainly of €2,718 thousand of account receivables factored and for which the Company is supporting the collection risk. As of December 31, 2016, short-term borrowings consist mainly of €1,629 thousand of account receivables factored and for which the Company is supporting the collection risk.

**14—LONG TERM DEBT AND FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE*****14-1 Long-term debt:***

	December 31,	
	2017	2016
France term loan	700	-
Japanese term loan (YEN)	40	119
Germany term loan	399	353
Italy term loan	78	128
Total long term debt	1,217	600
Less current portion	(383 )	(215)
Total long-term portion	834	384

As of December 31, 2017 and 2016, long-term debt in Japan consists of two loans in Yen with the following conditions:

	Initial Amount	Maturation	Fixed Interest rate	Frequency of principal payments
EDAP Technomed Co. Ltd	55,000,000	June 30, 2018	1.80%	Monthly instalment
	10,000,000	June 30, 2018	2.10%	Monthly instalment

As of December 31, 2017 and 2016, long-term debt in Germany consists of two loans in euro with the following conditions:

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	Initial Amount	Maturity	Fixed Interest rate	Frequency of principal payments
EDAP TMS GMBH	450,000	November 30, 2020	2.49%	Monthly instalment

This loan is pledged by an HIFU equipment with a purchase value of €450 thousand.

	Initial Amount	Maturity	Fixed Interest rate	Frequency of principal payments
EDAP TMS GMBH	136,500	December 31, 2022	2.25%	Monthly instalment

This loan is pledged by an UDS equipment with a purchase value of €136 thousand.

As of December 31, 2017 and 2016, long-term debt in Italy consists of a loan in euro for an initial amount of €242 thousand with an interest rate of Euribor 1 month + 4.5% due to mature on June 6, 2019.

As of December 31, 2017, long-term debt in France consists of one loan in Euro to finance the ERP project with the following conditions:

**EDAP TMS S.A. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(in thousands of euros unless otherwise noted, except per share data)**

	Initial Amount	Maturity	Fixed Interest rate	Reimbursement Periodicity
EDAP TMS FRANCE	700,000	October 16, 2021	0.40%	Quarterly instalment

***14-2 Financial instruments carried at fair value:***

	December 31,	
	2017	2016
Investor Warrants	840	3,921
Total	840	3,921
Less current portion	(840)	(640)
Total long-term portion	-	3,281

The Company determined that the March 2012 Warrants to purchase up to 1,575,000 new ordinary shares of the Company (1,406,250 shares underlying the March 2012 Investor Warrants and 168,750 shares underlying the March 2012 Placement Agent Warrants) should be accounted for as a liability.

On May 28, 2013, pursuant to a securities purchase agreement dated May 20, 2013, as amended, the Company issued 3,000,000 new ordinary shares in the form of ADSs to selected institutional investors in a registered direct placement (the "May 2013 Placement"), at a price of \$4.00 per share, with warrants attached (the "May 2013 Investor Warrants"). The May 2013 Investor Warrants allow investors to purchase up to 1,500,000 shares in the form of ADSs at an exercise price of \$4.25. The May 2013 Investor Warrants are exercisable as from November 29, 2013 and expire on November 29, 2018. The Company also issued warrants to the placement agent, H.C. Wainwright & Co., LLC with an exercise price of \$5.00 per share (the "May 2013 Placement Agent Warrants" and together with the May 2013 Investor Warrants, the "May 2013 Warrants"). The May 2013 Placement Agent Warrants are exercisable from November 29, 2013 and expire on May 28, 2016. As the May 2013 Warrants comprised the same structure and provisions than the March 2012 Warrants, including an exercise price determined in U.S. dollars while the functional currency of the Company is the Euro, the Company determined that the May 2013 Warrants should be accounted for as a liability. Total gross proceeds for the May 2013 Placement amounted to \$12 million (€ 9.270 million), out of which \$3.817 million (€2.950 million) allocated to the Investor and Placement Agent Warrants based on their fair value and accounted for as liability, and the remaining \$8.183 million (€6.320 million) allocated to the share capital increase (see note 16-1). The Company used the Black-Scholes pricing model to value the May 2013 Warrants at inception, with changes in fair value recorded as a financial expense or income.



On April 14, 2016, pursuant to a securities purchase agreement dated April 7, 2016, the Company issued 3,283,284 ordinary shares in the form of ADSs to selected institutional investors in a registered direct placement (the “April 2016 Placement”), at a price of \$3.50 per share, with warrants attached (the “April 2016 Investor Warrants”). The April 2016 Investor Warrants allow investors to purchase up to 3,283,284 shares in the form of ADSs at an exercise price of \$4.50. The April 2016 Investor Warrants are exercisable from October 14, 2016 and expire on October 14, 2018. As the April 2016 Warrants comprised the same structure and provisions than the March 2012 and May 2013 Warrants, including an exercise price determined in U.S. dollars while the functional currency of the Company is the Euro, the Company determined that the April 2016 Warrants should be accounted for as a liability. Total gross proceeds for the placement amounted to \$11.5 million (€ 10.2 million), out of which \$3.578 million (€3.168 million) allocated to the Investor Warrants based on their fair value and accounted for as liability, and the remaining \$7.913 million (€7.006 million) allocated to the share capital increase (see Note 16-1). The form of the securities purchase agreement and the form of Investor Warrant were furnished to the SEC on our report on Form 6-K dated April 14, 2016.

**EDAP TMS S.A. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(in thousands of euros unless otherwise noted, except per share data)**

The Company used the Black-Scholes pricing model to value the April 2016 Warrants at inception, with changes in fair value recorded as a financial expense or income.

Fair Value of the March 2012 Investor Warrants:

The valuation model of the Investor Warrants uses the following main assumptions and parameters based on a Black-Scholes model. Note that Warrant's maturity is assumed to be their legal duration as per Warrant contract.

**At inception December 31, December 31,**

	<b>date</b>	<b>2017</b>	<b>2016</b>
Share price at closing date	\$1.95	-	\$3.28
Strike price of warrants	\$2.75	-	\$2.75
Risk free interest rate at 5 years	1.05%	-	0%
Share price volatility	120%	-	60.2%
Dividend rates	0%	-	0%
Unit fair value	\$1.55	-	\$0.69
Total fair value (in thousands)	\$2,173	-	\$675
Total equivalent amount (in thousand €)	€1,629	-	€640

As of December 31, 2017, all of the March 2012 Investors Warrants were exercised or forfeited.

Fair Value of the May 2013 Investor Warrants:

The valuation model of the Investor Warrants uses the following main assumptions and parameters based on a Black-Scholes model. Note that Warrant's maturity is assumed to be their legal duration as per Warrant contract.

**At inception December 31, December  
date 31,**

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		<b>2017</b>	<b>2016</b>
Share price at closing date	\$3.96	\$2.87	\$3.28
Strike price of warrants	\$4.25	\$4.25	\$4.25
Risk free interest rate at 5.5 years	1.07%	0%	0%
Share price volatility	71%	57.40%	60.2%
Dividend rates	0%	0%	0%
Unit fair value	\$2.35	\$0.26	\$0.79
Total fair value (in thousand)	\$3,525	\$392	\$1,179
Total equivalent amount (in thousand €)	€2,725	€328	€1,119

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**EDAP TMS S.A. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(in thousands of euros unless otherwise noted, except per share data)**Fair Value of the April 2016 Investor Warrants:

The valuation model of the Investor Warrants uses the following main assumptions and parameters based on a Black-Scholes model. Note that Warrant's maturity is assumed to be their legal duration as per Warrant contract.

	<b>At inception date</b>	<b>December 31, December 31,</b>	
		<b>2017</b>	<b>2016</b>
Share price at closing date	3.64	2.87	3.28
Strike price of warrants	\$4.50	\$4.50	\$4.50
Risk free interest rate at 2.5 years	0%	0%	0%
Share price volatility	60.20%	57.40%	60.20%
Dividend rates	0%	0%	0%
Unit fair value	\$1.09	\$0.19	\$0.69
Total fair value (in thousands)	\$3,579	\$614	\$2,279
Total equivalent amount (in thousands)	€3,168	€513	€2,162

Refer to Note 24 for more details on the fair value of Financial Instruments.

***14-3 Long-term debt and financial instruments maturity:***

Long-term debt and financial instruments carried at fair value at December 31, 2017 mature as follows:

2018	1,223
2019	318
2020	285
2021	203
2022	29
Total	2,058

**15—OTHER LONG-TERM LIABILITIES**

Other long-term liabilities consist of the following:

	December 31,	
	2017	2016
Provision for retirement indemnities (Japan & France), less current portion	2,008	1,980
Provision for employee termination indemnities (Italy) less current portion	349	320
Provision for warranty costs, less current portion	184	201
Provision for Asset Retirement Obligation (Japan) less current portion	101	80
Conditional government advances, less current portion	1,039	237
Total	3,681	2,818

Provision for asset retirement obligation in Japan is related to subsidiary's offices and warehouses.

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**EDAP TMS S.A. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(in thousands of euros unless otherwise noted, except per share data)**

Pension, post-retirement and post-employment benefits for most of the Company's employees are sponsored by European governments. The Company's liability with respect to these plans is mostly limited to specific payroll deductions.

In addition to government-sponsored plans, subsidiaries in Japan and France have defined benefit retirement indemnity plans in place. The provision for retirement indemnities at December 31, 2017 represents an accrual for lump-sum retirement indemnity payments to be paid at the time an employee retires if he or she is still present at the Company at the date of retirement. This provision has been calculated taking into account the estimated payment at retirement (discounted to the current date), turnover and salary increases.

The provision is management best estimate based on the following assumptions as of year-end:

	Pension Benefits – France		
	2017	2016	2015
Discount rate	1.60 %	1.60 %	2.20 %
Salary increase	2.50 %	2.50 %	2.50 %
Retirement age	65	65	65
Average retirement remaining service period	24	24	24

	Pension Benefits – Japan		
	2017	2016	2015
Discount rate	0.50 %	0.60 %	1.00 %
Salary increase	2.50 %	2.50 %	2.00 %
Retirement age	60	60	60
Average retirement remaining service period	14	14	16

In 2017, provision presentation according to ASC 715 in thousands of euros:

	France	Japan
Non-current liabilities	867	1,141

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Current liabilities	27	40
Accumulated other comprehensive income (loss)	(165 )	(412 )
Total	729	769

In 2016, provision presentation according to ASC 715 in thousands of euros:

	France	Japan
Non-current liabilities	840	1,138
Current liabilities	2	24
Accumulated other comprehensive income (loss)	(169 )	(465 )
Total	673	697

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**EDAP TMS S.A. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(in thousands of euros unless otherwise noted, except per share data)**

The Company does not have a funded benefit plan. Detailed reconciliation of pension cost components (in thousands of euros) during fiscal year for each of the three years ending December 31, 2017:

France	2017	2016	2015
<b>Change in benefit obligations:</b>			
Benefit obligations at beginning of year	842	694	665
Service cost	66	45	46
Interest cost	13	15	13
Actuarial (gain) / loss	-	88	(30 )
Amortization of net prior service cost	1	-	-
Benefits paid	(27 )	-	-
Benefit obligations at end of year <sup>(1)</sup>	895	842	694
Unrecognized actuarial (gain) loss <sup>(2)</sup>	144	147	58
Unrecognized prior service cost <sup>(2)</sup>	22	23	24
Accrued pension cost	729	672	612

(1) The accumulated benefit obligation was €627 thousand and €597 thousand at December 31, 2017 and 2016 respectively.

(2) The amount in accumulated other comprehensive income (loss) to be recognised as components of net periodic benefit costs in 2018 is €4thousand.

Japan	2017	2016	2015
<b>Change in benefit obligations:</b>			
Benefit obligations at beginning of year	1,162	906	742
Service cost	118	81	72
Interest cost	6	10	8
Amortization of net loss	24	16	-
Actuarial (gain) / loss	(12 )	147	-
Benefits paid	(17 )	(38 )	-
Exchange rate impact	(99 )	40	84
Benefit obligations at end of year <sup>(1)</sup>	1,182	1,162	906
Unrecognized actuarial (gain) loss <sup>(2)</sup>	412	464	314



Unrecognized prior service cost <sup>(2)</sup>	-	-	
Accrued pension cost	770	698	592

- (1) The accumulated benefit obligation was €872 thousand and €944 thousand at December 31, 2017 and 2016, respectively.
- (2) The amount in accumulated other comprehensive income (loss) to be recognised as components of net periodic benefit costs in 2018 is €25 thousand.

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**EDAP TMS S.A. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(in thousands of euros unless otherwise noted, except per share data)**

The benefits expected to be paid in each of the next five fiscal years, and in the aggregate for the five fiscal years thereafter, are detailed in the table below:

	France	Japan
2018	28	40
2019	10	51
2020	-	6
2021	86	51
2022	-	70
2023-2027	277	721

**16—SHAREHOLDERS' EQUITY*****16-1 Common stock***

As of December 31, 2017, EDAP TMS S.A.'s common stock consisted of 29,368,394 issued shares (including 3,283,284 new shares issued in the April 2016 Placement for an amount of € 6,063 thousand after deduction of issuance costs of €943 thousand) fully paid and with a par value of €0.13 each. 28,997,866 of the shares were outstanding.

***16-2 Pre-emptive subscription rights***

Shareholders have preemptive rights to subscribe on a *pro rata* basis for additional shares issued by the Company for cash. Shareholders may waive such preemptive subscription rights at an extraordinary general meeting of shareholders under certain circumstances. Preemptive subscription rights, if not previously waived, are transferable during the subscription period relating to a particular offer of shares.

***16-3 Dividend rights***

Dividends may be distributed from the statutory retained earnings, subject to the requirements of French law and the Company's by-laws. The Company has not distributed any dividends since its inception as the result of an accumulated statutory deficit of €14,523 thousand. Dividend distributions, if any, will be made in euros. The Company has no plans to distribute dividends in the foreseeable future.

#### ***16-4 Treasury stock***

As of December 31, 2017, the 370,528 shares of treasury stock consisted of (i) 190,238 shares acquired between August and December 1998 for €649 thousand, and (ii) 180,290 shares acquired in June and July 2001 for €493 thousand. All 370,528 shares of treasury stock have been acquired to cover outstanding stock options (see Note 16-5).

#### ***16-5 Stock-option plans***

As of December 31, 2017, the 370,528 ordinary shares held as treasury stock were dedicated to serve stock purchase option plans as follows: 120,100 shares which may be purchased at a price of €2.38 per share pursuant to the exercise of options that were granted on June 25, 2010.

As of December 31, 2017, EDAP TMS S.A. sponsored four stock purchase and subscription option plans:

**EDAP TMS S.A. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(in thousands of euros unless otherwise noted, except per share data)**

On May 22, 2007, the shareholders of the Company authorized the Board of Directors to grant up to 600,000 options to subscribe to 600,000 new Shares. Conforming to this stock option plan, the Board of Directors granted 504,088 options to subscribe to new Shares to certain employees of EDAP TMS on October 29, 2007, and 95,912 options to subscribe to new Shares to certain employees of EDAP TMS on June 25, 2010. Under this plan, a total of 50,000 options to subscribe to new shares were still in force on December 31, 2017.

On June 24, 2010, the shareholders of the Company authorized the Board of Directors to grant up to 229,100 options to purchase up to 229,100 Shares. Conforming to this stock option plan, the Board of Directors granted 229,100 options to purchase Shares to certain employees of EDAP TMS on June 25, 2010. Under this plan, 120,100 options were still in force on December 31, 2017.

On December 19, 2012, the shareholders authorized the Board of Directors to grant up to 500,000 options to subscribe to 500,000 new shares at a fixed price to be set by the Board of Directors. Conforming to this stock option plan, the Board of Directors granted 500,000 options to subscribe Shares to certain employees of EDAP TMS on January 18, 2013. Under this plan, 297,500 options were still in force on December 31, 2017.

On February 18, 2016, the shareholders authorized the Board of Directors to grant up to 1,000,000 options to subscribe to 1,000,000 new shares at a fixed price to be set by the Board of Directors. Conforming to this stock option plan, the Board of Directors granted 575,000 options to subscribe Shares to certain employees of EDAP TMS on April 26, 2016. Under this plan, 525,000 options were still in force on December 31, 2017. Conforming to this February 18, 2016 stock option plan, the Board of Directors granted 260,000 options to subscribe Shares to certain employees of EDAP TMS on April 25, 2017. Under this plan, 215,000 options were still in force on December 31, 2017.

As of December 31, 2017, a summary of stock option activity to purchase or to subscribe to Shares under these plans is as follows:

2017	Weighted average exercise price	2016	Weighted average exercise price	2015	Weighted average exercise price
Options		Options		Options	
	(€)		(€)		(€)

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Outstanding on January 1,	1,427,438	2.94	917,188	2.79	1,095,850	2.76
Granted	260,000	2.39	575,000	3.22	-	-
Exercised	(60,000 )	1.91	-	-	(72,412 )	2.13
Forfeited	(134,750 )	3.09	(64,750 )	3.30	(106,250 )	2.88
Expired	(285,088 )	3.99	-	-	-	-
Outstanding on December 31,	1,207,600	2.61	1,427,438	2.94	917,188	2.79
Exercisable on December 31,	598,850	2.29	774,938	2.87	724,688	3.03
Shares purchase options available for grant on December 31	250,428		243,428		232,428	

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**EDAP TMS S.A. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(in thousands of euros unless otherwise noted, except per share data)**

The following table summarizes information about options to purchase existing Shares held by the Company, or to subscribe to new Shares, at December 31, 2017:

Outstanding options				Fully vested options <sup>(1)</sup>			
Exercise price (€)	Options	Weighted average remaining contractual life	Weighted average exercise price (€)	Aggregate Intrinsic Value (2)	Options	Weighted average exercise price (€)	Aggregate Intrinsic Value (2)
3.22	525,000	8.3	3.22	-	131,250	3,22	-
2.39	215,000	9.3	2.39	646	-	-	-
2.38	120,100	2.5	2.38	1,562	120,100	2.38	1,562
1.91	297,500	5.0	1.91	143,694	297,500	1.91	143,694
1.88	50,000	2.5	1.88	25,650	50,000	1.88	25,650
1.88 to 3.22	1,207,600	7.2	2.61	171,553	598,850	2.29	170,907

(1) Fully vested options are all exercisable options

The aggregate intrinsic value represents the total pre-tax intrinsic value, based on the Company's closing stock price (2) of \$2.87 at December 31, 2017, which would have been received by the option holders had all in-the-money option holders exercised their options as of that date.

A summary of the status of the non-vested options to purchase shares or to subscribe to new shares as of December 31, 2017, and changes during the year ended December 31, 2017, is presented below:

	Options	Weighted average Grant-Date Fair Value (€)
Non-vested at January 1, 2017	652,500	1.62
Granted	260,000	1.67
Vested	(230,000)	1.53
Forfeited	(88,750)	1.67
Non-vested at December 31, 2017	593,750	1.67

As of December 31, 2017, there were €427 thousands of total unrecognized compensation expenses related to non-vested stock-options, over a weighted average period of 4.32 year.

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**EDAP TMS S.A. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(in thousands of euros unless otherwise noted, except per share data)*****16-6 Other comprehensive income (loss)***

The components of accumulated other comprehensive income (loss) net of tax, for the years ended December 31, 2017, and 2016, are as follows:

	Year Ended December 31, 2017		
	Foreign currency translation adjustments	Provision for retirement indemnities	Total
Beginning balance	(3,315 )	(634 )	(3,949 )
Other comprehensive income (loss) before reclassifications	-	-	-
Reclassified from accumulated other comprehensive loss	-	-	-
Net current-period other comprehensive income (loss) .....	288	57	345
Ending balance	(3,027 )	(577 )	(3,604 )

	Year Ended December 31, 2016		
	Foreign currency translation adjustments	Provision for retirement indemnities	Total
Beginning balance	(3,171 )	(396 )	(3,567 )
Other comprehensive income (loss) before reclassifications	-	-	-
Reclassified from accumulated other comprehensive loss	-	-	-
Net current-period other comprehensive income (loss) .....	(144 )	(238 )	(382 )
Ending balance	(3,315 )	(634 )	(3,949 )

As the deferred tax assets are depreciated, there is no net impact of tax.

**17—OTHER REVENUES**

Other revenues consist of the following:



	2017	2016	2015
Licenses and others	60	32	35
Total	60	32	35

In 2017, 2016 and 2015, other revenues mainly consist of sales of a license to Theraclion.

## 18—COSTS OF SALES

Costs of sales consist of the following:

	2017	2016	2015
Direct costs of sales	(12,706)	(11,161)	(11,659)
Indirect costs of sales	(8,232 )	(8,039 )	(6,809 )
Total costs of sales	(20,938)	(19,200)	(18,468)

**EDAP TMS S.A. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(in thousands of euros unless otherwise noted, except per share data)****19—RESEARCH AND DEVELOPMENT EXPENSES**

Research and development expenses consist of the following:

	2017	2016	2015
Gross research and development expenses	(4,539)	(4,577)	(3,308)
Research Tax Credit	504	511	448
Grants	154	198	170
Net Research and development expenses	(3,881)	(3,868)	(2,690)

In 2017, 2016 and in 2015 grants mainly consisted of European, national and regional grants for the development of innovative imaging solutions for the focal treatment of liver cancer (HECAM Development project).

Research and development costs are expensed as incurred and include amortization of assets, costs of prototypes, salaries, benefits and other headcount related costs, contract and other outside service fees, and facilities and overhead costs.

**20—FINANCIAL INCOME, NET**

Interest (expense) income, net consists of the following:

	2017	2016	2015
Interest income	18	21	18
Interest expense	(44 )	(57 )	(64 )
Warrants exercised / forfeited	625	174	330
Changes in fair value of the warrants <sup>(1)</sup>	2,044	3,811	(2,377)
Total	2,643	3,949	(2,094)

(1) For more details on the fair value of Financial Instruments, please refer to Notes 14-2 and 24.

**21—INCOME TAXES*****21-1 Income / (Loss) before income taxes***

Income / (loss) before income taxes is comprised of the following:	2017	2016	2015
France	1,003	4,936	(543)
EDAP Inc, U.S.A.	(2,052)	(850 )	(380)
Other countries	756	358	16
Total	(293 )	4,444	(907)

***21-2 Income tax (expense)/ benefit***

	2017	2016	2015
Income tax (expense)/benefit consists of the following:			
Current income tax expense:			
France	(161)	(323)	(712)
Other countries	(373)	(249)	(55 )
Sub-total current income tax expense	(534)	(572)	(767)
Deferred income tax (expense) benefit:			
France	(15 )	(2 )	(4 )
Other countries	161	(30 )	11
Sub-total deferred income tax (expense) benefit	146	(32 )	7
Total	(388)	(602)	(759)

**EDAP TMS S.A. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(in thousands of euros unless otherwise noted, except per share data)*****21-3 Deferred income taxes:***

Deferred income taxes reflect the impact of temporary differences between the amounts of assets and liabilities reported for financial reporting purposes and such amounts as measured in accordance with tax laws. The tax effects of temporary differences which give rise to significant deferred tax assets (liabilities) are as follows by nature:

	December 31,	
	2017	2016
Net operating loss carry forwards	13,218	18,392
Elimination of intercompany profit in inventory	167	394
Elimination of intercompany profit in fixed assets	265	250
Provisions for retirement indemnities	566	275
Other items	216	153
Total deferred tax assets	14,434	19,465
Capital leases treated as operating leases for tax	(3 )	(3 )
Total deferred tax liabilities	(3 )	(3 )
Net deferred tax assets	14,431	19,462
Valuation allowance for deferred tax assets	(14,266)	(19,450)
Deferred tax assets (liabilities), net of allowance	165	12

Net operating loss carryforwards available amounts to € 55,338 thousand as of December 31, 2017, of which of € 33,329 thousand at EDAP TMS SA, €18,686 thousand at Edap Technomed Inc., €2,210 thousand at Edap Technomed Co Ltd Japan, €1,113 thousand at EDAP Technomed Italia S.R.L. These net operating losses generate deferred tax assets of €13,218 thousand as at December 31, 2017. Realization of these assets is contingent on future taxable earnings in the applicable tax jurisdictions. As of December 31, 2017, €34,442 thousand out of these €55,338 thousand net operating loss carry-forwards have no expiration date. The remaining tax loss carry-forwards expire from years 2019 through 2037. In accordance with ASC 740, a valuation allowance is established if, based on the weight of available evidence, it is more-likely-than-not that some portion or all of the deferred tax asset will not be realized.

The 2017 Tax Act was enacted on December 22, 2017. The 2017 Tax Act includes a number of changes in existing tax law which will impact our business in the U.S. Starting with tax year 2018, the U.S. corporate tax rates changed from a graduated system ranging from 15% to 39% to a flat 21% of taxable net income. For taxable net income of \$100K and greater for years 2018 and following, EDAP's U.S. subsidiary would pay significantly lower taxes than with the previous tax law.

Starting from tax year 2018, the French corporate tax rates of taxable net income will gradually decrease from 33.33% to 25% in 2022.

The effect of changes in tax rate led to a decrease in deferred tax assets by amount of €5 480k which is mainly related to France and U.S.

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**EDAP TMS S.A. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(in thousands of euros unless otherwise noted, except per share data)*****21-4 Effective tax rate***

A reconciliation of differences between the statutory French income tax rate and the Company's effective tax rate is as follows:

	2017	2016	2015
French statutory rate	33.3 %	33.3 %	33.3 %
Income of foreign subsidiaries taxed at different tax rates	21.8 %	(2.4 %)	3.9 %
Effect of net operating loss carry-forwards and valuation allowances	(520.6%)	(2.6 %)	52.4 %
Non-taxable debt fair value variation	349.2 %	(27.2%)	(83.9%)
Permanent differences	60.6 %	(4.9 %)	40.7 %
Effect of cancellation of intra-group positions	49.1 %	-	(78.3%)
French business tax included in income tax (CVAE)	(54.7 %)	3.4 %	(16.0%)
Other	(70.6 %)	13.9 %	(35.8%)
Effective tax rate	(131.9%)	13.5 %	(83.7%)

***21-5 Uncertainty in Income Taxes***

According to ASC 740, the Company reviewed the tax positions of each subsidiary. On December 31, 2017 the Company believes that there is no significant uncertainty in the Company's tax positions.

The Company remains subject to examination by major tax jurisdictions.

Interest and penalties on income taxes are classified as a component of the provision for income taxes. There were no interest or penalties in 2015, 2016 and 2017.

**22—EARNINGS (LOSS) PER SHARE**

**December 31, December 31, December 31,**

	<b>2017</b>	<b>2016</b>	<b>2015</b>
Income (loss) available to common shareholders	(€681,345)	€ 3,842,201	(€1,666,658)
Number of shares for the computation of basic EPS	28,961,928	27,823,313	25,021,966
Basic EPS	(€0.02)	€ 0.14	(€0.07)
Effect of dilutive securities	581,915	1,542,270	1,978,758
Number of shares for the computation of diluted EPS	28,961,928	29,365,583	25,021,966
Diluted EPS income (loss)	(€0.02)	€ 0.13	(€ 0.07)

Diluted EPS income (loss) available to common shareholders is computed including assumed conversions as all dilutive securities, consisting of stock options and warrants are out of the money.

The effects of dilutive securities for the year ended December 31, 2015 and 2017 were excluded from the calculation of diluted earnings per share as a net loss was reported in these periods.

**EDAP TMS S.A. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(in thousands of euros unless otherwise noted, except per share data)**

**23—COMMITMENTS AND CONTINGENCIES**

*23-1 Commitments*

The Company currently has commitments regarding its operating leases as described in Note 12-2.

*23-2 Litigation*

From time to time we may become involved in legal proceedings or be subject to claims arising in the ordinary course of our business. Regardless of the outcome, litigation can have an adverse impact on us because of defence and settlement costs, diversion of management resources and other factors.

On August 4, 2014, Mark Eaton filed a purported class action lawsuit in the United States District Court for the Southern District of New York, asserting that the Company, Marc Oczachowski, and Eric Soyer, our then CFO, violated federal securities laws Section 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder by issuing materially false and misleading statements about the Company's business operations and prospects particularly concerning the Company's Ablatherm-HIFU PMA file under review by the FDA that caused the price of the Company's American Depository Receipts to be artificially inflated during the period from February 1, 2013 to July 30, 2014. On August 6, 2014, Ronnie Haddad filed a second purported class action lawsuit, also in the United States District Court for the Southern District of New York, asserting similar claims.

On October 24, 2014, the related cases were consolidated by the United States District Court for the Southern District of New York and a lead plaintiff and lead counsel were appointed.

On December 22, 2014, the lead plaintiff filed an amended complaint that no longer included Mr. Soyer. The amended complaint alleges that the Company and Mr. Oczachowski breached their obligations under the Exchange Act in various ways, including by misrepresenting and failing to disclose allegedly material information about the safety and efficacy of treatment with Ablatherm-HIFU, and the Company's interactions with the FDA. The complaint seeks unspecified damages, interest, costs, and fees, including attorneys' and experts' fees.



On December 31, 2014, we accrued €206 thousand legal costs to be incurred by the Company in relation to this litigation.

On February 20, 2015, the defendants, including the Company, filed a motion to dismiss the action.

On September 14, 2015, we received a confirmation of the dismissal of our class action. On November 11, 2015, we announced the appeals period had concluded with no notice of appeal filed by the plaintiffs. In 2015, total costs incurred related to this litigation amounted to €171 thousand. The remaining accrued amount was reversed as of December 31, 2015.

### ***23-3 Contingencies***

The Company currently has contingencies relating to warranties provided to customers for products as described in Note 1-15 and Note 11.

## **24—FAIR VALUE OF FINANCIAL INSTRUMENTS**

The following disclosure of the estimated fair value of financial instruments was made in accordance with the requirements of ASC 820 “Disclosure about fair value of financial instruments” and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value.

**EDAP TMS S.A. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(in thousands of euros unless otherwise noted, except per share data)**

ASC 820 defines three levels of inputs that may be used to measure fair value and requires that the assets or liabilities carried at fair value be disclosed by the input level under which they were valued. The input levels are defined as follows:

Level 1: Quoted (unadjusted) prices in active markets for identical assets and liabilities that the reporting entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

	<b>ASC 820 December 31, December 31,</b>		
	<b>Level</b>	<b>2017</b>	<b>2016</b>
Assets:			
Cash and cash equivalents	Level 1	20,004	21,989
Liabilities:			
Short-term borrowings	Level 1	2,718	1,629
Long-Term Debt	Level 1	1,217	600
Investor Warrants	Level 3	840	3,921

The recorded amount of cash and cash equivalents, short term investment and short-term borrowings are a reasonable estimate of their fair value due to the short-term maturities of these instruments.

The fair market value (Level 1 measurement) of the Company's long-term debt is estimated using interest rate available to the Company in corresponding markets for debt with similar terms and maturities (see note 14-1 Long-term debt).

Concerning Investor and Placement Agent Warrants, the Company uses a Black-Scholes option pricing model. The fair value of the Warrants will change over time depending on the volatility and share price at balance sheet date (see note 14-2 - Financial instruments carried at fair value). An increase in volatility would result in an increase in the value of Investors Warrants and Placement Agent Warrants. An increase in share price would result in an increase in

the value of Investors Warrants and Placement Agent Warrants.

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**EDAP TMS S.A. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(in thousands of euros unless otherwise noted, except per share data)**

The following tables provide a reconciliation of fair value for which the Company used Level 3 inputs, for the period from December 31, 2015 to December 31, 2017:

<b>All amounts in thousands Euros unless otherwise stated</b>	<b>Investor</b>		<b>Placement</b>		<b>Total Financial instruments carried at fair value</b>	
	<b>Warrants</b>	<b>Agent</b>	<b>Investor</b>	<b>Agent</b>		
		<b>Warrants</b>		<b>Warrants</b>		
		<b>2012</b>		<b>2013</b>		
As of December 31, 2015	1,691	99	2,514	73	-	4,377
Warrants granted	-	-	-	-	3,168	3,168
Warrants forfeited (see note 20)	-	-	-	(72 )	-	(72 )
Warrants exercises (see note 20)	(5 )	(99 )	-	-	-	(102 )
FV adjustments (see note 20)	(1,100 )	-	(1,478 )	-	(1,232 )	(3,811 )
USD/EUR exchange impact	53	-	81	-	227	360
As of December 31, 2016	640	-	1,118	-	2,162	3,921
Warrants granted	-	-	-	-	-	-
Warrants forfeited (see note 20)	(489 )	-	-	-	-	(489 )
Warrants exercises (see note 20)	(136 )	-	-	-	-	(136 )
FV adjustments (see note 20)	-	-	(656 )	-	(1,388 )	(2,044 )
USD/EUR exchange impact	(16 )	-	(135 )	-	(262 )	(412 )
As of December 31, 2017	-	-	328	-	512	840

**25—CONCENTRATION OF CREDIT RISK**

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and cash equivalents and trade accounts and notes receivable from customers, primarily located in France, Japan and the United States. The Company maintains cash deposits with major banks. Management periodically assesses the financial condition of these institutions and believes that credit risk is limited.

The Company has procedures in effect to monitor the creditworthiness of its customers. The Company obtains bank guarantees for first time or infrequent customers, and in certain cases obtains insurance against the risk of a payment default by the customer. The Company reviewed individual customer balances considering current and historical loss experience and general economic conditions in determining the allowance for doubtful accounts receivable of €1,0

million and €1.0 million, for the years ended December 31, 2017 and 2016, respectively.

Actual losses may vary from the current estimates, and any adjustments are reported in earnings in the periods in which they become known.

In 2017, 2016 and 2015, the Company did not generate more than 10% revenue with a single customer.

## **26—FOREIGN CURRENCY TRANSACTIONS**

The Company generates a significant percentage of its revenues, and of its operating expenses, in currencies other than euro. The Company's operating profitability could be materially adversely affected by large fluctuations in the rate of exchange between the euro and such other currencies. The Company engages in foreign exchange hedging activities when it deems necessary, but there can be no assurance that hedging activities will be offset by the impact of movements in exchange rates on the Company's results of operations. As of December 31, 2017, there were no outstanding hedging instruments.

**EDAP TMS S.A. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(in thousands of euros unless otherwise noted, except per share data)****27—SEGMENT INFORMATION**

The Company currently has four reporting segments: the corporate activities of the holding Company, EDAP TMS S.A., the High Intensity Focused Ultrasound division, the Urological Devices and Services division and a reporting segment dedicated to the FDA approval for Ablatherm-HIFU activity. Following the Ablatherm FDA clearance received on November 9, 2015, there is no more cost recorded on the FDA segment in 2016 and 2017. The following tables set forth the key income statement figures, by segment for fiscal years 2017, 2016 and 2015 and the key balance sheet figures, by segment, for fiscal years 2017, 2016 and 2015.

The business in which the Company operates is the development and production of minimally invasive medical devices, primarily for the treatment of urological diseases. Substantially all revenues result from the sale of medical devices and their related license and royalty payments from third parties. The segments derive their revenues from this activity.

Segment operating profit or loss and segment assets are determined in accordance with the same policies as those described in the summary of significant accounting policies. Interest income and expense, current and deferred income taxes are not allocated to individual segments. A reconciliation of segment operating profit or loss to consolidated net loss is as follows:

	2017	2016	2015
Segment operating income (loss)	(2,027)	392	488
Financial income (expense), net	2,643	3,949	(2,094)
Foreign Currency exchange (losses) gains, net	(909 )	103	699
Other income (expense), net	-	-	-
Income tax (expense) credit	(388 )	(602 )	(759 )
Consolidated net profit (loss)	(681 )	3,842	(1,667)

Percentage of net sales derived from our operations in Asia, France, the United States, and other geographical areas, are as follows:

	2017	2016	2015
Asia	38 %	29 %	34 %

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France	30%	27%	24%
United States	5%	10%	5%
Others geographical areas	27%	34%	37%

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**EDAP TMS S.A. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(in thousands of euros unless otherwise noted, except per share data)**

A summary of the Company's operations by segment is presented below for years ending December 31, 2017, 2016 and 2015:

	HIFU Division	UDS Division	EDAP TMS (Corporate)	FDA	Total consolidated
2017					
Sales of goods	4,232	18,348	-	-	22,580
Sales of RPPs & leases	3,800	1,295	-	-	5,095
Sales of spare parts and services	1,445	6,566	-	-	8,011
Total sales	9,477	26,209	-	-	35,686
External other revenues	36	24	-	-	60
Total revenues	9,513	26,233			35,746
Total COS	(4,732)	(16,207)	-	-	(20,938)
Gross profit	4,782	10,026	-	-	14,808
R&D expenses	(2,469)	(1,413)	-	-	(3,881)
Selling and marketing expenses	(4,004)	(5,521)	-	-	(9,526)
G&A expenses	(1,009)	(1,057)	(1,362)	-	(3,428)
Total expenses	(7,482)	(7,991)	(1,362)	-	(16,835)
Operating income (loss) from operations	(2,701)	2,035	(1,362)	-	(2,027)
Total Assets	11,333	27,803	7,761	-	46,897
Capital expenditures	1,190	928	-	-	2,118
Long-lived assets	2,804	4,278	-	-	7,082
Goodwill	645	1,767	-	-	2,412

	HIFU Division	UDS Division	EDAP TMS (Corporate)	FDA	Total consolidated
2016					
Sales of goods	9,382	14,664	-	-	24,045
Sales of RPPs & leases	3,547	1,359	-	-	4,906
Sales of spare parts and services	862	5,766	-	-	6,628
Total sales	13,791	21,789	-	-	35,579
External other revenues	28	4	-	-	32
Total revenues	13,819	21,792			35,611
Total COS	(5,710)	(13,490)	-	-	(19,200)
Gross profit	8,109	8,302	-	-	16,411
R&D expenses	(2,452)	(1,416)	-	-	(3,868)



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Selling and marketing expenses	(3,888	)	(4,968	)	-	-	(8,856	)	
G&A expenses	(804	)	(1,177	)	(1,315	)	-	(3,296	)
Total expenses	(7,144	)	(7,560	)	(1,315	)	-	(16,019	)
Operating income (loss) from operations	964		742		(1,315	)	-	392	
Total Assets	11,680		24,202		10,709		-	46,591	
Capital expenditures	1,013		608		-		-	1,621	
Long-lived assets	1,775		3,812		192		-	5,779	
Goodwill	645		1,767		-		-	2,412	

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**EDAP TMS S.A. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(in thousands of euros unless otherwise noted, except per share data)**

	HIFU Division	UDS Division	EDAP TMS (Corporate)	FDA	Total consolidated
2015					
Sales of goods	4,878	17,027	-	-	21,906
Sales of RPPs & leases	2,908	1,501	-	-	4,408
Sales of spare parts and services	658	5,246	-	-	5,904
Total sales	8,444	23,774	-	-	32,218
External other revenues	32	3	-	-	35
Total revenues	8,476	23,777	-	-	32,253
Total COS	(3,636)	(14,832)	-	-	(18,468)
Gross profit	4,841	8,945	-	-	13,785
R&D expenses	(1,387)	(992)	-	(311)	(2,690)
Selling and marketing expenses	(2,284)	(5,122)	-	-	(7,406)
G&A expenses	(646)	(1,192)	(1,363)	-	(3,202)
Total expenses	(4,318)	(7,306)	(1,363)	(311)	(13,298)
Operating income (loss) from operations	523	1,639	(1,363)	(311)	488
Total Assets	9,619	25,818	3,144	-	38,581
Capital expenditures	457	207	-	-	664
Long-lived assets	1,437	3,320	192	-	4,949
Goodwill	645	1,767	-	-	2,412

**28—VALUATION ACCOUNTS**

	Allowance for deferred tax assets	Allowance for doubtful accounts	Slow-moving inventory	Warranty reserve
Balance as of December 31, 2014	23,125	1,274	741	712
Charges to costs and expenses	218	124	275	354
Deductions: write-off and others	(4,131)	(307)	(288)	(490)
Balance as of December 31, 2015	19,212	1,091	728	576
Charges to costs and expenses	238	103	121	319
Deductions: write-off and others	-	(233)	(46)	(347)
Balance as of December 31, 2016	19,450	960	803	548
Charges to costs and expenses	1,536	69	239	316
Deductions: write-off and others	(6,720)	-	(319)	(415)
Balance as of December 31, 2017	14,266	1,029	723	449

**29—SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

Interest and income taxes paid are as follows:

	2017	2016	2015
Income taxes paid (refunds received)	585	596	159
Interest paid	41	41	43
Interest received	7	4	7
Non-cash transactions:	2017	2016	2015
Capital lease obligations incurred	484	285	105

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**EDAP TMS S.A. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(in thousands of euros unless otherwise noted, except per share data)**

**30—RELATED PARTY TRANSACTIONS**

The General Manager of the Company's Korean branch "EDAP-TMS Korea", who resigned from his position with EDAP on October 11, 2017, was also the Chairman of a Korean company named Dae You. A new independent General Manager was immediately appointed as Head of EDAP-TMS Korea with no relation with the company Dae You, therefore, in the future, transactions with this company will no longer be considered related party transactions. EDAP-TMS Korea subcontracted until October 11, 2017, the service contract maintenance of our medical devices installed in Korea to Dae You. The amounts invoiced by Dae You under this contract were €41 thousand, €62 thousand and €78 thousand, for 2017, 2016 and 2015 respectively. As of December 31, 2017, the Company recorded no payables to Dae You. As of December 31, 2016, payables to Dae You amounted to €9 thousand.

Dae You has purchased medical devices from us, which it operates in partnership with hospitals or clinics. These purchases ('Sales of goods') amounted to €161 thousand, €483 thousand and €408 thousand, in 2017, 2016 and 2015, respectively. As of December 31, 2017, the Company recorded no receivables ('Net trade accounts and notes receivable'). As of December 31, 2016, receivables ('Net trade accounts and notes receivable') amounted to €325 thousand.

**31—SUBSEQUENT SIGNIFICANT EVENTS**

N/A

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