

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, 2016

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)

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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:

Title of each class

Name of each exchange on which registered

**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, 2016: 28,727,616 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 X

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 X

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 X 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 X No ___

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

Large accelerated filer ___ Accelerated filer X Non-accelerated filer ___

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

U.S. GAAP X International Financial Reporting Standards as issued by the International Accounting Standards Board ___ Other ___

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 X

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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[®], Sonolith i-sys[®], Sonolith i-move[®], @-REGISTRY[®], 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 Focal One devices;
- the impact of government regulation, particularly relating to public healthcare systems and the commercial distribution of medical devices;
- dependence on our strategic suppliers;
- 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,” as well as the information contained in our periodic filings with the Securities and Exchange Commission (the “SEC”) (including our reports on Form 6-K) for 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, 2016 and 2015 and the selected income statement data for the years ended December 31, 2016, 2015 and 2014 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.

Year Ended and at December 31,

In thousands of euro, except
per share data in euro

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|------------|------------|------------|------------|------------|
| INCOME STATEMENT DATA | | | | | |
| Total revenues | 35,611 | 32,253 | 26,785 | 24,080 | 26,065 |
| Total sales | 35,579 | 32,218 | 26,252 | 24,065 | 26,018 |
| Gross profit | 16,411 | 13,785 | 11,201 | 9,319 | 10,433 |
| Operating expenses | (16,019) | (13,298) | (12,937) | (12,074) | (12,463) |
| Income (loss) from operations | 392 | 488 | (1,736) | (2,755) | (2,030) |
| Income (loss) before income taxes | 4,444 | (907) | (396) | (4,886) | (7,358) |
| Income tax (expense) benefit | (602) | (759) | (116) | (135) | (118) |
| Net income (loss) | 3,842 | (1,667) | (512) | (5,021) | (7,475) |
| Basic earnings (loss) per share | 0.14 | (0.07) | (0.02) | (0.24) | (0.43) |
| Diluted earnings (loss) per share | 0.13 | (0.07) | (0.02) | (0.24) | (0.43) |
| Dividends per share ⁽¹⁾ | — | — | — | — | — |
| Basic weighted average shares outstanding | 27,823,313 | 25,021,966 | 23,601,428 | 20,593,720 | 17,556,395 |
| Diluted weighted average shares outstanding | 29,365,583 | 25,021,966 | 23,601,428 | 20,593,720 | 17,556,395 |
| BALANCE SHEET DATA | | | | | |
| Total current assets | 40,514 | 33,039 | 26,615 | 22,125 | 24,729 |
| Property and equipment, net | 2,770 | 2,123 | 2,122 | 1,655 | 2,035 |
| Total current liabilities | 15,010 | 16,271 | 12,158 | 11,589 | 13,124 |
| Total assets | 46,591 | 38,581 | 32,154 | 26,874 | 30,444 |
| Long-term debt, less current portion | 3,665 | 4,798 | 2,434 | 3,678 | 6,585 |
| Total shareholders' equity | 24,451 | 14,430 | 15,141 | 9,284 | 8,161 |

(1) No dividends were paid with respect to fiscal years 2012 through 2015 and subject to approval of the annual shareholders' meeting to be held in 2017 the Company does not anticipate paying any dividend with respect to fiscal year 2016. See Item 8, “Financial Information — Dividends and Dividend Policy.”

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 Depositary 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”).

| Year ended December 31, | High | Low | Average⁽¹⁾ | End of Year |
|--------------------------------|-------------|------------|------------------------------|--------------------|
| | € | € | € | € |
| 2012 | 0.83 | 0.74 | 0.78 | 0.76 |
| 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 |

(1) 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.

| | High | Low | Average⁽¹⁾ | End of Month |
|-------------------------------|-------------|------------|------------------------------|---------------------|
| | € | € | € | € |
| 2016 | | | | |
| September | 0.90 | 0.89 | 0.89 | 0.89 |
| October | 0.92 | 0.89 | 0.91 | 0.91 |
| November | 0.95 | 0.90 | 0.93 | 0.95 |
| December | 0.96 | 0.93 | 0.95 | 0.95 |
| 2017 | | | | |
| January | 0.96 | 0.93 | 0.94 | 0.93 |
| February | 0.95 | 0.93 | 0.94 | 0.94 |
| March, through March 17, 2017 | 0.95 | 0.93 | 0.94 | - |

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

On March 17, 2017, the Noon Buying Rate was U.S.\$1.00 = €0.93.

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 each previous fiscal year 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 in the United States. 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 the Ablatherm and the Focal One, to generate significant additional revenues and achieve and sustain profitability in the future. The Ablatherm is commercialized in the European Union, Canada, United States and other countries; the Focal One is commercialized in the European Union, Saudi Arabia, Canada, South Korea, Malaysia, Brazil, Venezuela, Peru and Chile but is not approved for commercial distribution in the United States.

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.”

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. 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, 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, which has not been provided for our HIFU products in any country, except for full public reimbursement in Germany and Italy, in France, under certain conditions and partial reimbursement from private insurers in the United Kingdom. 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. Under this innovative process, French healthcare government authorities will review the clinical data gathered within the next three years in view of granting definitive reimbursement for HIFU. However, we cannot guarantee that a definitive reimbursement code will be granted. 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 2014 our operating cash flow was negative due to the cash requirements of operating activities, working-capital cash requirements, cash requirements of investing activity to expand our mobile treatment model and to expand the leasing of our products as part of our revenue-per-procedure (“RPP”) model, and sponsoring of the clinical trials in support of our PMA submission to the FDA of our Ablatherm solution for the treatment of prostate cancer in the United States and to expand our commercial lithotripsy activities in the United States, which we financed using cash and cash equivalents on hand. 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. Our future cash flow may also be affected by the expected continued expansion of the leasing of our products, or the continued expansion of our mobile treatment model (which is invoiced on a RPP basis), since each of these activities generates smaller immediate revenues than device sales. 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 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 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. 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. Philips Healthcare, a Dutch company, is also developing HIFU devices addressing uterine fibroids, breast tumors and drug delivery activated by HIFU. 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 the Centers for Medicare & Medicaid Services (“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. We are currently in discussion with CMS and 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. If we fail to establish reimbursement from healthcare payers or government and private healthcare payers’ policies change, it could have a material adverse effect on our business, financial condition and results of operations.

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. In contrast, procedures performed with our HIFU devices are not reimbursed in the European Union with the exception of Italy, Germany, in France under certain conditions, and in the UK where procedures are partially reimbursed by either public healthcare systems or private insurers. 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, our business could be materially harmed.

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.

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.

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 2016, approximately 78% of our total costs of sales and operating expenses were denominated in euro, while approximately 42% 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, 2016, 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, cyclical 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 in the current market environment, 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 3, 2017, and on the total number outstanding options to subscribe to new shares, up to 5,973,622 ADSs are issuable upon exercise, representing approximately 20.6% 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.

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 2016 was 77,782, the high and low bid price of our ADSs for the last two financial years ended on December 31, 2016 and December 31, 2015, was \$4.80 and \$2.43, and \$6.57 and \$2.26, 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 2015 was 131,317 as opposed to 40,560 for the same period of 2016. 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 3, 2017, the maximum number of shares available to be issued was 425,000.

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 Depository 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 Depository 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, are currently being discussed between the ten other Participating Member States, with the objective to adopt a new proposal in 2017.

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. It is also used for patients who failed a radiotherapy treatment. Focal One is a robot assisted HIFU device dedicated to the focal treatment of prostate cancer. In addition, we are developing HIFU technology for the treatment of certain other types of 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.

In August 2011, we received marketing clearance from the U.S. Food and Drug Administration, or the FDA, for our Sonolith i-move device, a technologically advanced compact mobile lithotripter. The FDA has cleared our Sonolith i-move device for fragmentation of kidney stones, ESWL procedures and endourology applications.

On January 19, 2012, we entered into an Exchange Agreement with all of the holders of our outstanding 9% Senior Convertible Debentures due October 29, 2012 (the “October 2007 Convertible Debentures”) and warrants, whereby all October 2007 Convertible Debentures and warrants were exchanged for New Debentures, 1,948,871 newly issued ordinary shares, new warrants (the “January 2012 Warrants”) and \$500,000 in cash, or a combination thereof.

On May 31, 2012, we aligned our management team to focus on the U.S. opportunities both in the lithotripsy market and the HIFU regulatory program and our CEO consequently relocated to the United States.

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 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.

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 €13.8 million, €8.4 million and €8.2 million for 2016, 2015 and 2014, respectively. Those sales are generated in Europe, in 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 €21.8 million (including €10.3 million in Asia and €11.5 million in Europe and the rest of the world), €23.8 million (including €10.7 million in Asia and €13.0 million in Europe and the rest of the world) and €18.1 million (including €7.5 million in Asia and €10.6 million in Europe and the rest of the world), each for 2016, 2015 and 2014, respectively.

See Note 26 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 €13.8 million to our consolidated net sales during the fiscal year ended December 31, 2016.

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 two HIFU devices: the Ablatherm and the Focal One. The Ablatherm is dedicated to the treatment of organ-confined prostate cancer, referred to as T1-T2 stage. Ablatherm can be used for patients who are not candidates for surgery or who have failed a radiotherapy treatment.

HIFU Division also produces and markets the Focal One device, a HIFU robotic device fully dedicated to the focal therapy of localized prostate cancer, thereby destroying targeted cancer cells only. As of December 31, 2016, the HIFU division had an installed base of 106 Ablatherm machines, 22 Focal One and 350 certified trained clinical sites worldwide were having access to this technology.

In addition to developing, manufacturing and marketing HIFU devices, the HIFU division also generates revenues from leasing equipment, as well as from the sale of disposables, spare parts and maintenance services. Our HIFU mobile treatment option provides access to the 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.

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 minimally invasive 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 where HIFU could provide an alternative to current invasive therapies. 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 5-year project period. In June 2015, EDAP received €736,000 from Bpifrance (€237,000 as a conditional subsidy and €499,000 as a grant) to advance on the HECAM project. In 2016, the HIFU division maintained expenses at levels similar to 2015 on research and development ("R&D") projects to develop HIFU applications beyond prostate cancer. The division is considering maintaining similar levels of R&D spending in 2017 and future years to strengthen its technological leadership in HIFU and expand its application beyond urology.

HIFU Products

Currently, the Company commercializes 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, Australia, South Africa, New Zealand, the Philippines Taiwan, Mexico, Argentina, Brazil, Russia, Venezuela, Peru, Costa Rica and Ecuador.

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 approved in Canada, Russia, Saudi Arabia, South Korea, Malaysia, Brazil, Venezuela, 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, 2016, the HIFU division's patent portfolio contained 34 patents consisting of 11 patents in the United States, 19 patents in the European Union and Japan and four patents in both Israel and the rest of the world. They belong to 18 groups of patents covering key technologies related to therapeutic ultrasound principles, systems and associated software.

During 2016, one U.S. patent, two European and Japanese patents and one Canadian patent exclusively licensed by INSERM to EDAP to address renal tumors using HIFU were abandoned for non-use and the related license terminated. One key patent covering transducer design allowing fast and large volume of lesion necrosis for liver applications has been granted in Japan and China. One additional patent also covering transducer design has been granted in China. Seven additional patents covering certain other aspects of our HIFU technology in the European Union and Japan (three), the United States (three), and the rest of the world (one) are currently under review. 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, 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 patents 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 future 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 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 presented at the 109th Annual Meeting of the French Association of Urology in Paris France which was held in November 2015. A total of 110 patients were included at 10 centers. The survival rate without additional definitive treatment at 24 months was 89%. Urinary continence was preserved in 97% of patients and sexual function was preserved in 78%.

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. Results from this study were published in the *British Journal of Urology International* in 2014. A total of 48 patients were enrolled. The study 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.

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.

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 will be analyzed after 12 months' follow-up.

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.

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. This application is currently under review.

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 was still in progress 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 is designed to compile treatment information and follow-up data for patients who have undergone HIFU for prostate cancer. The goal of the @-registry is to further demonstrate the safety, effectiveness and durability of Ablatherm. Information from the registry will be 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. Thuroff et al presented a poster at the American Urology Association (AUA) 2014 on the long term HIFU retreatment rate, evaluating 2,632 patients. Thuroff 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.

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 161,360, 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. For example, 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. We also 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 €736,000 in June 2015. 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 hormonotherapy. 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 in advancing the technology beyond the treatment of prostate cancer. This future investment is 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 urological community, which will enable it to monitor the urological market, introduce new products and conduct trials 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 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-planet.com for patients and physicians is visited regularly. The information contained on that website is not incorporated by reference herein.

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 €21.8 million to our consolidated net sales during the fiscal year ended December 31, 2016.

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, 2016, the UDS division has sold 863 ESWL lithotripters worldwide to this date and actively maintained or otherwise serviced 694 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 as 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 a combination of continued investment in lowering end-user costs and offering 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.
- *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, ISO 9001 (V:2008) certified 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 (replacing Sonolith Praktis) 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 i-move 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, 2016, the UDS division's patent portfolio contained eleven 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. One additional patent covering localization system using ultrasound imaging on Sonolith i-sys and Sonolith i-move lithotripters has been delivered in Japan. 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, Peru, Venezuela, Colombia, Costa Rica, Japan, United States, Taiwan, Singapore, Saudi Arabia, Mexico and Brazil.

The Sonolith i-sys is available in the European Union, South Korea, Canada, United States, Peru, Colombia, Argentina, Venezuela, Mexico, Costa Rica, 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 LT02 machines and Sonolith Praktis, even though we discontinued the manufacture of these machines.

UDS Division Market Potential

We estimate that roughly, 2% to 3% 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 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 FDA-approved facility, which is certified under international standards ISO 9001 and ISO 13485. We believe that this facility can extend its outsourced services to provide device and disposable development and manufacturing services to a wide 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 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 FDA last visited our manufacturing site in June 2014 with no findings nor issuance of Form 483 observations. EDAP TMS France has obtained the ISO 9001 (V:2008) and 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 9001 and 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 ⁽¹⁾ |
|------------------------|-------------------------------|---------------------------------|
| 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. 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 a 510(k) clearance. The FDA may require the submission of clinical data as part of pre-market notifications for Class II devices. The FDA introduced the de novo 510(k) process for Class II devices for instances where a device is novel and there is therefore no suitable predicate device to support a standard 510(k) submission. To qualify for the de novo pathway, the new device must also present no more than moderate risk. Class III devices are those that must receive PMA by the FDA to ensure their safety and effectiveness. Before a new Class III device may be introduced on the market, the manufacturer generally must obtain FDA approval of a PMA. The PMA process is expensive and often lengthy, typically requiring several years, and may never result in approval. The manufacturer or the distributor of the device must obtain an IDE from the FDA before commencing human clinical trials in the United States in support of the PMA. Our lithotripsy range of products has been reclassified by the FDA as a Class II device. As far as our Ablatherm or Focal One HIFU devices are concerned, they also have been reclassified as Class II devices. Ablatherm has been cleared by FDA in November 2015, via a 510(k) application, based on a prostate tissue ablation claim, following the approval of another HIFU device via a de novo 510(k) process. In April 2016, we submitted a 510(k) application for our Focal One device, which is still under FDA review. 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 our quality control and manufacturing procedures by requiring us to demonstrate and maintain compliance with current GMP regulations. Our manufacturing facilities are in compliance with GMP regulations. No major deficiencies have been observed during inspections carried out by FDA auditors (or its representative, the GMED, in France) in the past few years. In June 2014, the FDA conducted an inspection of our manufacturing processes and facility with no findings nor issuance of Form 483 observations.

Regulation in the European Union

In the European Union, we annually perform ISO 9001 (V:2008) and 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.

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.

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. 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, 2016, 2015 and 2014 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.

Accounts Receivable

We generate most of our revenues and corresponding accounts receivable from sales of medical equipment, spare parts, maintenance and service to distributors, public and private hospitals and physicians worldwide. We perform initial credit evaluations of our customers and adjust credit terms based upon customers’ creditworthiness as determined by such things as their payment history, credit ratings and our historical experiences.

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 29% of our total consolidated net sales in 2016. Net sales of goods in Asia represented approximately 31% of such sales in 2016 and consisted mainly of sales of ESWL lithotripters and consumables. Net sales of spare parts, supplies and services in Asia represented approximately 43% of such sales in 2016 and related primarily to ESWL lithotripters, reflecting the fact that approximately 46% of the installed base of our ESWL lithotripters that we actively maintain or otherwise serve is located in Asia.

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 2016, approximately 78% of our costs of sales and research and development, selling, marketing and general and administrative expenses were denominated in euro, while approximately 42% 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, €2.7 million and €2.9 million in 2016, 2015 and 2014, respectively, representing approximately 10.9%, 8.4% and 10.9% of total revenues in 2016, 2015 and 2014, respectively. Consolidated research and development expenses included research and development government grants and tax credits of €0.7 million, €0.6 million and €0.8 million in 2016, 2015 and 2014, respectively. Research and development costs in 2014 included clinical expenses for the Phase II/III PMA trials in the United States to expand our leadership in HIFU for prostate cancer. Beginning in 2017, management expects the budget for research and development expenses in Europe to level off 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, particularly through HECAM program.

Consolidated selling and marketing expenses amounted to €8.9 million in 2016, €7.4 million in 2015 and €6.7 million in 2014. Selling and marketing expenses included net impact of allowances for doubtful accounts of €0.02 million in 2016, and allowances for doubtful accounts €0.02 million in 2015 and €0.4 million in 2014. The €1.4 million or 20% increase in selling and marketing expenses from 2014 to 2016 was primarily a result of the increase in 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 lithotripsy, including in the United States where the Company’s full range of lithotripsy products and Ablatherm HIFU device are now approved. Beginning in 2017, management expects selling and marketing expenses to continue to increase significantly in view of the Company’s expansion in the U.S.

In 2016, 2015 and 2014, our UDS sales activity benefited from continued product innovation and the success of our Sonolith i-sys device launched in 2007 and our Sonolith i-move device launched in 2010, together with a sustained commercial effort in distributing additional urology devices which allowed us to capture market share in both the European, Asian and U.S. markets. 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 launch of HIFU applications, particularly in the United States, and the continuation of the regulatory process for Focal One in the United States. See “—Liquidity and Capital Resources.”

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 26 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 income 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.

Fiscal Year Ended December 31, 2015 Compared to Fiscal Year Ended December 31, 2014

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)

| | 2015 | 2014 |
|---|-------------|-------------|
| Total revenues | 32.3 | 26.8 |
| Total net sales | 32.2 | 26.3 |
| Of which HIFU | 8.5 | 8.2 |
| Of which UDS | 23.8 | 18.1 |
| Total cost of sales | (18.5) | (15.6) |
| Gross profit | 13.8 | 11.2 |
| Gross profit as a percentage of total net sales | 42.8% | 42.7% |
| Total operating expenses | (13.3) | (12.9) |
| Income (loss) from operations | 0.5 | (1.7) |
| Net income (loss) | (1.7) | (0.5) |

Total revenues

Our total revenues increased 20.4% from €26.8 million in 2014 to €32.3 million in 2015, principally due to the increase in UDS machine sales.

HIFU division. The HIFU division's total revenues decreased 2.8% to €8.5 million in 2015 as compared to €8.7 million in 2014.

The HIFU division's net sales of medical devices decreased 18.6% to €3.7 million in 2015, with two Ablatherm units and five Focal One units sold, as compared to €4.5 million, with four Ablatherm and six Focal One units sold in 2014.

Net sales of RPP treatments increased 15% to €2.1 million in 2015.

Net sales of consumables and net sales of HIFU-related spare parts, supplies, leasing and services increased from €1.9 million in 2014 to €2.7 million in 2015.

Other HIFU-related revenues were €32 thousand from €518 thousand in 2014 and were comprised of license-based revenues from Theraclion.

UDS division. The UDS division's total revenues increased 31.6 % from €18.1 million in 2014 to €23.8 million in 2015, mostly due to the increase in machine sales.

The UDS division's net sales of medical devices increased 54.4% from €9.4 million in 2014 to €14.5 million in 2015 with 52 devices sold in 2015 compared to 42 units sold in 2014.

Net sales of UDS-related spare parts, supplies, RPP, leasing and services increased 7.2% from €8.7million in 2014 to €9.3 million in 2015, as a result of the larger installed base of lithotripsy machines.

Cost of sales.

Cost of sales increased 18.5% from €15.6 million in 2014 to €18.5 million in 2015, and represented 57.3% as a percentage of net sales in 2015, down from 59.4% as a percentage of net sales in 2014.

Operating expenses.

Operating expenses increased 2.8%, or €0.4 million, from €12.9 million in 2014 to €13.3 million in 2015. Operating expenses included R&D grants and tax credits of €618 thousand and €797 million in 2015 and 2014, respectively. The increase in operating expenses included an adverse exchange rate impact of €0.6 million. The costs associated with the FDA approval decreased 75% to €0.3 million in 2015.

Marketing and sales expenses increased €0.7 million, or 10.9%, mostly due to the increase in sales-related bonuses.

Research and development expenses decreased 8.3% at €2.7 million in 2015 from €2.9 million in 2014, and comprised R&D grants and tax credits of €0.6 million and €0.8 million in 2015 and 2014, respectively, and costs of the FDA approval of €0.3 million and €1.2 million in 2015 and 2014, respectively.

General and administrative expenses decreased 3.8% to €3.2 million in 2015.

Operating loss.

As a result of the factors discussed above, we recorded a consolidated operating profit of €0.5 million in 2015, as compared to a consolidated operating loss of €1.7million in 2014.

We realized an operating profit in the HIFU division of €0.5 million in 2015, as compared with an operating profit of €1.2 million in 2014, and an operating profit in the UDS division of €1.6 million in 2015, as compared to an operating loss of €0.2 million in 2014.

Financial (expense) income, net. Net financial expense was €2.1 million in 2015, including a €2.4 million expenses for fair value adjustments on the outstanding warrants, compared with a net financial income of €1.8 million in 2014, including a €1.7 million income due to fair value adjustments.

Foreign currency exchange gains (loss), net. In 2015, we recorded a net foreign currency exchange income of €0.7 million, mainly due to the variation of the Euro against the U.S. Dollar and the Japanese Yen, compared to a loss of €0.4 million in 2014.

Income taxes. Income tax was an expense of €0.8 million in 2015 and €0.1 million in 2014.

Net income / (loss)

As a result of the above, we realized a consolidated net loss of €1.7 million in 2015 compared with a consolidated net loss of €0.5 million in 2014.

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, 2016.

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)

| | 2016 | 2015 | 2014 |
|---|---------------|---------------|---------------|
| Net cash generated/(used) in operating activities | 1,119 | 1,338 | (1,014) |
| Net cash generated/(used) in investing activities | (384) | (541) | (1,034) |
| Net cash generated/(used) in financing activities | 7,694 | 1,987 | 6,039 |
| Net effect of exchange rate changes | (19) | (347) | 469 |
| Net increase/(decrease) in cash and cash equivalents | 8,410 | 2,436 | 4,461 |
| Cash and cash equivalents at the beginning of the year | 13,578 | 11,142 | 6,681 |
| Cash and cash equivalents at the end of the year | 21,989 | 13,578 | 11,142 |
| Total cash and cash equivalents, and short-term investments at the end of the year | 21,989 | 14,578 | 12,142 |

Our cash position as of December 31, 2016, 2015 and 2014, was €22.0 million (with no short-term treasury investments), €14.6 million (including €1.0 million of short-term treasury investments) and €12.1 million (including €1.0 million of short-term treasury investments), respectively. We experienced positive cash flows of €8.4 million in 2016, €2.4 million in 2015, and €4.5 million in 2014.

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 2014, our positive cash flow was due to the June 2014 Placement, while cash flow from operations remained negative.

In 2016, net cash generated by operating activities was €1.1 million compared with net cash generation by operating activities of €1.3 million in 2015 and compared with net cash used in operating activities of €1.0 million in 2014.

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 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 €1.5 million.

In 2014, net cash used in operating activities reflected principally:

- a net loss of €0.5 million;
- elimination of €0.4 million of net gains without effects on cash, including €0.9 million of depreciation and amortization and a gain of €1.8 million due to fair value variations of financial instruments;
- a decrease in trade accounts receivables of €0.9 million;
- a decrease in other receivables of €0.2 million;
- an increase in inventories of €1.3 million;
- an increase in payables of €26 thousand;
- an increase in prepaid expenses of €47 thousand; and
- an increase in accrued expenses of €34 thousand.

In 2016, net cash used in investing activities was €0.4 million compared with net cash used of €0.5 million in investing activities in 2015 and net cash used of €1.0 thousand in 2014.

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.

Net cash used in investing activities of €1.0 million in 2014 reflected investments of €0.9 million in capitalized assets produced by the Company, mostly for commercial demonstrations, training and RPP activity and investment of €0.1 million in property, equipment and software.

In 2016, net cash generated in financing activities was €7.7 million compared with net cash generated in financing activities of €2.0 million in 2015 and net cash generated in financing activities of €6.0 million in 2014.

Net cash generated in financing activities of €7.7 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 stock options and warrants, repayment of short-term and long-term borrowings and lease financing for €1.7 million.

Net cash generated in financing activities of €2.0 million in 2015 reflected principally the net proceeds of €0.2 million from the exercise of stock options and warrants, but also new long-term borrowings of €0.5 million, repayment of short-term and long-term borrowings and lease financing for €0.4 million and an increase of short-term borrowings of €0.7 million.

Net cash generated in financing activities of €6.0 million in 2014 reflected principally the €6.1 million net proceeds from the June 2014 Placement and net proceeds of €0.2 million from the exercise of stock options and warrants, but also new long term borrowings of €0.2 million, repayment of short-term and long-term borrowings and lease financing for €0.4 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 from a Japanese bank 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, 2016, 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, 2016 (in thousands of euro)

| | Total | Payments Due by Period | | | |
|---------------------------|-------|------------------------|-----------|-----------|----------------------|
| | | Less than 1 year | 1-3 years | 4-5 years | More than 5 years |
| Short-Term Debt | 1,629 | 1,629 | - | - | - |
| Long-Term Debt | 4,520 | 855 | 3,583 | 82 | - |
| Capital Lease Obligations | 535 | 222 | 233 | 66 | 15 |
| Operating Leases | 3,390 | 671 | 875 | 729 | 1,115 |
| Interest | 33 | 19 | 14 | 1 | - |

New Accounting Pronouncements

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 does not expect a significant impact from implementation. The company anticipates selecting the full retrospective method.

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, with early application permitted and, upon adoption, may be applied either prospectively or retrospectively. The Company will adopt the ASU 2015-17 for the year ended December 31, 2017.

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.

In August 2014, the FASB issued ASC Update No. 2014-15, Presentation of Financial Statements—Going Concern: Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern (Subtopic 205-40). Update 2014-15 requires management to assess an entity’s ability to continue as a going concern every reporting period, and provide certain disclosures if management has substantial doubt about the entities ability to operate as a going concern, or an express statement if not, by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. Update 2014-15 is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. The Company implemented ASU 2014-15 as of January 1, 2016.

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 €511 thousand in 2016, €448 thousand in 2015 and €518 thousand in 2014 and was classified as a reduction of research and development expenses.

Off-Balance Sheet Arrangements

At December 31, 2016, 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, 2017. 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 € 0.8 million.

| <u>Name</u> | <u>Position</u> |
|-----------------------------|--|
| Marc Oczachowski Age: 47 | Chief Executive Officer of EDAP TMS S.A. President of EDAP TMS France SAS and EDAP Technomed, Inc. 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. |
| François Dietsch Age: 41 | Chief Financial Officer of EDAP TMS S.A. 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. |

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). All four Board of Directors mandates terminate in June 2020 at the General Meeting of Shareholders approving the 2019 accounts.

| | |
|--|--|
| <p>Philippe Chauveau Age: 81 Mandate: 6 years Appointment: April. 8, 1997 (renewed) Expiration: 2020</p> | <p>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.</p> |
| <p>Pierre Beysson Age: 75 Mandate: 6 years Appointment: September 27, 2002 (renewed) Expiration: 2020</p> | <p>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.</p> |
| <p>Argil Wheelock Age: 69 Mandate: 6 years Appointment: June 25, 2009 (renewed) Expiration: 2020</p> | <p>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.</p> |
| <p>Rob Michiels Age: 67 Mandate: 6 years Appointment: July 16, 2009 (renewed) Expiration: 2020</p> | <p>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.</p> |

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 2016 was approximately €756 thousand including performance bonuses of € 118 thousand and benefits in kind of €94 thousand (benefits in kind comprise car allowances for senior management and housing and school allowances for senior management located outside France). 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 2016. 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 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 all 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 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, the independent auditor’s qualifications and independence, and the performance of our internal audit function and independent auditors.
- Prepare the Audit Committee report.
- The Audit Committee may 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.

Nomination Committee

The Company’s Board of Directors, currently composed of four independent directors: Mr. Philippe Chauveau, Mr. Pierre Beysson, Dr. Argil Wheelock and Mr. Rob Michiels (as such term is defined in the NASDAQ Listing Rules), 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.

Employees

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 |
| 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 |

As of December 31, 2014, we employed 161 individuals on a full-time basis, as follows:

| | Sales & Marketing | Manufacturing | Service | Research & Dvpt | Regulatory | Clinical Affairs | Administrative | Total |
|-------------|-------------------|---------------|---------|-----------------|------------|------------------|----------------|-------|
| France | 14 | 35 | 19 | 12 | 4 | 6 | 13 | 103 |
| Italy | 3 | 0 | 0 | 0 | 0 | 0 | 2 | 5 |
| Germany | 4 | 0 | 2 | 0 | 0 | 0 | 2 | 8 |
| Japan | 14 | 0 | 13 | 0 | 1 | 0 | 3 | 31 |
| Malaysia | 2 | 0 | 2 | 0 | 0 | 0 | 2 | 6 |
| South Korea | 1 | 0 | 0 | 0 | 0 | 0 | 1 | 2 |
| USA | 1 | 0 | 1 | 0 | 0 | 1 | 3 | 6 |
| Total | 39 | 35 | 37 | 12 | 5 | 7 | 26 | 161 |

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

Share Ownership

As of April 3, 2017, 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 3, 2017, 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 3, 2017, Senior Executive Officers held a total of 20,001 Shares and an aggregate of 555,338 options to purchase or to subscribe a total of 555,338 ordinary shares, with a weighted average exercise price of €2.82 per share. Of these options, 105,338 expire on October 29, 2017, 30,000 expire on June 25, 2020, 200,000 expire on January 18, 2023 and 220,000 expire on April 26, 2026.

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, 2017, we had sponsored four stock purchase and subscription option plans open to employees of EDAP TMS group.

On December 31, 2016, the expiration of our stock option contracts was as follows:

| Date of expiration | Number of Options |
|--------------------|-------------------|
| October 29, 2017 | 377,838 |
| June 25, 2020 | 127,100 |
| January 18, 2023 | 362,500 |
| April 26, 2026 | 560,000 |

As of December 31, 2016, a summary of stock option activity to purchase or to subscribe to shares under these plans is as follows:

| | 2016 | | 2015 | | 2014 | |
|---|-----------|-------------------------------------|-----------|-------------------------------------|-----------|-------------------------------------|
| | Options | Weighted average exercise price (€) | Options | Weighted average exercise price (€) | Options | Weighted average exercise price (€) |
| Outstanding on January 1, | 917,188 | 2.79 | 1,095,850 | 2.76 | 1,310,850 | 2.70 |
| Granted | 575,000 | 3.22 | - | - | - | - |
| Exercised | - | - | (72,412) | 2.13 | (750) | 3.99 |
| Forfeited | (64,750) | 3.30 | (106,250) | 2.88 | (90,250) | 2.07 |
| Expired | - | - | - | - | (124,000) | 2.60 |
| Outstanding on December 31, | 1,427,438 | 2.94 | 917,188 | 2.79 | 1,095,850 | 2.76 |
| Exercisable on December 31, | 774,938 | 2.87 | 724,688 | 3.03 | 784,600 | 3.09 |
| Share purchase options available for grant on December 31 | 243,428 | | 232,428 | | 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, 2016:

| Exercise price (€) | Outstanding options | | | Fully vested options ⁽¹⁾ | | | |
|--------------------|---------------------|---|-------------------------------------|--|---------|-------------------------------------|--|
| | Options | Weighted average remaining contractual life | Weighted average exercise price (€) | Aggregate Intrinsic Value ⁽²⁾ | Options | Weighted average exercise price (€) | Aggregate Intrinsic Value ⁽²⁾ |
| 3.99 | 327,838 | 0.8 | 3.99 | - | 327,838 | 3.99 | - |
| 2.38 | 127,100 | 3.5 | 2.38 | 93,004 | 127,100 | 2.38 | 93,004 |
| 3.22 | 560,000 | 9.3 | 3.22 | - | - | - | - |
| 1.91 | 362,500 | 6.0 | 1.91 | 435,629 | 270,000 | 1.91 | 324,469 |
| 1.88 | 50,000 | 3.5 | 1.88 | 61,587 | 50,000 | 1.88 | 61,587 |
| 1.88 to 3.99 | 1,427,438 | 4.5 | 2.94 | 590,220 | 774,938 | 2.87 | 479,060 |

(1) Fully vested options are all exercisable options

(2) The aggregate intrinsic value represents the total pre-tax intrinsic value, based on the Company's closing stock price of \$3.28 at December 31, 2016, 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, shareholders who are beneficial owners of more than 5% of our shares are as follows.

| | # of shares held on Dec. 31, 2016 | % of share capital on Dec. 31, 2016 | # of shares held on Dec. 31, 2015 | % of share capital on Dec. 31, 2015 | # of shares held on Dec. 31, 2014 | % of share capital on Dec. 31, 2014 |
|-----------------|-----------------------------------|-------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|-------------------------------------|
| Bruce & Co. Inc | 1,045,494 | 3.64 | 1,045,494 | 4.05 | 1,565,494 | 6.20 |

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 3, 2017, 29,368,394 shares were issued, including 28,997,866 outstanding and 370,528 treasury shares. At March 17, 2017, there were 29,342,294 ADSs, each representing one Share, all of which were held of record by 19 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" is also Chairman of a Korean company named Dae You. EDAP-TMS Korea subcontracts to Dae You the service contract maintenance of our medical devices installed in Korea. The amounts invoiced by Dae You under this contract were €62 thousand, €78 thousand and €68 thousand, for 2016, 2015 and 2014 respectively. As of December 31, 2016, payables to Dae You amounted to €9 thousand. As of December 31, 2015, payables to Dae You amounted to €53 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 €483 thousand, €408 thousand and €308 thousand, in 2016, 2015 and 2014, respectively. As of December 31, 2016, receivables ('Net trade accounts and notes receivable') amounted to €325 thousand. As of December 31, 2015, receivables ('Net trade accounts and notes receivable') amounted to €380 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, 2016, total consolidated export net sales, which we define as sales made outside of mainland France, were €25.9 million, which represented 73% 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 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 2009 through 2015, 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 3, 2017

Since January 1, 2017, we issued a total of 270,250 new ordinary shares in the form of ADSs following the exercise of subscription options and March 2012 Warrants.

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 2011 through 2016, the reported high and low sales prices of the ADSs on NASDAQ.

| | NASDAQ | |
|------|--------|------|
| | High | Low |
| | \$ | |
| 2016 | 4.80 | 2.43 |
| 2015 | 6.57 | 2.26 |
| 2014 | 6.05 | 1.15 |
| 2013 | 4.94 | 1.98 |
| 2012 | 2.85 | 1.43 |

The following tables set forth, for the years 2015 and 2016, and through March 17, 2017, the reported high and low sales prices of the ADSs on NASDAQ for each full financial quarter:

| | NASDAQ | |
|------------------------|--------|------|
| | High | Low |
| | \$ | |
| 2017: | | |
| Through March 17, 2017 | 3.62 | 2.25 |
| 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 |
| 2015: | | |
| First Quarter | 4.09 | 2.26 |
| Second Quarter | 3.69 | 2.59 |
| Third Quarter | 6.00 | 2.76 |
| Fourth Quarter | 6.57 | 3.05 |

The following table sets forth, for the most recent six months (from September 2016 through March 17, 2017), the reported high and low sale prices of the ADSs on NASDAQ for each month:

| | NASDAQ | |
|--------------------------------|--------|------|
| | High | Low |
| | \$ | |
| 2017: | | |
| January | 3.62 | 3.10 |
| February | 3.30 | 2.25 |
| March (through March 17, 2017) | 3.16 | 2.50 |
| 2016: | | |
| September | 3.04 | 2.73 |
| October | 2.93 | 2.60 |
| November | 3.60 | 2.59 |
| December | 3.40 | 2.97 |

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 2017 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 2016.

Corporate Purposes

Pursuant to Article 2 of the by-laws, the 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 four members, all 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 financial results for fiscal year 2019. 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 older than eighty-five years of age. If a director reaches this 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 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 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 and our by-laws, we are required to allocate 5% of our net profits in each fiscal year to a legal reserve fund 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. 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, in satisfaction of 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, the declaration of dividends and the issuance of (non-convertible) bonds.

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 Works 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 Depository to exercise the voting rights relating to the shares represented by its ADSs. The Depository 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 Depository a proxy to vote, and the Depository 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 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 May 28, 2013, pursuant to a securities purchase agreement, we issued Investor Warrants which will expire on November 29, 2018. The Investor Warrants are exercisable, from November 29, 2013, 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 \$4.25 per ordinary share in the form of ADSs. We also issued Placement Agent Warrants with an exercise price of \$5.00 per ordinary share in the form of ADSs. The Placement Agent Warrants are exercisable from November 29, 2013 and expire on May 28, 2016. With respect to both the Investor Warrants and the Placement Agent Warrants (together, the “May 2013 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 May 2013 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 May 2013 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 May 2013 Warrants would have been entitled to receive upon the occurrence of the fundamental transaction as if the May 2013 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 May 2013 Warrants shall be given the same choice upon the exercise of the May 2013 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 May 28, 2013. The foregoing description is qualified in its entirety by reference to the full text of the Form 6-K.

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.

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 33¹/₃% or more of a French 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).

Certain Income Tax Considerations

The following generally summarizes the material French and US 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, 2016.

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 21% when non-residents are individuals resident from one of the countries of the European Economic Area 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-30-30-10-70-20120912, 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 0.2% French tax on financial transactions provided that the market capitalization of the issuer exceeds 1 billion euros 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, 2016, has been published in the official guidelines of the French tax authorities on December 21, 2015 (BOI-ANX-000467-20151221). EDAP was not included in such list as its market capitalization did not exceed 1 billion as at December 1, 2015. 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

Individuals who are not residents of France for purposes of French taxation are not subject to a wealth tax (“impôt de solidarité sur la fortune”) in France as a result of owning an interest in the share capital of a French corporation, provided that such ownership interest is, directly and indirectly, less than 10% of the corporation’s share capital and does not enable the shareholder to exercise influence over 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 holder that is a resident 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 (a “U.S. holder”).

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 holder generally will be entitled to Treaty benefits in respect of Securities if he is concurrently:

- the beneficial owner of Securities (and the dividends paid with respect thereto);
- 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;
- not also a resident of France for French tax purposes; and
- 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.

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.

Holders 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 21% when non-residents are individuals’ residents from one of the countries of the European Economic Area) 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 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 2015 taxable year. In addition, we do not anticipate it becoming a PFIC for the 2016 taxable year (as described under “—Passive Foreign Investment Company Rules” below). Accordingly, dividends, if any, paid by us in 2015 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) 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 2015, and also does not anticipate becoming a PFIC with respect to the year 2016. 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 advisers 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 Wealth Tax

The French wealth tax 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 25% of the financial 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, 2016, 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 2016, approximately 78% of our total costs of sales and operating expenses were denominated in euro. During the same period, approximately 58% 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, 2016 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 €9,000 for the year ended December 31, 2016, compared to a increase of approximately €67,000 for the year ended December 31, 2015. A uniform 10% decrease in the value of the euro as of December 31, 2016 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 €10,000 for the year ended December 31, 2016 as compared to a decrease of approximately €74,000 for the year ended December 31, 2015. 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, 2016 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 €0.1 million, €0.2 million and €0.2 million of our outstanding indebtedness at December 31, 2016, 2015 and 2014, respectively, were denominated in Japanese yen. Approximately €3.9 million, €4.4 million and €2.1 million of our outstanding indebtedness at December 31, 2016, 2015 and 2014, respectively, were denominated in U.S. dollars. In addition, we had approximately €2.8 million, €2.1 million and €0.746 million of cash denominated in U.S. dollars at December 31, 2016, 2015 and 2014, respectively, and €1.5million, €0.9 million and €1.8 million of cash denominated in Japanese yen at December 31, 2016, 2015 and 2014, respectively.

Equity Price Risk

In connection with the funds we raised in 2012, 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, 2016 closing price of \$3.28 per ADR would result in an increase of €1.1 million in the fair value of the Warrants with a corresponding financial loss in our Statement of Income. See Note 23 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 Depository, 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 2012, 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 Depository 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 Depository may collect its annual fee for Depository 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 Depository 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) | <ul style="list-style-type: none">- 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 | <ul style="list-style-type: none">- 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 | <ul style="list-style-type: none">- Distribution of securities distributed to holders of deposited securities which are distributed by the Depository to ADS registered holders. |
| Registration or transfer fees | <ul style="list-style-type: none">- Transfer and registration of shares on our share register to or from the name of the Depository or its agent when you deposit or withdraw shares |
| Expenses of the Depository | <ul style="list-style-type: none">- 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 Depository or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes | <ul style="list-style-type: none">- As necessary |
| Any charges incurred by the Depository or its agents for servicing the deposited securities | <ul style="list-style-type: none">- As necessary |

Fees Payable to the Company by the Depositary

From January 1, 2016 to March 17, 2017, the following amounts were paid by the Depositary to the Company: \$90,000.00 and \$2,932.84 respectively for the administration of the ADR program and for expenses linked to the assistance in printing, mailing and distributing materials and proxies for shareholders' meetings.

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, 2016. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of December 31, 2016. 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. 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, 2016 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 effective as of December 31, 2016. This annual report includes an attestation report of the company's registered public accounting firm on the Company's internal control over financial reporting due to the Company's market capitalization being above \$75 million at June 30, 2016.

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, 2016, which is included herein. See report of PricewaterhouseCoopers Audit, an independent registered public accounting firm, included within the financial statements on page F-2.

Change in Internal Control over Financial Reporting

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.

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.

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 auditors PricewaterhouseCoopers Audit ("PwC") billed the following services related for our 2015 and 2016 financial years.

| Nature of the Fees | 2016 (in €) | 2015 (in €) |
|---------------------------|------------------------|------------------------|
| Audit fees | 332,000 | 297,000 |
| Audit-related fees | 8,000 | - |
| Tax fees | - | - |
| All other fees | - | - |
| Total | 340,000 | 297,000 |

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 mainly consisted of services that are normally performed by the external auditor in connection with the auditing of the annual financial statements. Audit-related services also included advice on issues of accounting and reporting which were not classified as audit services, support with the interpretation and implementation of new accounting and reporting standards, auditing of employee benefit plans and support with the implementation of corporate control requirements for reporting.

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 2016, the Company recorded a purchase of 20,000 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 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.

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.

Exhibit Description

Number:

- 1.1 By-laws (*statuts*) of EDAP TMS S.A. as amended as of January 25, 2017.
- 4.1 French version of Commercial Lease dated July 1, 2015 between Maison Antoine Baud and EDAP TMS France⁽¹⁾
- 4.2 English language summary of Commercial Lease dated July 1, 2015 between Maison Antoine Baud and EDAP TMS France⁽¹⁾
- 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). ⁽¹⁾
- 4.5 Form of Ordinary Share Purchase Warrant (incorporated herein by reference to Exhibit 4.1 to Form 6-K dated May 28, 2013). ⁽¹⁾
- 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 1.1 to Form 6-K dated May 28, 2013). ⁽¹⁾
- 4.7 Form of Securities Purchase Agreement dated May 28, 2014 among EDAP TMS S.A. and each purchaser identified on the signature pages thereto (incorporated herein by reference to Exhibit 1.1 to Form 6-K dated June 2, 2014). ⁽¹⁾
- 4.8 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 1.1 to Form 6-K dated April 14, 2016).⁽¹⁾
- 4.9 Form of Ordinary Share Purchase Warrant (incorporated herein by reference to Exhibit 4.1 to Form 6-K dated April 14, 2016). ⁽¹⁾
- 8.1 List of subsidiaries of EDAP TMS S.A. as of April 3, 2017.
- 11.1 Code of Ethics as amended as of January 25, 2017.
- 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.

Dated: April 3, 2017

EDAP TMS S.A.

/s/ Marc Oczachowski

Marc Oczachowski
Chief Executive Officer

Dated: April 3, 2017

/s/ François Dietsch

François Dietsch
Chief Financial Officer

INDEX TO FINANCIAL STATEMENTS

Audited Consolidated Financial Statements for EDAP TMS S.A. and Subsidiaries for the Years Ended December 31, 2016, 2015 and 2014

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| <u>Report of Independent Registered Public Accounting firm</u> | <u>F-2</u> |
| <u>Consolidated Balance Sheets as of December 31, 2016 and 2015</u> | <u>F-3</u> |
| <u>Consolidated Statements of Income (loss) for the years ended December 31, 2016, 2015 and 2014</u> | <u>F-4</u> |
| <u>Consolidated Statements of Comprehensive Income (loss) for the years ended December 31, 2016, 2015 and 2014</u> | <u>F-5</u> |
| <u>Consolidated Statements of Shareholders' Equity for the years ended December 31, 2016, 2015 and 2014</u> | <u>F-6</u> |
| <u>Consolidated Statements of Cash Flows for the years ended December 31, 2016, 2015 and 2014...</u> | <u>F-7</u> |
| <u>Notes to Consolidated Financial Statements</u> | <u>F-8</u> |

Report of Independent Registered Public Accounting Firm

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income (loss), comprehensive income (loss), of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of EDAP TMS S.A. and its subsidiaries at December 31, 2016 and December 31, 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework 2013 issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these 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 annual report on internal control over financial reporting" included in Item 15 of this Form 20-F. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. 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.

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 3, 2017

PricewaterhouseCoopers Audit
Represented by

/s/ Elisabeth L'hermite
Elisabeth L'hermite

EDAP TMS S.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of December 31, 2016 and 2015
(in thousands of euros unless otherwise noted)

| ASSETS | Notes | 2016 | 2015 |
|--|--------------|-------------|-------------|
| Current assets | | | |
| Cash and cash equivalents | 2 | 21,989 | 13,578 |
| Current portion of net trade accounts and notes receivable | 3 | 9,143 | 10,744 |
| Other receivables | 4 | 884 | 1,018 |
| Inventories | 5 | 8,030 | 6,151 |
| Deferred tax assets | 20-3 | 12 | 47 |
| Other assets, current portion | 6 | 457 | 500 |
| Short-term investment | 2 | - | 1,000 |
| Total current assets | | 40,514 | 33,039 |
| Non-current assets | | | |
| Property and equipment, net | 7 | 2,770 | 2,123 |
| Intangible assets, net | 8 | 149 | 39 |
| Goodwill | 8 | 2,412 | 2,412 |
| Deposits and other non-current assets | | 448 | 376 |
| Net Trade accounts and notes receivable, non-current | 3 | 299 | 593 |
| Total assets | | 46,591 | 38,581 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities | | | |
| Trade accounts and notes payable | 9 | 5,960 | 6,098 |
| Deferred revenues, current portion | 10 | 1,878 | 1,597 |
| Social security and other payroll withholdings taxes | | 1,214 | 1,211 |
| Employee absences compensation | | 573 | 539 |
| Income taxes payable | | 363 | 624 |
| Other accrued liabilities | 11 | 2,316 | 2,768 |
| Short-term borrowings | 13 | 1,629 | 2,814 |
| Current portion of capital lease obligations | 12 | 222 | 238 |
| Current portion of financial instruments carried at fair value | 14-2 | 640 | 172 |
| Current portion of long-term debt | 14-1 | 215 | 209 |
| Total current liabilities | | 15,010 | 16,271 |
| Non-current liabilities | | | |
| Deferred revenues, non-current | 10 | 333 | 504 |
| Capital lease obligations, non-current | 12 | 313 | 294 |
| Financial instruments carried at fair value, non-current | 14-2 | 3,281 | 4,205 |
| Long-term debt, non-current | 14-1 | 384 | 592 |
| Other long-term liabilities | 15 | 2,818 | 2,285 |
| Total liabilities | | 22,140 | 24,151 |
| Shareholders' equity | | | |
| Common stock, €0.13 par value; 29,098,144 shares issued and 28,727,616 shares outstanding; 25,753,989 shares issued and 25,383,461 shares outstanding; at December 31, 2016 and 2015, respectively | | 3,783 | 3,348 |
| Additional paid-in capital | | 64,685 | 58,560 |
| Retained earnings | | (38,927) | (42,769) |
| Cumulative other comprehensive loss | | (3,948) | (3,567) |
| Treasury stock, at cost; 370,528 at December 31, 2016 and at December 31, 2015 | 16 | (1,142) | (1,142) |
| Total shareholders' equity | 16 | 24,451 | 14,430 |
| Total liabilities and shareholders' equity | | 46,591 | 38,581 |

EDAP TMS S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
For the years ended December 31, 2016, 2015 and 2014
(in thousands of euros except per share data and where otherwise noted)

| | Notes | 2016 | 2015 | 2014 |
|---|-------|------------|------------|------------|
| Sales of goods | | 24,045 | 21,906 | 16,895 |
| Sales of RPPs & leases | | 4,906 | 4,408 | 3,957 |
| Sales of spare parts and services | | 6,628 | 5,904 | 5,400 |
| Total sales | | 35,579 | 32,218 | 26,252 |
| Other revenues | 17 | 32 | 35 | 533 |
| Total revenues | | 35,611 | 32,253 | 26,785 |
| Cost of goods | | (12,288) | (12,256) | (9,825) |
| Cost of RPPs & leases | | (2,527) | (2,556) | (2,155) |
| Cost of spare parts and services | | (4,385) | (3,656) | (3,604) |
| Total cost of sales | | (19,200) | (18,468) | (15,584) |
| Gross profit | | 16,411 | 13,785 | 11,201 |
| Research and development expenses | 18 | (3,868) | (2,690) | (2,932) |
| Selling and marketing expenses | | (8,856) | (7,406) | (6,678) |
| General and administrative expenses | | (3,296) | (3,202) | (3,328) |
| Income (loss) from operations | | 392 | 488 | (1,736) |
| Financial (expense) income, net | 19 | 3,949 | (2,094) | 1,771 |
| Foreign currency exchange gain (loss), net | | 103 | 699 | (431) |
| Income (loss) before taxes | | 4,444 | (907) | (396) |
| Income tax (expense) benefit | 20 | (602) | (759) | (116) |
| Net income (loss) | | 3,842 | (1,667) | (512) |
| Basic income (loss) per share | 21 | 0.14 | (0.07) | (0.02) |
| Diluted income (loss) per share | 21 | 0.13 | (0.07) | (0.02) |
| Basic Weighted average shares outstanding | 21 | 27,823,313 | 25,021,966 | 23,600,428 |
| Diluted Weighted average shares outstanding | 21 | 29,365,583 | 25,021,966 | 23,600,428 |

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

EDAP TMS S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the years ended December 31, 2016, 2015 and 2014
(in thousands of euros unless otherwise noted)

| | 2016 | 2015 | 2014 |
|--|-------|---------|-------|
| Net income (loss) | 3,842 | (1,667) | (512) |
| Other comprehensive income (loss): | | | |
| Foreign currency translation adjustments | (144) | (374) | 151 |
| Provision for retirement indemnities | (238) | 18 | (141) |
| Comprehensive income (loss), net of tax | 3,460 | (2,023) | (502) |

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, 2016, 2015 and 2014
(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, 2013 | 21,789,670 | 2,882 | 51,385 | (40,590) | (3,221) | (1,172) | 9,284 |
| Net loss | - | - | - | (512) | - | - | (512) |
| Translation adjustment | - | - | - | - | 151 | - | 151 |
| Warrants and stock options granted or exercised | - | - | 140 | - | - | - | 140 |
| Capital increase | 3,075,750 | 400 | 5,819 | - | - | - | 6,219 |
| Provision for retirement indemnities | - | - | - | - | (141) | - | (141) |
| Balance as of December 31, 2014 | 24,865,420 | 3,282 | 57,344 | (41,102) | (3,211) | (1,172) | 15,141 |
| Net loss | - | - | - | (1,667) | - | - | (1,667) |
| Translation adjustment | - | - | - | - | (374) | - | (374) |
| Warrants and stock options granted or exercised | - | - | 62 | - | - | 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 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) | (3,948) | (1,142) | 24,451 |

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

EDAP TMS S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2016, 2015 and 2014
(in thousands of euros unless otherwise noted)

| | 2016 | 2015 | 2014 |
|--|---------------|---------------|----------------|
| Cash flows from operating activities | | | |
| Net income (loss) | 3,842 | (1,667) | (512) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Depreciation and amortization | 1,025 | 1,002 | 900 |
| Change in warrants fair value | (3,985) | 2,047 | (1,805) |
| Other Non-cash compensation | 360 | 66 | 140 |
| Change in allowances for doubtful accounts & slow-moving inventories | (75) | (218) | 154 |
| Change in long-term provisions | 116 | 73 | 147 |
| Net capital loss on disposals of assets | 58 | 68 | 56 |
| Deferred tax expense (benefit) | 65 | 23 | (18) |
| Operating cash flow | 1,408 | 1,394 | (939) |
| Increase/Decrease in operating assets and liabilities: | | | |
| Decrease (Increase) in trade accounts and notes and other receivables | 1,752 | (1,752) | 1,066 |
| Decrease (Increase) in inventories | (1,985) | (381) | (1,258) |
| Decrease (Increase) in other assets | 46 | 183 | (47) |
| (Decrease) Increase in trade accounts and notes payable | (153) | 518 | 26 |
| (Decrease) Increase in accrued expenses, other current liabilities | 53 | 1,376 | 138 |
| Net increase (decrease) in operating assets and liabilities | (287) | (56) | (75) |
| Net cash generated by (used in) operating activities | 1,119 | 1,338 | (1,014) |
| Cash flows from investing activities: | | | |
| Additions to capitalized assets produced by the Company | (854) | (470) | (867) |
| Net proceeds from sale of leased back assets | - | 95 | - |
| Acquisitions of property and equipment | (321) | (160) | (140) |
| Acquisitions of intangible assets | (151) | (20) | (14) |
| Proceeds from sale of short term investments | 1,000 | - | - |
| Net proceeds from sale of assets | - | 26 | - |
| Increase in deposits and guarantees | (59) | (12) | (12) |
| Net cash generated by (used in) investing activities | (384) | (541) | (1,034) |
| Cash flow from financing activities: | | | |
| Proceeds from capital increase | 6,200 | 1,219 | 6,219 |
| Proceeds from long term borrowings, net of financing costs | 3,168 | 450 | 242 |
| Repayment of long term borrowings | (216) | (129) | (114) |
| Repayment of obligations under capital leases | (277) | (241) | (226) |
| Increase (decrease) in bank overdrafts and short-term borrowings | (1,182) | 688 | (82) |
| Net cash generated by (used in) financing activities | 7,694 | 1,987 | 6,039 |
| Net effect of exchange rate changes on cash and cash equivalents | (19) | (347) | 469 |
| Net increase (decrease) in cash and cash equivalents | 8,410 | 2,436 | 4,461 |
| Cash and cash equivalents at beginning of year | 13,578 | 11,142 | 6,681 |
| Cash and cash equivalents at end of year | 21,989 | 13,578 | 11,142 |

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

EDAP TMS S.A. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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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 devices for treating stones of the urinary tract and localized prostate cancer. 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 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 and price of maintenance contract used to determine the amount of revenue to be deferred. 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.

1-3 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.

1-4 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.

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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.

1-5 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.

1-6 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.

1-7 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.

1-8 Inventories

Inventories are valued at the lower of manufacturing cost, which is principally comprised of components and labor costs, or market. 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.

1-9 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 | 10 years or lease term if shorter |
| Equipment | 3-10 years |
| Furniture, fixtures, fittings and other | 2-10 years |

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.

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1-10 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.

1-11 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 | 5 years |
| Licenses | 5 years |
| Trade name and trademark | 7 years |

1-12 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.

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1-13 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 €319 thousand, €354 thousand and €429 thousand for the years ended December 31, 2016, 2015 and 2014, respectively.

1-14 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.

1-15 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 €511 thousand, €448 thousand and €518 thousand for the years ended December 31 2016, 2015 and 2014, respectively.

1-16 Advertising costs

Advertising costs are recorded as an expense in the period in which they are incurred. Advertising costs amounted to €744 thousand, €461 thousand and €413 thousand for the years ended December 31, 2016, 2015 and 2014, respectively.

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1-17 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.

1-18 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.

1-19 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.

1-20 Employee stock option plans

At December 31, 2016, 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 October 29, 2007, the Board of Directors granted 504,088 options to subscribe to new Shares to certain employees of EDAP TMS. The exercise price was fixed at €3.99 per share. Options were to begin vesting one year after the date of grant and all options were fully vested as of October 29, 2011 (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 October 29, 2017 (i.e., ten years after the date of grant) or when employment with the Company ceases, whichever occurs earlier. At December 31, 2007 the total fair value of the options granted under this plan was €1,731 thousand. This non-cash financial charge has been recognized in the Company's operating expenses over a period of 48 months, between October 2007 and October 2011. There was no impact on 2014, 2015 and 2016 operating income. Under this plan, 327,838 options are still in force on December 31, 2016.

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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. The impact on operating income, in accordance with ASC 718, was €8 thousand on 2014 and there was no impact on 2015 and 2016 operating income. Under this plan, 50,000 options are still in force on December 31, 2016.

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. The impact on operating income, in accordance with ASC 718, was €4 thousand on 2014 and there was no impact on 2015 and 2016 operating income. Under this plan, 127,100 options are still in force on December 31, 2016.

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. The impact on operating income, in accordance with ASC 718, was €128 thousand, €66 thousand and €29 thousand in 2014, 2015 and 2016, respectively. Under this plan, 362,500 options are still in force on December 31, 2016.

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 €331 thousand. This non-cash financial charge has been recognized in the Company's operating expenses over a period of 48 months. The impact on operating income, in accordance with ASC 718, was €331 thousand on 2016. Under this plan, 560,000 options are still in force on December 31, 2016.

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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, | | |
|--|-------------------------|---------------------|---------------------|
| | 2016 | 2015 ⁽¹⁾ | 2014 ⁽¹⁾ |
| Weighted-average expected life (years) | 6.25 | — | — |
| Expected volatility rates ⁽²⁾ | 60,60% | — | — |
| Expected dividend yield | 0% | — | — |
| Risk-free interest rate | 0,01% | — | — |
| Weighted-average exercise price (€) | 3.22 | — | — |
| Weighted-average fair value of options granted during the year (€) | 1.67 | — | — |

(1) The Company did not make any grants during the years ended December 31, 2015 and 2014.

(2) Historical volatility calculated over 10 years.

1-21 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.

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1-22 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.

1-23 New accounting pronouncements

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 does not expect a significant impact from implementation. The company anticipates selecting the full retrospective method.

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, with early application permitted and, upon adoption, may be applied either prospectively or retrospectively. The Company will adopt the ASU 2015-17 for the year ended December 31, 2017.

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.

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In August 2014, the FASB issued ASC Update No. 2014-15, Presentation of Financial Statements—Going Concern: Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern (Subtopic 205-40). Update 2014-15 requires management to assess an entity’s ability to continue as a going concern every reporting period, and provide certain disclosures if management has substantial doubt about the entities ability to operate as a going concern, or an express statement if not, by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. Update 2014-15 is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. The Company implemented ASU 2014-15 as of January 1, 2016.

2—CASH EQUIVALENTS AND SHORT TERM INVESTMENTS

Cash and cash equivalents and short-term investments are comprised of the following:

| | December 31, | |
|--|---------------------|---------------|
| | 2016 | 2015 |
| Total cash and cash equivalents | 21,989 | 13,578 |
| Short term investments | - | 1,000 |
| Total cash and cash equivalents, and short term investments | 21,989 | 14,578 |

Short-term investments are comprised of money market funds. The aggregate fair value of the short-term investments is consistent with their book value. In 2015, short-term investments comprise €1.0 million pledged in favour of the bank as collateral to a €1.0 million short-term loan. See Note 13.

3—TRADE ACCOUNTS AND NOTES RECEIVABLE, NET

Trade accounts and notes receivable consist of the following:

| | December 31, | |
|---------------------------------------|---------------------|---------------|
| | 2016 | 2015 |
| Trade accounts receivable | 10,286 | 11,869 |
| Notes receivable | 116 | 560 |
| Less: allowance for doubtful accounts | (960) | (1,091) |
| Total | 9,442 | 11,338 |
| Less current portion | (9,143) | (10,744) |
| Total long-term portion | 299 | 593 |

Notes receivable usually represent commercial bills of exchange (drafts) with initial maturities of 90 days or less.

Bad debt expenses amount to an income of €18 thousand and a cost of €17 thousand and €450 thousand, respectively for the years ended December 31, 2016, 2015 and 2014.

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Long term portion consists of sales type leases of medical devices and receivables for license revenue paid over four years. Future minimum payments to be received over the five coming years are as follows:

| | December 31, | |
|-------------------------------|-------------------|-----------------|
| | Sales type leases | License Revenue |
| 2018 | 65 | 152 |
| 2019 | 48 | - |
| 2020 | 24 | - |
| 2021 | 10 | - |
| 2022 | - | - |
| Total minimum payments | 147 | 152 |

4—OTHER RECEIVABLES

Other receivables consist of the following:

| | December 31, | |
|--|--------------|--------------|
| | 2016 | 2015 |
| Research and development tax credit receivable from the French State | 476 | 419 |
| Research and development subsidies receivable from the French State | - | 112 |
| Value-added taxes receivable | 209 | 329 |
| Other receivables from Government and public authorities | 138 | 121 |
| Others | 60 | 37 |
| Total | 884 | 1,018 |

5—INVENTORIES

Inventories consist of the following:

| | December 31, | |
|---|--------------|--------------|
| | 2016 | 2015 |
| Components, spare parts | 4,683 | 4,085 |
| Work-in-progress | 809 | 676 |
| Finished goods | 3,342 | 2,118 |
| Total gross inventories | 8,834 | 6,879 |
| Less: provision for slow-moving inventory | (804) | (728) |
| Total | 8,030 | 6,151 |

The provision for slow moving inventory relates to components and spare parts. The allowance for slow moving inventory, the changes in which are classified within cost of sales, amounted to a cost of €55 thousand for the year ended December 31, 2016, an income of €8 thousand for the year ended December 31, 2015, and a cost of €34 thousand for the year ended December 31, 2014, respectively.

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6—OTHER ASSETS

Other assets consist of the following:

| | December 31, | |
|-----------------------------------|--------------|------|
| | 2016 | 2015 |
| Prepaid expenses, current portion | 457 | 500 |
| Total | 457 | 500 |

7—PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following:

| | December 31, | |
|---|--------------|---------|
| | 2016 | 2015 |
| Equipment | 7,002 | 7,203 |
| Furniture, fixture, and fittings and other | 3,500 | 2,974 |
| Total gross value | 10,502 | 10,177 |
| Less: accumulated depreciation and amortization | (7,732) | (8,055) |
| Total | 2,770 | 2,123 |

Depreciation and amortization expense related to property and equipment amounted to €843 thousand, €683 thousand and €726 thousand for the years ended December 31, 2016, 2015 and 2014, respectively.

Capitalized costs on equipment held under capital leases of €2,220 thousand and €2,466 thousand are included in property and equipment at December 31, 2016 and 2015, respectively. Accumulated amortization of these assets leased to third parties was €2,129 thousand and €2,338 thousand, at December 31, 2016 and 2015, respectively.

Capitalized costs on vehicles and office and IT equipments held under capital leases of €743 thousand and €627 thousand are included in property and equipment at December 31, 2016 and 2015, respectively. Accumulated amortization of these assets leased to third parties was €462 thousand and €353 thousand, at December 31, 2016 and 2015, respectively.

Amortization expense on assets held under capital leases is included in total amortization expense and amounted to €164 thousand, €207 thousand and €310 thousand, for the years ended December 31, 2016, 2015 and 2014, respectively.

8—GOODWILL AND INTANGIBLE ASSETS

As discussed in Note 1-11, 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, 2016.

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The Company completed the required annual impairment test in the fourth quarter of 2016. 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. A zero growth rate in the Company's UDS business plan would not lead the Company to record any impairment charge. A 10% growth rate in the Company's HIFU business plan would not lead the Company to record any impairment charge.

Intangible assets consist of the following:

| | December 31, | |
|--------------------------------|---------------------|----------------|
| | 2016 | 2015 |
| Licenses | 613 | 462 |
| Trade name and trademark | 621 | 596 |
| Patents | 412 | 412 |
| Organization costs | 363 | 363 |
| Total gross value | <u>2,009</u> | <u>1,833</u> |
| Less: accumulated amortization | <u>(1,860)</u> | <u>(1,794)</u> |
| Total | <u>149</u> | <u>39</u> |

Amortization expenses related to intangible assets amounted to €42 thousand, €6 thousand and €26 thousand, for the years ended December 31, 2016, 2015 and 2014, respectively.

For the five coming years, the annual estimated amortization expense will consist of the following:

| | December 31, |
|-------|---------------------|
| 2017 | 71 |
| 2018 | 38 |
| 2019 | 24 |
| 2020 | 3 |
| 2021 | - |
| Total | <u>136</u> |

9—TRADE ACCOUNTS AND NOTES PAYABLE

Trade accounts and notes payable consist of the following:

| | December 31, | |
|------------------------|---------------------|--------------|
| | 2016 | 2015 |
| Trade accounts payable | 5,562 | 5,641 |
| Notes payable | 398 | 457 |
| Total | <u>5,960</u> | <u>6,098</u> |

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.

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10—DEFERRED REVENUES

Deferred revenues consist of the following:

| | December 31, | |
|--|--------------|--------------|
| | 2016 | 2015 |
| Deferred revenues on maintenance contracts | 1,487 | 1,294 |
| Deferred revenue on RPP | 350 | 126 |
| Deferred revenue on sale of devices | 173 | 287 |
| Deferred research and development grants | 201 | 394 |
| Total | 2,211 | 2,101 |
| Less long term portion | (333) | (504) |
| Current portion | 1,878 | 1,597 |

11—OTHER ACCRUED LIABILITIES

Other accrued liabilities consist of the following:

| | December 31, | |
|---|--------------|--------------|
| | 2016 | 2015 |
| Retirement indemnities | 2,004 | 1,600 |
| Provision for warranty costs | 548 | 576 |
| Accruals for payroll and associated taxes | 1,311 | 973 |
| Conditional government subsidies | 267 | 357 |
| Value added tax payable | 182 | 169 |
| Advances received from customers | 115 | 771 |
| Provision for Asset Retirement Obligation (Japan) | 80 | - |
| Others | 307 | 297 |
| Total | 4,815 | 4,742 |
| Less non-current portion | (2,499) | (1,973) |
| Current portion | 2,316 | 2,768 |

Conditional government subsidies are granted by French government to finance R&D project developments and are subject to reimbursement conditional to development milestones.

Changes in the provision for warranty costs are as follows:

| | December 31, | |
|-----------------------------|--------------|-------|
| | 2016 | 2015 |
| Beginning of year | 576 | 712 |
| Amount used during the year | (347) | (490) |
| New warranty expenses | 319 | 354 |
| End of year | 548 | 576 |
| Less current portion | (346) | (434) |
| Long term portion | 201 | 141 |

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12—LEASE OBLIGATIONS

12-1 Capital leases

The Company leases certain of its equipment under capital leases. At December 31, 2016, this equipment consists of medical devices for an amount of €130 thousand and vehicles and other IT equipment for an amount of €405 thousand. Future minimum lease payments under capital leases for the years ending December 31, 2016 are as follows:

| | December 31, |
|---|---------------------|
| 2017 | 231 |
| 2018 | 148 |
| 2019 | 90 |
| 2020 | 47 |
| 2021 | 19 |
| Total minimum lease payments | 549 |
| Less: amount representing interest | (14) |
| Present value of minimum lease payments | 535 |
| Less: current portion | (222) |
| Long-term portion | 313 |

Interest paid under capital lease obligations was €18 thousand, €24 thousand and €27 thousand, for the years ended December 31, 2016, 2015 and 2014, respectively.

12-2 Operating leases

As of December 31, 2016, 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 |
|-------|---------------|--------------|------------|
| 2017 | 321 | 303 | 47 |
| 2018 | 321 | 116 | 48 |
| 2019 | 321 | 21 | 48 |
| 2020 | 321 | 21 | 50 |
| 2021 | 321 | 16 | - |
| 2022 | 321 | - | - |
| 2023 | 321 | - | - |
| 2024 | 321 | - | - |
| 2025 | 152 | - | - |
| Total | 2,720 | 477 | 193 |

Total rent expenses under operating leases amounted to €841 thousand, €772 thousand and €742 thousand, for the years ended December 31, 2016, 2015 and 2014, 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.

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13—SHORT-TERM BORROWINGS

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. As of December 31, 2015, short-term borrowings consist mainly of €1,814 thousand of account receivables factored and for which the Company is supporting the collection risk and a loan in euro amounting to €1,000 thousand with the following conditions:

| | Amount | Maturation | Interest rate |
|---------------------|---------------|-------------------|----------------------|
| EDAP-TMS France SAS | 1,000 | November 19, 2016 | Euribor + 0.7% |

The loan in euro was repaid before maturity on May 04, 2016

14—LONG TERM DEBT AND FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

14-1 Long-term debt:

| | December 31, | |
|-------------------------|---------------------|-------------|
| | 2016 | 2015 |
| Japanese yen term loan | 119 | 183 |
| Germany term loan | 353 | 443 |
| Italy term loan | 128 | 175 |
| Malaysia term loan | - | 1 |
| Total long term debt | 600 | 802 |
| Less current portion | (215) | (209) |
| Total long-term portion | 384 | 592 |

As of December 31, 2016 and 2015, long-term debt in Japan consists of two loans in Yen with the following conditions:

| | Initial Amount | Maturation | Fixed Interest rate |
|------------------------|-----------------------|-------------------|----------------------------|
| EDAP Technomed Co. Ltd | 55,000,000 | June 30, 2018 | 1.80% |
| | 10,000,000 | June 30, 2018 | 2.10% |

As of December 31, 2016 and 2015, long-term debt in Germany consists of a loan in euro for an initial amount of €450 thousand with a fixed interest rate of 2.49% due to mature on November 30, 2020. This loan is pledged by an HIFU equipment with a purchase value of €450 thousand and receivables amounting to €391 thousand.

As of December 31, 2016 and 2015, 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.

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14-2 Financial instruments carried at fair value:

| | December 31, | |
|--------------------------|--------------|-------|
| | 2016 | 2015 |
| Investor Warrants | 3,921 | 4,205 |
| Placement Agent Warrants | - | 172 |
| Total | 3,921 | 4,377 |
| Less current portion | (640) | (172) |
| Total long-term portion | 3,281 | 4,205 |

On March 28, 2012, pursuant to a securities purchase agreement dated March 22, 2012, as amended, the Company issued 2,812,500 ordinary shares in the form of ADSs to selected institutional investors in a registered direct placement (the “March 2012 Placement”), at a price of \$2.00 per share, with warrants attached (the “March 2012 Investor Warrants”). The March 2012 Investor Warrants allow investors to purchase up to 1,406,250 shares in the form of ADSs at an exercise price of \$2.75. The March 2012 Investor Warrants are exercisable immediately and expire on March 28, 2017. The Company also issued warrants to purchase up to 168,750 shares in the form of ADSs to the placement agent, Rodman & Renshaw LLC, with an exercise price of \$2.50 (the “March 2012 Placement Agent Warrants” and together with the Investor Warrants, the “March 2012 Warrants”). The March 2012 Placement Agent Warrants are exercisable from September 24, 2012 and expired on October 21, 2016. Total gross proceeds for the March 2012 Placement amounted to \$5.625 million (€ 4.214 million), out of which \$2.429 million (€1.821 million) allocated to the Investor and Placement Agent Warrants based on their fair value and accounted for as liability, and the remaining \$3.196 million (€2.393 million) allocated to the share capital increase.

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.

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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 date | December 31, 2015 | December 31, 2016 |
|---|------------------------------|------------------------------|------------------------------|
| Share price at closing date | \$1.95 | \$4.13 | \$3.28 |
| Strike price of warrants | \$2.75 | \$2.75 | \$2.75 |
| Risk free interest rate at 5 years | 1.05% | 0% | 0% |
| Share price volatility | 120% | 70% | 60.2% |
| Dividend rates | 0% | 0% | 0% |
| Unit fair value | \$1.55 | \$1.86 | \$0.69 |
| Total fair value (in thousands) | \$2,173 | \$1,840 | \$675 |
| Total equivalent amount (in thousand €) | €1,629 | €1,691 | €640 |

Fair Value of the March 2012 Placement Agent Warrants:

The valuation model of the Placement Agent 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 date | December 31, 2015 | December 31, 2016 |
|---|--------------------------|------------------------------|------------------------------|
| Share price at closing date | \$1.95 | \$4.13 | - |
| Strike price of warrants | \$2.50 | \$2.50 | - |
| Risk free interest rate at 4.5 years | 0.92% | 0% | - |
| Share price volatility | 120% | 70% | - |
| Dividend rates | 0% | 0% | - |
| Unit fair value | \$1.52 | \$1.87 | - |
| Total fair value (in thousands) | \$256 | \$107 | - |
| Total equivalent amount (in thousand €) | €192 | €99 | - |

As of December 31, 2016, all of the March 2012 placement agent warrants were exercised.

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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 date | December 31, 2015 | December 31, 2016 |
|---|--------------------------|------------------------------|------------------------------|
| Share price at closing date | \$3.96 | \$4.13 | \$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% | 70% | 60.2% |
| Dividend rates | 0% | 0% | 0% |
| Unit fair value | \$2.35 | \$1.82 | \$0.79 |
| Total fair value (in thousand) | \$3,525 | \$2,737 | \$1,179 |
| Total equivalent amount (in thousand €) | €2,725 | €2,514 | €1,119 |

Fair Value of the May 2013 Placement Agent Warrants:

The valuation model of the Placement Agent 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 date | December 31, 2015 | December 31, 2016 |
|---|--------------------------|------------------------------|------------------------------|
| Share price at closing date | \$3.96 | \$4.13 | - |
| Strike price of warrants | \$5.00 | \$5.00 | - |
| Risk free interest rate at 3 years | 0.36% | 0% | - |
| Share price volatility | 72% | 70% | - |
| Dividend rates | 0% | 0% | - |
| Unit fair value | \$1.62 | \$0.44 | - |
| Total fair value (in thousand) | \$292 | \$80 | - |
| Total equivalent amount (in thousand €) | €225 | €73 | - |

As of December 31, 2016, all of the March 2013 placement agent warrants were exercised or forfeited.

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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.

| | <u>At inception date</u> | <u>December 31, 2016</u> |
|--|--------------------------|------------------------------|
| Share price at closing date | 3.64 | 3.28 |
| Strike price of warrants | \$4.50 | \$4.50 |
| Risk free interest rate at 2.5 years | 0% | 0% |
| Share price volatility | 60.20% | 60.20% |
| Dividend rates | 0% | 0% |
| Unit fair value | \$1.09 | \$0.69 |
| Total fair value (in thousands) | \$3,579 | \$2,279 |
| Total equivalent amount (in thousands €) | €3,168 | €2,162 |

Refer to Note 23 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, 2016 mature as follows:

| | |
|-------|--------------|
| 2017 | 855 |
| 2018 | 3,467 |
| 2019 | 117 |
| 2020 | 83 |
| 2021 | - |
| Total | <u>4,520</u> |

15—OTHER LONG-TERM LIABILITIES

Other long-term liabilities consist of the following:

| | <u>December 31,</u> | |
|---|---------------------|--------------|
| | <u>2016</u> | <u>2015</u> |
| Provision for retirement indemnities (Japan & France), less current portion | 1,980 | 1,596 |
| Provision for employee termination indemnities (Italy) less current portion | 320 | 310 |
| Provision for warranty costs, less current portion | 201 | 141 |
| Provision for Asset Retirement Obligation (Japan) less current portion | 80 | - |
| Conditional government subsidies, less current portion | 237 | 237 |
| Total | <u>2,818</u> | <u>2,285</u> |

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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, 2016 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 | | |
|---|----------------------------------|-------------|-------------|
| | 2016 | 2015 | 2014 |
| Discount rate | 1.60% | 2.20% | 1.90% |
| Salary increase | 2.50% | 2.50% | 2.50% |
| Retirement age | 65 | 65 | 65 |
| Average retirement remaining service period | 24 | 24 | 24 |

| | Pension Benefits – Japan | | |
|---|---------------------------------|-------------|-------------|
| | 2016 | 2015 | 2014 |
| Discount rate | 0.60% | 1.00% | 1.00% |
| Salary increase | 2.50% | 2.00% | 2.00% |
| Retirement age | 60 | 60 | 60 |
| Average retirement remaining service period | 14 | 16 | 16 |

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 |

In 2015, provision presentation according to ASC 715 in thousands of euros:

| | France | Japan |
|---|---------------|--------------|
| Non-current liabilities | 694 | 902 |
| Current liabilities | - | 4 |
| Accumulated other comprehensive income (loss) | (82) | (314) |
| Total | 612 | 592 |

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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, 2016:

| France | 2016 | 2015 | 2014 |
|---|-------------|-------------|-------------|
| Change in benefit obligations: | | | |
| Benefit obligations at beginning of year | 694 | 665 | 491 |
| Service cost | 45 | 46 | 35 |
| Interest cost | 15 | 13 | 16 |
| Actuarial (gain) / loss | 88 | (30) | 123 |
| Amortization of net prior service cost | - | - | - |
| Benefits paid | - | - | - |
| Benefit obligations at end of year ⁽¹⁾ | 842 | 694 | 665 |
| Unrecognized actuarial (gain) loss ⁽²⁾ | 147 | 58 | 89 |
| Unrecognized prior service cost ⁽²⁾ | 23 | 24 | 25 |
| Accrued pension cost | 672 | 612 | 550 |

(1) The accumulated benefit obligation was €597 thousand and €474 thousand at December 31, 2016 and 2015 respectively.

(2) The amount in accumulated other comprehensive income (loss) to be recognised as components of net periodic benefit costs in 2017 is €4 thousand.

| Japan | 2016 | 2015 | 2014 |
|---|-------------|-------------|-------------|
| Change in benefit obligations: | | | |
| Benefit obligations at beginning of year | 906 | 742 | 640 |
| Service cost | 81 | 72 | 64 |
| Interest cost | 10 | 8 | 9 |
| Amortization of net loss | 16 | - | - |
| Actuarial (gain) / loss | 147 | - | 35 |
| Benefits paid | (38) | - | (4) |
| Exchange rate impact | 40 | 84 | (2) |
| Benefit obligations at end of year ⁽¹⁾ | 1,162 | 906 | 742 |
| Unrecognized actuarial (gain) loss ⁽²⁾ | 464 | 314 | 299 |
| Unrecognized prior service cost ⁽²⁾ | - | - | - |
| Accrued pension cost | 698 | 592 | 443 |

(1) The accumulated benefit obligation was €944 thousand and €749 thousand at December 31, 2016 and 2015, respectively.

(2) The amount in accumulated other comprehensive income (loss) to be recognised as components of net periodic benefit costs in 2016 is €27 thousand.

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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 |
|-----------|---------------|--------------|
| 2017 | 2 | 24 |
| 2018 | 28 | 44 |
| 2019 | 10 | 56 |
| 2020 | - | 7 |
| 2021 | 86 | 56 |
| 2022-2026 | 197 | 756 |

16—SHAREHOLDERS' EQUITY

16-1 Common stock

As of December 31, 2016, EDAP TMS S.A.'s common stock consisted of 29,098,144 issued shares (including 3,283,284 new shares issued in the April 2016 Placement for an amount of € 6,063 thousand after deduction of capital increase costs of €943 thousand) fully paid and with a par value of €0.13 each. 28,727,616 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 €13,740 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, 2016, 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, 2016, the 370,528 ordinary shares held as treasury stock were dedicated to serve stock purchase option plans as follows: 127,100 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, 2016, EDAP TMS S.A. sponsored four stock purchase and subscription option plans:

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 377,838 options to subscribe to new shares were still in force on December 31, 2016.

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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, 127,100 options were still in force on December 31, 2016.

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, 362,500 options were still in force on December 31, 2016.

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, 560,000 options were still in force on December 31, 2016.

As of December 31, 2016, a summary of stock option activity to purchase or to subscribe to Shares under these plans is as follows:

| | 2016 | | 2015 | | 2014 | |
|--|-----------|-------------------------------------|-----------|-------------------------------------|-----------|-------------------------------------|
| | Options | Weighted average exercise price (€) | Options | Weighted average exercise price (€) | Options | Weighted average exercise price (€) |
| Outstanding on January 1, | 917,188 | 2.79 | 1,095,850 | 2.76 | 1,310,850 | 2.70 |
| Granted | 575,000 | 3.22 | - | - | - | - |
| Exercised | - | - | (72,412) | 2.13 | (750) | 3.99 |
| Forfeited | (64,750) | 3.30 | (106,250) | 2.88 | (90,250) | 2.07 |
| Expired | - | - | - | - | (124,000) | 2.60 |
| Outstanding on December 31, | 1,427,438 | 2.94 | 917,188 | 2.79 | 1,095,850 | 2.76 |
| Exercisable on December 31, | 774,938 | 2.87 | 724,688 | 3.03 | 784,600 | 3.09 |
| Shares purchase options available for grant on December 31 | 243,428 | | 232,428 | | 232,428 | |

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The following table summarizes information about options to purchase existing Shares held by the Company, or to subscribe to new Shares, at December 31, 2016:

| Exercise price (€) | Outstanding options | | | Fully vested options ⁽¹⁾ | | | |
|--------------------|---------------------|---|-------------------------------------|-------------------------------------|---------|-------------------------------------|-------------------------------|
| | Options | Weighted average remaining contractual life | Weighted average exercise price (€) | Aggregate Intrinsic Value (2) | Options | Weighted average exercise price (€) | Aggregate Intrinsic Value (2) |
| 3.99 | 327,838 | 0.8 | 3.99 | - | 327,838 | 3.99 | - |
| 2.38 | 127,100 | 3.5 | 2.38 | 93,004 | 127,100 | 2.38 | 93,004 |
| 3.22 | 560,000 | 9.3 | 3.22 | - | - | - | - |
| 1.91 | 362,500 | 6.0 | 1.91 | 435,629 | 270,000 | 1.91 | 324,469 |
| 1.88 | 50,000 | 3.5 | 1.88 | 61,587 | 50,000 | 1.88 | 61,587 |
| 1.88 to 3.99 | 1,427,438 | 4.6 | 2.94 | 590,220 | 774,938 | 2.87 | 479,060 |

(1) Fully vested options are all exercisable options

(2) The aggregate intrinsic value represents the total pre-tax intrinsic value, based on the Company's closing stock price of \$3.28 at December 31, 2016, 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, 2016, and changes during the year ended December 31, 2016, is presented below:

| | Options | Weighted average Grant-Date Fair Value (€) |
|---------------------------------|----------|--|
| Non-vested at January 1, 2016 | 192,500 | 1.32 |
| Granted | 575,000 | 1.67 |
| Vested | (96,250) | 1.32 |
| Forfeited | (18,750) | 1.60 |
| Non-vested at December 31, 2016 | 652,500 | 1.62 |

As of December 31, 2016, there were €605 thousands of total unrecognized compensation expenses related to non-vested stock-options, over a weighted average period of 4.33 year.

17—OTHER REVENUES

Other revenues consist of the following:

| | 2016 | 2015 | 2014 |
|---------------------|------|------|------|
| Licenses and others | 32 | 35 | 533 |
| Total | 32 | 35 | 533 |

In 2016, 2015 and 2014, other revenues mainly consist of sales of a license to Theraclion.

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18—RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses consist of the following:

| | 2016 | 2015 | 2014 |
|---|----------------|----------------|----------------|
| Gross research and development expenses | (4,577) | (3,308) | (3,728) |
| Research Tax Credit | 511 | 448 | 518 |
| Grants | 198 | 170 | 278 |
| Net Research and development expenses | <u>(3,868)</u> | <u>(2,690)</u> | <u>(2,932)</u> |

In 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).

In 2014, grants mainly consisted of European, national and regional grants for the development of innovative imaging solutions for the focal treatment of prostate cancer.

19—FINANCIAL INCOME, NET

Interest (expense) income, net consists of the following:

| | 2016 | 2015 | 2014 |
|--|--------------|----------------|--------------|
| Interest income | 21 | 18 | 31 |
| Interest expense | (57) | (64) | (65) |
| Warrants exercised / forfeited | 174 | 330 | 83 |
| Changes in fair value of the warrants ⁽¹⁾ | 3,811 | (2,377) | 1,722 |
| Total | <u>3,949</u> | <u>(2,094)</u> | <u>1,771</u> |

⁽¹⁾ For more details on the fair value of Financial Instruments, please refer to Notes 14-2 and 23.

20—INCOME TAXES

20-1 Income / (Loss) before income taxes

Income / (loss) before income taxes is comprised of the following:

| | 2016 | 2015 | 2014 |
|------------------|--------------|--------------|--------------|
| France | 4,936 | (543) | 2,029 |
| EDAP Inc, U.S.A. | (850) | (380) | (1,811) |
| Other countries | 358 | 16 | (614) |
| Total | <u>4,444</u> | <u>(907)</u> | <u>(396)</u> |

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20-2 Income tax (expense)/ benefit

Income tax (expense)/benefit consists of the following:

| | 2016 | 2015 | 2014 |
|---|--------------|--------------|--------------|
| <i>Current income tax expense:</i> | | | |
| France | (323) | (712) | (124) |
| Other countries | (249) | (55) | (10) |
| Sub-total current income tax expense | (572) | (767) | (133) |
| <i>Deferred income tax (expense) benefit:</i> | | | |
| France | (2) | (4) | (4) |
| Other countries | (30) | 11 | 22 |
| Sub-total deferred income tax (expense) benefit | (32) | 7 | 18 |
| Total | (602) | (759) | (116) |

20-3 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:

| | December 31, | |
|---|--------------|----------|
| | 2016 | 2015 |
| Net operating loss carry forwards | 18,392 | 18,295 |
| Elimination of intercompany profit in inventory | 394 | 172 |
| Elimination of intercompany profit in fixed assets | 250 | 199 |
| Provisions for retirement indemnities | 275 | 262 |
| Other items | 153 | 335 |
| Total deferred tax assets | 19,465 | 19,263 |
| Capital leases treated as operating leases for tax | (3) | - |
| Other items | | (4) |
| Total deferred tax liabilities | (3) | (4) |
| Net deferred tax assets | 19,462 | 19,259 |
| Valuation allowance for deferred tax assets | (19,450) | (19,212) |
| Deferred tax assets (liabilities), net of allowance | 12 | 47 |

Net operating loss carryforwards of €19,419 thousand, €2,642 thousand, €910 thousand and €30,693 thousand as of December 31, 2016 are available at EDAP Technomed Inc., Edap Technomed Co Ltd Japan, EDAP Technomed Italia S.R.L. and EDAP TMS S.A., respectively. These net operating losses generate deferred tax assets of €18,392 thousand. Realization of these assets is contingent on future taxable earnings in the applicable tax jurisdictions. As of December 31, 2016, €10,515 thousand out of these €18,392 thousand net operating loss carry-forwards have no expiration date. The remaining tax loss carry-forwards expire in years 2016 through 2036. In accordance with ASC 740, a valuation allowance is recorded as realization of those amounts is not considered probable.

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20-4 Effective tax rate

A reconciliation of differences between the statutory French income tax rate and the Company's effective tax rate is as follows:

| | 2016 | 2015 | 2014 |
|--|---------|---------|---------|
| French statutory rate | 33.3% | 33.3% | 33.3% |
| Income of foreign subsidiaries taxed at different tax rates | (2.4%) | 3.9% | 23.5% |
| Effect of net operating loss carry-forwards and valuation allowances | (2.6%) | 52.4% | (81.3%) |
| Non-taxable debt fair value variation | (27.2%) | (83.9%) | 113.2% |
| Non-deductible entertainment expenses | (4.9%) | 40.7% | 42.3% |
| Effect of cancellation of intra-group positions | - | (78.3%) | (44.2%) |
| French business tax included in income tax (CVAE) | 3.4% | (16.0%) | (31.2%) |
| Other | 13.9% | (35.8%) | (84.8%) |
| Effective tax rate | 13.5% | (83.7%) | (29.2%) |

20-5 Uncertainty in Income Taxes

According to ASC 740, the Company reviewed the tax positions of each subsidiary. On December 31, 2016 the Company believes that there is no significant uncertainty in the Company's tax positions.

In July 2010, the Company was requested by the French Tax Authorities to pay the amount of €772 thousand to comply with the European Court of Justice ruling on fair competition and illegal state aids (C-214/07 "Commission of the European Communities vs. French Republic"). The amount was related to a state aid received by EDAP-TMS France in 1994 for the acquisition of the activities of Technomed International and included €374,156 of late interest. The Company reversed consequently the €50 thousand reserve that had been taken as of December 31, 2009.

In March 2011, the Company engaged in a contentious procedure against the French Tax Authorities to contest this position and ask for the recuperation of the paid amounts. On December 6, 2013, the Company received notice from the French Administrative Courts that this contentious procedure was rejected. The Company made appeal to this decision before the French higher court ("Conseil d'Etat"). On March 10, 2017, the Conseil d'Etat rejected the procedure to appeal. .

The tax years that remain subject to examination by major tax jurisdictions are 2014, 2015 and 2016.

Interest and penalties on income taxes are classified as a component of the provision for income taxes. There were no interest or penalties in 2014, 2015 and 2016.

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21—EARNINGS (LOSS) PER SHARE

| | December 31, 2016 | December 31, 2015 | December 31, 2014 |
|---|----------------------|----------------------|----------------------|
| Income (loss) available to common shareholders | € 3,842,201 | (€1,666,658) | (€512,007) |
| Number of shares for the computation of basic EPS | 27,823,313 | 25,021,966 | 23,600,428 |
| Basic EPS | € 0.14 | (€0.07) | (€0.02) |
| Effect of dilutive securities | 1,542,270 | 1,978,758 | 0 |
| Number of shares for the computation of diluted EPS | 29,365,583 | 25,021,966 | 23,600,428 |
| Diluted EPS income (loss) | € 0.13 | (€ 0.07) | (€0.02) |

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 years ended December 31, 2015 and 2014 were excluded from the calculation of diluted earnings per share as a net loss was reported in these periods.

22—COMMITMENTS AND CONTINGENCIES

22-1 Commitments

The Company currently has commitments regarding its operating leases as described in Note 12-2.

22-2 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.

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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.

22-3 Contingencies

The Company currently has contingencies relating to warranties provided to customers for products as described in Note 1-13 and Note 11.

23—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.

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.

| | ASC 820 Level | December 31, 2016 | December 31, 2015 |
|---------------------------|------------------|----------------------|----------------------|
| Assets: | | | |
| Cash and cash equivalents | Level 1 | 21,989 | 13,578 |
| Short term investments | Level 1 | - | 1,000 |
| Liabilities: | | | |
| Short-term borrowings | Level 1 | 1,629 | 2,814 |
| Long-Term Debt | Level 1 | 599 | 802 |
| Investor Warrants | Level 3 | 3,921 | 4,205 |
| Placement Agent Warrants | Level 3 | - | 172 |

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.

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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.

The following tables provide a reconciliation of fair value for which the Company used Level 3 inputs, for the period from December 31, 2014 to December 31, 2016:

| All amounts in thousands Euros unless otherwise stated | Investor Warrants 2012 | Placement Agent Warrants 2012 | Investor Warrants 2013 | Placement Agent Warrants 2013 | Investor Warrants 2016 | Total Financial instruments carried at fair value |
|---|------------------------------|--|------------------------------|--|------------------------------|---|
| As of December 31, 2014 | 893 | 110 | 1,050 | 39 | - | 2,092 |
| Warrants exercises (see note 19) | (251) | (79) | - | - | - | (330) |
| FV adjustments (see note 19) | 947 | 57 | 1,343 | 30 | - | 2,377 |
| USD/EUR exchange impact | 102 | 11 | 121 | 4 | - | 238 |
| As of December 31, 2015 | 1,691 | 99 | 2,514 | 73 | - | 4,377 |
| Warrants granted | - | - | - | - | 3,168 | 3,168 |
| Warrants forfeited (see note 19) | - | - | - | (72) | - | (72) |
| Warrants exercises (see note 19) | (5) | (97) | - | - | - | (102) |
| FV adjustments (see note 19) | (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 |

24—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 €1.1 million, for the years ended December 31, 2016 and 2015, 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 2016, 2015 and 2014, the Company did not generate more than 10% revenue with a single customer.

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25—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, 2016, there were no outstanding hedging instruments.

26—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. The following tables set forth the key income statement figures, by segment for fiscal years 2016, 2015 and 2014 and the key balance sheet figures, by segment, for fiscal years 2016, 2015 and 2014.

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:

| | 2016 | 2015 | 2014 |
|---|-------|---------|---------|
| Segment operating income (loss) | 392 | 488 | (1,736) |
| Financial income (expense), net | 3,949 | (2,094) | 1,771 |
| Foreign Currency exchange (losses) gains, net | 103 | 699 | (431) |
| Other income (expense), net | - | - | - |
| Income tax (expense) credit | (602) | (759) | (116) |
| Consolidated net profit (loss) | 3,842 | (1,667) | (512) |

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A summary of the Company's operations by segment is presented below for years ending December 31, 2016, 2015 and 2014:

| | 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 margin | 8,109 | 8,302 | - | - | 16,411 |
| R&D | (2,452) | (1,416) | - | - | (3,868) |
| Selling and marketing expenses | (3,888) | (4,968) | - | - | (8,856) |
| G&A | (804) | (1,177) | (1,315) | - | (3,296) |
| Total expenses | (7,144) | (7,560) | (1,315) | 1 | (16,019) |
| Operating income (loss) | 964 | 742 | (1,315) | 1 | 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 |
| 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 margin | 4,841 | 8,945 | - | - | 13,785 |
| R&D | (1,387) | (992) | - | (311) | (2,690) |
| Selling and marketing expenses | (2,284) | (5,122) | - | - | (7,406) |
| G&A | (646) | (1,192) | (1,363) | - | (3,202) |
| Total expenses | (4,318) | (7,306) | (1,363) | (311) | (13,298) |
| Operating income (loss) | 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 |

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| | HIFU Division | UDS Division | EDAP TMS (Corporate) | FDA | Total consolidated |
|-----------------------------------|---------------|--------------|-------------------------|---------|-----------------------|
| 2014 | | | | | |
| Sales of goods | 5,270 | 11,625 | - | - | 16,895 |
| Sales of RPPs & leases | 2,170 | 1,787 | - | - | 3,957 |
| Sales of spare parts and services | 760 | 4,640 | - | - | 5,400 |
| Total sales | 8,200 | 18,052 | - | - | 26,252 |
| External other revenues | 518 | 15 | - | - | 533 |
| Total revenues | 8,718 | 18,067 | - | - | 26,785 |
| Total COS | (3,683) | (11,901) | - | - | (15,584) |
| Gross margin | 5,035 | 6,166 | - | - | 11,201 |
| R&D | (1,062) | (646) | - | (1,224) | (2,932) |
| Selling and marketing expenses | (2,151) | (4,527) | - | - | (6,678) |
| G&A | (660) | (1,153) | (1,514) | - | (3,328) |
| Total expenses | (3,874) | (6,326) | (1,514) | (1,224) | (12,937) |
| Operating income (loss) | 1,162 | (160) | (1,514) | (1,224) | (1,736) |
| Total Assets | 7,468 | 20,778 | 3,715 | 193 | 32,154 |
| Capital expenditures | 464 | 569 | - | - | 1,033 |
| Long-lived assets | 1,410 | 3,300 | 192 | - | 4,902 |
| Goodwill | 645 | 1,767 | - | - | 2,412 |

27—VALUATION ACCOUNTS

| | Allowance for deferred tax assets | Allowance for doubtful accounts | Slow-moving inventory |
|----------------------------------|--------------------------------------|------------------------------------|--------------------------|
| Balance as of December 31, 2014 | 23,125 | 1,274 | 741 |
| Charges to costs and expenses | 218 | 124 | 275 |
| Deductions: write-off and others | (4,131) | (307) | (288) |
| Balance as of December 31, 2015 | 19,212 | 1,091 | 728 |
| Charges to costs and expenses | 238 | 103 | 121 |
| Deductions: write-off and others | | (233) | (46) |
| Balance as of December 31, 2016 | 19,450 | 961 | 803 |

28—SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Interest and income taxes paid are as follows:

| | 2016 | 2015 | 2014 |
|--------------------------------------|------|------|------|
| Income taxes paid (refunds received) | 596 | 159 | 141 |
| Interest paid | 41 | 43 | 39 |
| Interest received | 4 | 7 | 12 |
| Non-cash transactions: | 2016 | 2015 | 2014 |
| Capital lease obligations incurred | 285 | 105 | 236 |

EDAP TMS S.A. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of euros unless otherwise noted, except per share data)

29—RELATED PARTY TRANSACTIONS

The General Manager of the Company's Korean branch "EDAP-TMS Korea" is also Chairman of a Korean company named Dae You. EDAP-TMS Korea subcontracts to Dae You the service contract maintenance of our medical devices installed in Korea. The amounts invoiced by Dae You under this contract were €62 thousand, €78 thousand and €68 thousand, for 2016, 2015 and 2014 respectively. As of December 31, 2016, payables to Dae You amounted to €9 thousand. As of December 31, 2015, payables to Dae You amounted to €53 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 €483 thousand, €408 thousand and €308 thousand, in 2016, 2015 and 2014, respectively. As of December 31, 2016, receivables ('Net trade accounts and notes receivable') amounted to €325 thousand. As of December 31, 2015, receivables ('Net trade accounts and notes receivable') amounted to €380 thousand.

30—SUBSEQUENT SIGNIFICANT EVENTS

Since January 1, 2017, we issued a total of 270,250 new ordinary shares in the form of ADSs following the exercise of subscription options and March 2012 Warrants.

EXHIBIT 1.1.

EDAP TMS

**A stock company (société anonyme)
with a capital of Euros 3.355.493,05
Head office: Parc d'activité- La Poudrette Lamartine
4 rue du Dauphiné
69120 Vaulx en Velin - France**

**MEMORANDUM AND ARTICLES OF ASSOCIATION
- BYLAWS -**

Including modifications approved on January 25, 2017

TITLE I
FORMATION - PURPOSE - CORPORATE NAME
REGISTERED OFFICES - DURATION

ARTICLE 1 - FORMATION OF THE COMPANY

A stock company exists between the owners of the shares created hereinafter and those which could be created at a later stage; it is organized and exists under the laws in force and under the following bylaws.

ARTICLE 2 – CORPORATE PURPOSES

The 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 shares, obligations or other securities, mergers, holding companies, groups, alliances or partnerships ;
- the management of such financial interests ;
- the direction, management, supervision and coordination of its subsidiaries and interests ;
- the provision of all administrative, financial, technical or other services ;
- and generally, all operations of whatever nature, financial, commercial, industrial, civil, relating to property and 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 said purpose.

ARTICLE 3 - CORPORATE NAME

The corporate name of the Company is:

EDAP TMS

ARTICLE 4 - REGISTERED OFFICE

The registered office is fixed at: Parc d'activité La Poudrette Lamartine
4 rue du Dauphiné- (F) 69120 Vaulx en Velin - France.

It may be transferred to any other location within the department or a nearby department further to a simple resolution from the Board, subject to ratification by the earliest Ordinary General Meeting, and every other location by virtue of a resolution from the Extraordinary Shareholders' General Meeting. The Board may set up administrative seats, subsidiaries, offices and branches in all places without any derogation related to the choice of jurisdiction as provided in these bylaws.

ARTICLE 5 - DURATION

The duration of the Company is sixty (60) years as of the date of incorporation of the Company recorded in the Trade and Corporate Registry unless an anticipated dissolution or a prorogation is decided as provided for in these bylaws.

TITLE II
REGISTERED CAPITAL

ARTICLE 6 - REGISTERED CAPITAL

The registered capital is fixed at the amount of three million seven hundred and eighty-four thousand seven hundred and eight euros and seventy-two cents (Euros 3,784,708.72) divided into twenty-nine million one hundred and thirteen thousand one hundred and forty-four (29,113,144) shares with a nominal value of thirteen cents (Euros 0.13) each, fully paid up.

ARTICLE 7 - INCREASE OF THE REGISTERED CAPITAL

The registered capital may be increased once or several times through the creation of new shares, representing contributions in kind or contributions in cash, the transformation of available corporate reserves into shares or through any other mean by virtue of a resolution from the Extraordinary Shareholders' General Meeting. Such meeting shall fix the conditions for the issuing of new shares within the framework of the legal provisions in force, or delegate its powers for such purpose to the Board. As a representation of capital increases may be created, either shares similar to the existing ones, or shares of a totally different type which may, within the conditions provided by law, grant a preferential right or whatever privilege on the other shares. The Board has all powers to negotiate, if any, with any bank or financial syndicate to facilitate or guarantee the issuance of shares as mentioned here above complying with any legal provision, in particular as far as preferential rights of subscription for the benefit of the older shareholders are concerned.

No capital increase in shares paid up in cash may however be implemented if the existing capital has not been priorly fully paid up. Capital increases must be implemented within five years as of the date on which the Shareholders' General Meeting has taken or authorized such resolution.

Capital increases may occur through the issue of shares with a premium. That premium of which the total amount shall have to be paid at the time of the subscription of the shares shall not be regarded as a profit to be distributed under operating profit; it shall represent an additional payment to the capital in shares and shall belong exclusively to all shareholders, except otherwise provided for by the Ordinary or Extraordinary Shareholders' Meeting.

In case of an increase through the issue of shares payable in cash, and unless otherwise provided further to a resolution from the Extraordinary Shareholders' General Meeting, the owners of existing shares who have duly contributed as they were called up shall receive in proportion to the amount of these shares, a preferential right to subscribe to the new shares. The Board shall determine the manner in which that right shall be exercised and its validity period in compliance with (French) law; it shall be negotiable under the same conditions as the shares during the subscription.

Those shareholders who, due to the number of shares they hold, may not obtain a new share or a full number of new shares, shall be entitled to group to exercise their right but however no joint subscription may result from such a grouping.

ARTICLE 8 - CAPITAL REDUCTION

The Extraordinary Shareholders' General Meeting may also decide a reduction of the registered capital for whatever reason and in whatever manner, in particular through the reimbursement to the shareholders of a repurchasing of the corporate shares or the exchange of old shares by new shares, for the same or a lower number of shares, with or without the same nominal amount and, if any, the obligation of selling or buying old shares to enable the exchange or also through the payment of a balance in cash.

The General Meeting may also delegate to the Board all powers to implement the capital reduction.

The Auditors shall be informed on the project of capital reduction at least forty five days prior to the Meeting. The General Meeting shall decide on the report from the Auditors who shall provide their appreciation on the causes and the conditions of the operation.

When losses do not motivate the capital reduction, creditors may within a period of thirty days as of the date of the filing with the Clerk of the Trade Court of the minutes of the resolution from the General Meeting who decided or authorized the reduction, oppose to the reduction. The opposition is brought before the Trade Court.

TITLE III
SHARES

ARTICLE 9 – PAYMENT OF THE SHARES

At the time of capital increase, the shares to be subscribed in cash must be paid up of at least one fourth at the time of the subscription. The balance of payments shall be paid within a maximum of five years, as of the day on which the capital increase shall have become effective, in one or several times, at the times and in the proportions determined by the Board. The calling up of capital contributions shall be communicated to the shareholders by registered letter at least fifteen days prior to the date fixed for each payment.

The shares contributed in cash as part of the capital increases may be paid up partly or totally through the compensation of a debt which is fixed, liquid and due to the company.

The Board may authorize at any time the shareholders to prepay the amount of their shares which are not yet called up.

Should the shareholders not proceed with the payments on the set dates, the interest of the amount of these payments shall run by law for each day of delay at a rate of 12% per annum as of the date of payment fixed in the registered letter above mentioned and without a claim or formal notice being necessary.

If within the period fixed at the time of calling up the capital, some shares have not been paid up from the required payments, the Company may, one month after a special formal individual notice notified to the defaulting shareholder - by registered letter or extra judicial writ – offer, to the other shareholders, the shares to be paid up by registered letter sent to each of them.

To implement this preemptive right, the Board shall have, upon the expiration of the fixed time limit, at the time of the calling up of capital, to offer to the shareholders the shares to be paid up by registered letter sent to each of them.

If several shareholders are purchasers, the shares shall be distributed among them in proportion to their rights in the Company.

If such a proportional distribution is not possible, the remaining shares shall be distributed through draw lots.

If within a time limit of one month further to the shareholders having been warned, some shares are still not paid up, the Company may sale them within the terms and conditions stipulated under Section L.228-27 of the French Commercial Code through the decree of March 23, 1967 referred to for its application.

The sale of the shares shall be carried in public auctions by a stock broker or a public notary. For such purpose, the Company shall publish in a legal gazette within the department of the registered offices, at least thirty days further to the notice scheduled in the previous paragraph, a notice concerning the sale of the shares. It shall inform the debtor and, if any, its co-debtors, of the sale by a registered letter containing indications on the date and the issue number of the gazette in which the publication has been made. The sale of the shares may not take place less than fifteen day as from the sending of the registered letter.

The Company shall be entitled to the net proceeds of the sale up to the due amount and shall be deducted from the principal amount and interests due by the defaulting shareholder before the reimbursement of the costs incurred by the company to realize the sale. The defaulting shareholder remains debtor or benefits from the difference.

Upon the expiration of the time limit as scheduled in the fifth paragraph above, the shares not paid up from the required payments shall stop permitting the admission and the voting rights in shareholders meetings and shall be deducted for the counting of the quorum. The right to the dividends and the preferential right of subscription shall be suspended. If the shareholder pays up the principal sum and its interests, he/she may ask for the payment of non prescribed dividends but he/she may not exercise an action under a preferential right of subscription to a capital increase after the expiration of the time limit fixed for the exercise of that right.

ARTICLE 10 – LEGAL FORM AND CONDITIONS OF VALIDITY OF SHARES

The shares are compulsorily issued by the Company as registered shares and are materialized through a registration into the accounts of the Company.

The share accounts are kept under the conditions and terms provided by law, by the Company or any other authorized Agent the name or denomination and address of which shall be published in the "*Bulletin des Annonces Légales Obligatoires*" (Bulletin for compulsory legal announcements).

The share accounts mention:

- the identification data of natural persons or legal entities in the name of whom they have been opened and, if any, the legal nature of their rights or incapacities ;
- the name, the category, the number and, if any, the nominal value of the registered shares;
- the restrictions which may concern these shares (pledge, escrow account, etc...).

Whenever the shares are not fully paid upon subscription, the payments on these shares are put in and witnessed as such by a certificate.

Each share gives right to a part of the ownership of the Company's assets, in proportion with the number of issued shares. Besides, it gives right to a part of profits as stipulated under Article 27 hereinafter.

Shareholders are only responsible up to the amount of shares they possess and above that amount, any calling up of capital is forbidden. They cannot be subject to any restitution of interests or dividends which were regularly distributed.

ARTICLE 11 - SHARE TRANSFERS

Shares may be freely traded under the conditions defined by law. In the event of a capital increase, the shares may be traded from the completion thereof.

Shares shall remain negotiable following the Company's dissolution, and until the closing of its liquidation.

ARTICLE 12 - INDIVISIUM OF SHARES - SEALS

In respect of the Company the shares are indivisible. Joint owners of a share shall be represented before the Company by a single person they shall have appointed further to a common agreement.

Whenever the ownership of several existing shares shall be necessary to exercise any right whatsoever and in particular to exercise the preferential right as here above provided for, or still, in the case of exchange or attribution of the shares further to an operation such as: capital reduction, capital increase by incorporation of reserves, merger, entitling to a new share against providing existing shares, isolated shares or shares in a number lower than the one required shall grant no right to the holder against the Company ; shareholders shall be personally responsible for the regrouping of the necessary number of shares.

The heirs, representatives or creditors of a shareholder shall under no circumstances whatsoever neither call for the seals on the Company's assets and documents requesting the partition or the sale by auction of a lot held by indivisium, nor interfere in whatever manner in its management ; they must - for the exercise of their rights - refer to the corporate inventories/ books and the decisions from the General Meeting.

All shares which form or shall form the registered capital shall always be assimilated to one another as regards tax costs. Consequently, all duties and taxes which for whatever reason could - with respect to any reimbursement of capital of these shares, or more generally, any distribution of their profit become claimable for only some of them, either during the existence of the Company or during its winding-up, shall be distributed among all shares representing the capital at the time of that or those reimbursements or distributions in such a way that all current or future shares shall confer on their owners - whilst taking into account the nominal amount of shares and rights not amortized of different categories, the same effective privileges giving them the right of receiving the same net amount.

TITLE IV
MANAGEMENT OF THE COMPANY

ARTICLE 13 – BOARD OF DIRECTORS

The Company is managed by a Board of Directors made up of individuals or legal persons whose number is determined by the Ordinary Shareholders Meeting within the limits provided for by the law.

A legal entity must, at the time of its appointment, designate an individual who will be its permanent representative at the Board of Directors. The duration of the office of this permanent representative is the same as that of the Director legal body he/she represents. In the event the legal body revokes its permanent representative, it must replace said representative immediately. The same rules apply in case of death or resignation of the permanent representative.

Each Director must own at least one share during his term of office. However there is no minimal obligation if the Director is, at the same time, a shareholder linked to the Company with an employment contract.

If - at the time of his/her appointment - the Director does not own the requested number of shares or if during his/her term, he/she no longer owns the requested number of shares, he/she is considered to have automatically resigned, if he/she has failed to regularize his/her situation within three months.

The Directors' term of office is for six years; one year being calculated as the period in between two consecutive annual Ordinary General Shareholders Meetings. The tenure of a Director terminates at the end of the Ordinary General Shareholders Meeting which meets to vote upon the accounts of the then preceding fiscal year and is held in the year during which the office of said Director comes to an end.

The Directors may always be re-elected, they may also be revoked at any time by the Shareholders' General Meeting.

An individual person cannot hold more than five positions as a member of a Board of Directors or a member of a Supervisory Board in companies registered in France; the directorship 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 case of death or resignation of one or several Director(s), the Board of Directors may make (a) provisional appointment(s), even between two General Shareholders Meetings.

Any such provisional appointment(s) made pursuant to the previous paragraph need to be ratified by the next following Ordinary Shareholders' General Meeting.

Failing ratification, the resolutions and acts approved beforehand by the Board remain nonetheless valid.

When the number of Directors falls below the compulsory legal minimum, the remaining directors must summon immediately the Ordinary General Shareholders Meeting, in order to reach the full complement of the Board.

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

An employee of the Company may be appointed as a Director. His/her contract of employment must however correspond to an effective work. In this case, he/she does not lose the benefit of his/her employment contract.

The number of Directors who are also linked to the Company by an employment contract can not exceed one third of the Directors in office or five members.

Directors cannot be more than eighty five years old. In case one of the Directors reaches this limit during his/her office, the older Director is automatically considered as having resigned at the next General Shareholders Meeting.

ARTICLE 14 - MEETINGS OF THE BOARD

14.1. The Board of Directors meets as often as the interests of the Company require.

14.2. The Chairman summons the Directors to the Meetings of the Board. The notification of the Meetings may be made by all means, whether oral or written.

Furthermore, if there has not been a Board Meeting for two months, members of the Board representing at least one third of the members of the Board, or the Chief Executive Officer, may validly require the President to summon the Board. In such a case, they must indicate the agenda for the meeting.

In case a Labor Committee exists, the representatives of this committee - appointed pursuant to the Labor Code - must be invited to every meeting of the Board.

The meeting takes place either at the registered office or at any other place in France or abroad.

14.3. For the resolutions of the Board of Directors to be valid, at least one half of its members must be present.

Within the limits set out by Section L.225-37, paragraph 3 of the French Commercial Code and subject to the setting up of internal rules, the Board will be entitled to take into account for its quorum and majority rules, the participation of Directors by means of videoconference, still in respect of the legal provisions.

Any decision granting options to purchase new or existing shares of the Company to a Director who is also an employee, to the President or to the Chief Executive Officer of the Company (when he/she is also a Director), within the framework of an authorization given by the Extraordinary Shareholders' General Meeting, pursuant to Sections L.225-177 et seq. of the French Commercial Code, shall be taken by a majority vote among the Directors who are present or represented. The concerned Director as well as any other Director who is likely to be granted similar options cannot take part in the vote.

The resolutions of the Board shall be taken at a majority vote ; in case of a split decision, the President has casting vote.

14.4. Any Director may grant a proxy – even by letter, telegram, telex or fax – to any other Director to represent him/her at a Board Meeting; however, each Director is not allowed to have more than one proxy per meeting.

14.5. The copies or abstracts of the minutes of the Board of directors are certified by the Chairman of the Board, the Chief Executive Officer, the Director temporarily delegated in the duties of President or by a representative duly authorized for that purpose.

ARTICLE 15 - POWERS OF THE BOARD

The Board of Directors defines the orientations of the Company's activity and supervises their implementation. Within the limits set out by the corporate purposes, and the powers expressly granted by law to the General Shareholders Meeting, the Board may deliberate upon the business of the Company and take any decisions thereof.

ARTICLE 16 - CHAIRMAN

The Board elects one of its members as Chairman of the Board, who must be an individual. The Board determines the duration of the office of the Chairman: it cannot exceed that of his/her office as a Director. The Board may revoke the Chairman at any time. The remuneration of the Chairman is decided by the Board of Directors.

The Chairman represents the Board and organizes its work. The General Shareholders' Meeting must be informed of this work, by the Chairman. The Chairman is responsible for the good functioning of the Company's organization and, in particular, has to check the ability of the Board members to perform their mission.

Pursuant to Section 706-43 of the French criminal proceedings Code, the Chairman may validly delegate to any person he/she chooses the powers to represent the Company within the framework of criminal proceedings which might be taken against the Company.

The Chairman of the Board of Directors cannot be over eighty five years old. In case the Chairman reaches this limit during his/her tenure, he/she will automatically be considered as having resigned. However, his/her tenure is extended until the next Board of Directors Meeting, during which his/her successor shall be appointed. Subject to this provision, the Chairman of the Board may always be re-elected.

ARTICLE 16 bis - CHIEF EXECUTIVE OFFICER

The general management of the Company is performed, under his responsibility, either by the Chairman of the Board or by another individual, elected by the Board and bearing the title of Chief Executive Officer.

The choice between these two methods of management belongs to the Board and must be made as provided for by these bylaws.

Shareholders and third parties will be informed of this choice in the conditions set out by the decree n° 2002-803 of May, 3rd, 2002.

The Chief Executive Officer is vested with the most extensive powers to act under all circumstances on behalf of the Company, within the limits set out by the 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 third parties. The Company is bound by the acts of the Chief Executive Officer overcoming the corporate purposes, unless proven that the third party knew such act overcame the corporate purposes or could not ignore so in light of the circumstances; yet, the sole publication of the bylaws is not enough to constitute a sufficient evidence thereof.

The remuneration of the Chief Executive Officer is decided by the Board of Directors. The Chief Executive Officer can be revoked at any time by the Board of Directors. If this revocation is not justified, 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 company registered in France except when (i) such company is controlled (as referred to in Section L.233-16 of the French Commercial Code) by the Company and (ii) when this controlled company's shares are not quoted on a regulated market.

The Chief Executive Officer cannot be over seventy years old. In case the Chief Executive Officer reaches this limit during his/her tenure, he/she will automatically be considered as having resigned. However, his/her tenure is extended until the next Board of Directors meeting, during which his/her successor shall be appointed.

ARTICLE 17 - DEPUTY CHIEF EXECUTIVE

Upon the Chief Executive Officer's proposal, the Board of Directors may appoint one or several individual(s) as Deputy Chief Executive(s) with the aim of assisting the Chief Executive Officer.

The Deputy Chief Executive may be revoked at any time by the Board, upon proposal of the Chief Executive Officer.

In agreement with the Chief Executive Officer, the Board of Directors shall determine the scope and duration of the powers delegated to the Deputy Chief Executive. The remuneration of the Deputy Chief Executive is decided by the Board of Directors.

Towards third parties, the Deputy Chief Executive has the same powers as the Chief Executive Officer, among which the ability to represent the Company in court.

The Deputy Chief Executive Officer cannot be over seventy years old. In case a Deputy Chief Executive Officer would reach this limit during his/her office, he/she would automatically be considered as having resigned. However, his/her office is extended until the soonest Board of Directors meeting, during which his/her successor shall be appointed.

In any case, the maximum number of Deputy Chief Executive(s) cannot exceed five.

ARTICLE 18 - AGREEMENTS SUBJECT TO AUTHORIZATION

18.1. Securities, endorsement of drafts and guarantees provided for by the Company shall be authorized by the Board of Directors in compliance with the conditions provided for by the law.

18.2. Any agreement to be entered into - either directly or indirectly or through an intermediary - between the Company and one of its Directors, its Chief Executive Officer or Deputy Chief Executive, one of its shareholders holding more than 5% of the voting rights or, if it is a company, the company controlling it (as referred to in the Section L.233-3 of the French Commercial Code) is subject to a prior authorization of the Board of Directors. The same authorization applies to the agreements in which these persons are indirectly interested.

Such prior authorization is not required for agreements which, even though they are entered into by the above mentioned persons, concern usual operations which have been entered into on standard conditions. Nevertheless, such agreements have to be reported to the Chairman by the concerned person. Furthermore, the lists and purposes of these agreements shall be communicated by the Chairman to the Board of Directors and to the Statutory Auditors.

The same shall apply for agreements between the Company and another company, whenever one of the Directors, Chief Executive Officer(s) or Deputy Chief Executive(s) of the Company is the owner, a partner with unlimited liability, a manager, Director, Chief Executive Officer, member of the Executive Board or Supervisory Board of said company.

The prior authorization of the Board of Directors is required pursuant to the conditions provided for by law. It being specified that said director shall not be taken into account for the quorum calculation and that his/her vote shall not be taken into consideration for the calculation of the majority.

ARTICLE 19 - PROHIBITED AGREEMENTS

Directors who are not legal bodies are prohibited from taking out loans from the Company, under any form whatsoever, from getting an overdraft on a current account or otherwise, and benefiting from a guarantee from the Company for the agreements they have entered into with third parties.

The same prohibition applies to Chief Executive Officers, Deputy Chief Executives and to permanent representatives of the Directors legal bodies. It also applies to spouses, ascendants and descendants of the persons referred to in the previous paragraph, as well as to any interposed person.

TITLE V **AUDITORS**

ARTICLE 20 - AUDITORS

The Ordinary Shareholders' General Meeting shall appoint one or two Auditors and substitute Auditors for a duration under the conditions and for the task complying with (French) Law.

The Auditors are appointed for six fiscal years. Their mandate ends at the time of the General Meeting deciding upon the statements of the sixth fiscal year.

The Auditor appointed to replace another shall only remain in service until the expiration of the mandate of his predecessor.

Auditors are indefinitely re-eligible.

One or several shareholders representing at least one twentieth of the registered capital may ask in court the objection to one or several Auditors appointed by the meeting and the designation of one or several other Auditors who shall provide their services replacing the objected Auditors. Under penalty of unacceptability of the request, the latter shall have to be made before the President of the Commercial Court who shall rule in chambers within a period of thirty days as from the rejected nomination.

The Auditors must be called at the Board meeting during which the accounts of the ended financial year shall be closed and at all shareholders meetings.

ARTICLE 21 - EXPERTISE

One or several shareholders representing at least one twentieth of the registered capital may ask to the President of the Commercial Court to rule in chambers to designate an expert in charge of presenting a report on one or several management operations.

The report from the expert possibly appointed must be sent to the petitioners, to the Board, to the *Ministère Public* ("*Attorney General*"), to the Labor Committee and to the COB (*French SEC*) ; it shall also be attached to the report from the Auditor(s) prepared for the forthcoming General Meeting and should be granted the same advertising.

TITLE VI **GENERAL MEETINGS**

ARTICLE 22 - GENERAL RULES

- 1) The annual Ordinary General Meeting shall have to meet every six month, following the end of each financial year subject to an extension of that period further to a court decision.
- 2) Extraordinary Shareholders' General Meetings or Ordinary Shareholders' General Meetings called up extraordinarily may also be called up further to a notice from either the Board or the Auditors or the Agent designated by the court upon the petition of the Labor Committee or any interested person in case of an urgent matter or one or several shareholders representing at least one twentieth of the registered capital.
- 3) The General Meetings are held at the head office or in any other place indicated in the notice which may even be out of the department of the head office.

In case of an urgent matter, the Labor Committee may go to court and ask for the appointment of an Agent who will be in charge of convening the Shareholders' General Meeting.

The Labor Committee may also require the registration of resolution proposals on the agenda.

Two members of the Labor Committee, one from the "*cadres techniciens et Agents de maîtrise*" category, and one from the "*employés et ouvriers*" category, may be appointed by the Labor Committee in order to assist to the Shareholders' General Meetings. Upon their demand, they must be listened to during for all deliberations requiring an unanimous vote from the shareholders.

- 4) The notices for General Meetings are sent to each shareholder at least fifteen days prior to these meetings either by simple mail or registered mail.

Should the General Meeting not have been able to decide validly due to the failing of the required quorum, a second meeting is called up the same way as the first one and the calling up notice shall remind its date. However the time limit for such a notice is reduced to six days.
- 5) The calling up notice shall indicate the corporate name possibly followed by its acronym, the corporate form, the amount of registered capital, the address of its registered offices, the corporate identification numbers with the French Trade Registry and the National Institute of Statistics and Economic Surveys (Institut National de la Statistique et des Etudes Economiques INSEE), the dates, hour and place of the meeting and its nature, extraordinary, ordinary or special together with its agenda.

Subject to miscellaneous questions which should be of no major importance, questions indicated on the agenda are mentioned in such a manner that their content and scope appear clearly without having to refer to other documents.

One or several shareholders may under the conditions provided in Sections 128 to 131 of the decree n° 67-236 dated March 23rd, 1967 require the recording on the agenda of resolution projects which do not concern the presentation of candidates to the Board.

The Meeting cannot deliberate on a question which is not listed on the agenda; however, it may in all circumstances revoke one or several members from the Board and proceed with their replacement.

The Meeting agenda cannot be modified on the second calling up.

- 6) All shareholders attend the General Meeting whatever the number of their shares as long as they have been paid up for required payments.
- 7) A shareholder can only be represented by another shareholder or his/her spouse who may not be a shareholder.

The mandate is granted for a single meeting ; however it can be granted for two meetings, an ordinary meeting and an extraordinary meeting held on the same day or within a period of seven days.

The mandate granted for a meeting is valid for successive meetings called up covering the same agenda.

The following documents must be attached to any proxy form sent to the shareholders :

- the meeting agenda
- the text of the projects of resolutions presented by the Board and if need be by the shareholders or the Labor Committee.
- a summary on the corporate situation during the ended financial year with a chart on the corporate results during the past five financial years or each of the financial years since the incorporation of the Company if their number is inferior to five.
- a form for the sending of the documents and information listed under article 135 of the decree mentioned here above, informing the shareholder that he/she may obtain by simple request the automatic sending of the documents and information mentioned above for each forthcoming Shareholders' Meetings.

The proxy form must inform the shareholder in a very clear manner that failing any indication of Agent, a favorable vote shall be issued in his/her name to adopt the resolution projects presented or consented by the Board. To issue any other vote, the shareholder must chose an Agent who accepts to vote in line with his/her mandate.

The proxy must be signed by the represented shareholder and indicate his/her name, usual first name and domicile, the number of shares he/she holds and the number of votes related to his/her shares.

The Agent namely designated on the proxy may not a substitute another person to him/herself.

- 8) The Meeting is presided over by the Chairman of the Board of Directors or, if he/she is absent, by a director duly delegated for that purpose by the Board. Otherwise, the Meeting elects its own president.

The two members of the meeting with most votes shall, if they accept that position, fulfill the tasks of scrutinizers

The Meeting Committee designates the secretary who may be selected among persons who are not shareholders.

- 9) An attendance sheet is kept and contains:
 - the name, usual first name and domicile of each shareholder, attending or represented, the number of shares he/she holds and the number of votes related to these shares.
 - the name, usual first name and domicile of each Agent, the number of shares represented by his/her mandates and the number of votes related to his/her shares.

Comments on the represented shareholders may not be mentioned on the attendance sheet provided the powers are attached thereto and their number is indicated.

The Meeting Committee shall certify as true the attendance sheet duly signed by the present or represented shareholders.

- 10) Secret ballot vote shall be adopted whenever claimed by the Meeting Committee or members of the meeting representing more than half of the registered capital represented at that Meeting.
- 11) For all meetings, the quorum is counted on the total amount of shares forming the registered capital deducting those which are not entitled to the voting right by virtue of the legislative or regulatory provisions.
- 12) Each member of the meeting has as much votes as he/she possesses and represents shares, both under his/her personal name and as Agent, without limitations. However, in meetings held for the checking the shares invested in kind or specific advantages, each shareholder may not dispose of more than ten votes.

In the case of beneficial ownership, the right to vote related to the share belongs to the beneficial owner in Ordinary General Meetings and to the bare owner in Extraordinary or Special General Meetings.

The joint owners of shares must be represented by only one among them or by a sole Agent.

Finally, the owner of the securities pledged again shall have the right to vote.

- 13) Minutes shall witness resolutions voted in General Meetings and shall contain the required comments on a special register kept in the registered office under the conditions provided here above and signed by the members of the Board Committee.

Copies or extracts of the minutes of the General Meeting are validly certified by the Chairman of the Board, a Director duly empowered to act as a Chief Executive Officer, or by the secretary of the meeting.

- 14) Shareholders exercise their rights related to communications and copies under the conditions provided by law.
- 15) The votes of the Shareholder attending to the meeting by means of videoconference or telecommunications, according to regulatory provisions, shall be taken into account for the calculation of the quorum and the majority of the said meeting.

ARTICLE 23 - EXTRAORDINARY GENERAL MEETINGS

The Extraordinary Shareholders' General Meeting is alone entitled to modify bylaws as far as all their provisions : any contrary clause shall be declared void. However, it may not increase shareholders' commitments subject to operations resulting from a regrouping of shares regularly carried out.

The Extraordinary Shareholders Meeting may only deliberate under the quorum criteria provided by the relevant provisions of the French Commercial Code.

Resolutions shall be adopted by the majority of two third of the voting rights of the attending or represented shareholders, including the shareholders voting by mail.

ARTICLE 24 - ORDINARY GENERAL MEETINGS

The Ordinary Shareholders' General Meeting takes all decisions except those which are of the competence of the Extraordinary Shareholders' General Meeting.

The Ordinary Shareholders Meeting may only deliberate under the quorum criteria provided by the relevant provisions of the French Commercial Code.

It shall act by a majority of votes owned by the attending or represented shareholders, including the shareholders voting by mail.

TITLE VII
INVENTORIES - PROFITS - RESERVES

ARTICLE 25 - COMPANY'S FISCAL YEAR

Each fiscal year shall cover a period of twelve months starting on January 1st and ending on next December 31st.

ARTICLE 26 - INVENTORY – ACCOUNTS

Regularly accounting of corporate operations is held in compliance with Law.

At the end of the each fiscal year, the Board draws up an inventory and the financial statements.

A management report is prepared on the situation of the Company over the last fiscal year, its expected evolution, the major events which occurred between the date of the end of the last fiscal year and the date on which the management report is prepared and on its activities in research and development.

All these documents are made available to the Auditors disposal according the provisions set forth by the law.

ARTICLE 27 - FIXING, ALLOCATION AND DISTRIBUTION OF PROFITS

On the profit of each fiscal year subject to reduction of the amount of the previous law, an amount equal to 5 % of it shall be allocated in order to constitute the legal funds ; such allocation is no longer compulsory when the said funds amount to 10 % of the registered capital ; should the amount of the legal funds become inferior of the registered capital, such allocation should have to be implemented.

The General Meeting may allocate any amount to the appropriation of all optional, ordinary or extraordinary funds or carrying it forward.

The profit of the fiscal year reduced by the amount of previous losses and by the amount to be allocated to the reserves according any legal provisions or bylaws and increased by the amount of the carried forward profit constitutes the distributable profit.

Further to the approval on the financial statement and the determination of the distributable amounts, the General Meeting decides the amount of the dividends to be distributed to the shareholders. The General Meeting may also decide on the distribution of amounts appropriated from the reserves it has available either to provide or complete dividends or as extraordinary distribution ; in such a case, the decision shall expressly indicate the reserve items from which the distributions are made. However, the dividends have to be priorly distributed from the distributable profit of the current fiscal year.

ARTICLE 28 - PAYMENT OF DIVIDENDS

The terms and conditions of payment of dividends voted by the General Meeting are decided by the relevant meeting or, failing such decision, by the Board. However, the payment must occur within a period which can not exceed nine months from the end of the fiscal year unless a court decision authorizes an extension of such time limit for payment.

Dividends which are not claimed within five years from their maturity date shall be bared.

TITLE VIII
EXTENSION - DISSOLUTION - WINDING UP

ARTICLE 29 - EXTENSION

At least one year prior to the expiration date of the Company, the Board must convene a Extraordinary Shareholders' General Meeting to decide the prorogation of the Company; such prorogation may not exceed 99 years.

Failing such Extraordinary Shareholders' General Meeting, any shareholder may fifteen days further to a formal notice sent to the Chairman of the Board, by registered letter remaining unsuccessful, request from the courts the appointment of a Agent in charge of convening the meeting here above.

ARTICLE 30 - DISSOLUTION

The Extraordinary Shareholders' Meeting may, at any time, decide the accelerated dissolution of the Company.

If - as a consequence of the losses showed by the Company's accounts, the net assets of the Company are reduced below one half of the registered capital of the Company, the Board of Directors must, within four months from the approval of the accounts showing this loss, convene an Extraordinary Shareholders' General Meeting in order to decide whether the Company should be dissolved before its statutory term.

If the dissolution is not declared, the registered capital must - at the latest at the closing of the second fiscal year following that which has showed the losses and subject to the legal provisions concerning the minimum capital of *sociétés anonymes* be reduced by an amount at least equal to the losses which could not be charged on reserves, if during that period the net assets have not been restored up to an amount at least equal to one half of the capital.

Failing such meeting of the Extraordinary Shareholders' General Meeting as well as when the meeting has not been able validly to take its resolutions, any person with an interest to do so may file a claim before a court for the dissolution of the Company.

The Company is in liquidation at the time of its dissolution, whatever the reason. Its legal personality remains for the needs of the liquidation until it is closed.

During the liquidation, the General Meeting keeps the same powers as when the Company existed.

The shares remain negotiable until the liquidation is closed.

The dissolution of the Company is opposable to third parties only as from the date when the dissolution is published at the Trade and Corporate Registry.

ARTICLE 31 - WINDING UP

The winding up of the Company shall be carried out under the conditions provided for sections L.237-1 to L.237-31 of the French Commercial Code and under the provisions of the decree of March 23rd, 1967 referred to for their application.

Further to the extinction of the liabilities, the reimbursement of the shares nominal (registered) capital shall be carried out. The liquidation bonus shall be distributed to the shareholders in a due proportion of their respective rights.

TITLE IX **DISPUTES - ELECTION OF DOMICILE**

ARTICLE 32 - DISPUTES

Any disputes arising during the existence or the winding up of the Company either between the shareholders and the company or between the shareholders themselves and related to corporate matters shall be submitted to the Courts of the location of the registered office.

EXHIBIT 8.1.

LIST OF EDAP TMS S.A. SUBSIDIARIES
(as of April 3, 2017)

Name of Subsidiary

Jurisdiction of Incorporation

EDAP TMS France S.A.S.
EDAP Technomed S.r.l.
EDAP Technomed, Inc.
EDAP Technomed Co. Ltd.
EDAP Technomed Sdn Bhd
EDAP TMS GmbH

France
Italy
United States
Japan
Malaysia
Germany

Ethics Code

Company values

EDAP-TMS



edap tms
Bringing New Horizons to Therapy



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FOREWARD

Since its founding in 1979, EDAP-TMS has been heavily involved in introducing new and innovative technologies to develop a non-invasive approach to treating urological disorders.

Thanks to renowned technical and industrial skills, passionate teams, excellent products, and effective cooperation, we are at once part of longevity and the future.

This same commitment to strong ethical values and social responsibility ensures success in the long term.

It is my deep belief that respecting these values, along with the conviction to contribute to this noble profession of healing people, constitutes for our employees a tremendous opportunity for growth, commitment and motivation, in the service of collective performance.

The Ethics Code that we are formally adopting today is the reflection of the implementation of these values. It embodies a set of simple but fundamental principles that must motivate employees in their behavior and guide each of us in our daily responsibilities.

The purpose of this code is to unite the men and women of our company around these values, to be one of the foundations of their actions and to uphold our clients', suppliers' and our partners' image of EDAP-TMS.

I hope that all EDAP-TMS employees will claim full ownership of this ethics code, because it is a company's values and culture that make the difference.

/s/ Marc OCZACHOWSKI

Chief Executive Officer

The Ethics Code of EDAP-TMS draws its sources from international conventions on the upholding of human rights or the fight against corruption, as well as statutory provisions.

In this respect, the Board of Directors fully supports the ethics approach carried out by the group's General Management.

/s/ Philippe CHAUVEAU

Chairman of the Board of Directors

WHAT IS THE PURPOSE OF THIS CODE?

EDAP-TMS pays particular attention to the principles of ethics and honesty and compliance with the legal and regulatory provisions that govern its activity.

EDAP-TMS adheres to the principles of the Universal Declaration on Human Rights, the International Labor Organization, and the Organization for Economic Cooperation and Development (OECD).

In this context, the Ethics Code allows each employee to examine the attitude they must adopt in delicate situations that they may encounter in their relationships both within and outside of the company.

It is the realization of EDAP-TMS's responsibility towards its employees and towards all stakeholders in its activities.

With regard to its **employees**, EDAP-TMS is committed to diversity, equal opportunity, safety and respect at work. Our employees are one of the company's main strengths, and they must have a safe and healthy work environment, where talent and personal merit are recognized, diversity is valued, private life is respected and the right balance between personal and professional life is taken into account.

With regard to its stakeholders, whether they be:

- **Patients:** EDAP-TMS ensures the safety and quality of its products, in compliance with legal, regulatory, and internal regulations in place in order to fulfill its duty of information and integrity.
- **Health Professionals:** EDAP-TMS ensures compliance with legislation on the transparency of existing links between companies producing or marketing health-related products and participants in the health sector (Sunshine act in the United States, or the Bertrand Law of 2011 in France).
- **Suppliers and service providers:** EDAP-TMS determines its business relations in compliance with local laws, internal charters and requirements in the fields of human rights and working conditions, the environment and ethics.
EDAP-TMS calls on its suppliers to commit themselves to taking action against corruption in all its forms.
- **Officials and state representatives:** EDAP-TMS is committed to strict compliance with anti-corruption laws and regulations, such as the OECD Convention, or the Foreign Corrupt Practices Act.
- **Shareholders and investors:** EDAP-TMS provides regular and transparent information on the group's activity, strategy, operational and financial performance, outlook and financial characteristics to assess the company's situation.

As a result, any behavior that does not comply with the ethics code may be sanctioned by the company.

TO WHOM DOES THIS CODE APPLY?

The Ethics Code applies to all EDAP-TMS employees, but also to company officers, members of the company's management committees and its affiliates worldwide, as well as members of the company's board of directors.

The French version is the reference document in France and the English version is the reference document outside of France.

The Ethics Code is available on the EDP-TMS institutional website (<http://investor.edap-tms.com/corporate-governance.cfm>).

HOW IS THIS CODE USED?

This Ethics Code specifies company standards on a set of themes on which an employee may have to make a discretionary decision, depending on the circumstances, and to arbitrate between different principles and values that may conflict with one another.

Where legislation imposes higher standards than those of this Code, legislation must always prevail. If, on the other hand, the Code contains more stringent rules, they must prevail, unless there is an activity deemed to be illegal at the local level.

Reading this code in full allows you to understand EDAP-TMS standards and expectations with regard to ethics.

However, since no document can predict or deal with all situations that may arise, it is important to ask the following questions each time an employee is confronted with a situation that may lead to this type of decision.

- | |
|--|
| <ol style="list-style-type: none">1. Is it in compliance with the Ethics Code?2. Is it legal?3. Is it in line with our principles with regards to ethics, integrity, respect, and transparency?4. What would the impact be on our stakeholders and could I justify my decision?5. Would I be comfortable if my decision were made public internally and externally? |
|--|

If the answer to any of these questions is no, or if you are unsure, the best practice is to consult and discuss openly with the appropriate person (manager, financial director, internal oversight, human resources) before acting.

The Ethics Code does not, however, replace existing policies and you should thus continue to refer to all rules and standards defined in the workplace.

This code was designed to offer a framework for these policies and standards and to allow better understanding of their logic and purpose.

WHAT IS THE MANAGER'S ROLE IN EDAP-TMS MEASURES?

Ethical questions are rarely simple, but they should not be avoided.

It is the responsibility of EDAP-TMS managers to set the example and encourage ethical conduct.

Beyond their daily behavior, which should be exemplary, some simple gestures will show the importance managers place on ethical behavior at EDAP-TMS.

In particular:

- Always have the Ethics Code handy;
- Never ask or even suggest that employees do not comply with the Ethics Code;
- Take the time to explain the Ethics Code to new employees;
- Find time throughout the year to devote to talking about ethical questions;
- Regularly consider the ethical dilemmas that may arise during business;
- Value employees' particularly ethical or courageous behavior;

Managers must ensure that they are informed on this ethics code's recommendations and must make them known to their teams.

In the event that an employee has a question the manager cannot answer, the manager must direct the employee towards the department that can best advise them (HRD, DAF, Legal).

Reaching financial or business goals can in no case be done in a manner incompatible with the principles and objectives in this Ethics Code. The interests of the company can never be served well by illegal or unethical practices.

RULES OF GOOD CONDUCT REGARDING PEOPLE

DIVERSITY AND EQUAL OPPORTUNITY

The company strives to promote diversity within its organization and considers differences between employees and business partners to be an essential asset to the success of an international company.

The company strives to promote equal opportunity for each employee or candidate in terms of recruitment, access to training, pay, social protection, internal mobility and professional growth.

Only skills and experience will be taken into consideration.

EDAP-TMS encourages maintaining a favorable, creative, and non-discriminatory work environment that respects diversity and individual dignity.

EDAP-TMS is thus committed to prohibiting any form of discrimination on the basis of background, age, gender, religion, sexual orientation, physical appearance, health status, handicap or trade-union membership.

In practice

One of my colleagues keeps talking about a woman at the company in a sexist way and openly shows no respect for her. I feel awkward about his attitude.

How should I behave?

The employee's attitude goes against the company's ethical principles in terms of fighting discrimination against employees based on background, gender or religious beliefs.

Any employee faced with this kind of behavior must not hesitate to bring this situation to the attention of their manager, or the Human Resources Department.

I often hear that diversity is important for the company. Does this mean that I should encourage hiring or promoting women or people from ethnic minorities?

Hiring should be done based on skills and experience. Employees involved in the recruitment process should thus choose the best candidate for the available position. But they must keep in mind that diversity does not only mean women and ethnic minorities. It also means other potentially overlooked groups, such as people with disabilities, older people, etc.

One of my colleagues did not choose a supplier that met our company's needs. Given the comments that he often makes, it's likely that it was because of the supplier's nationality and ethnicity. What should I do?

Any discrimination based on skin color, nationality or ethnicity is unacceptable to EDAP-TMS. Any employee faced with this type of behavior must not hesitate to bring this situation to the attention of their manager or the Human Resources Department.

HARASSMENT

EDAP-TMS prohibits any behavior that may undermine an individual's dignity. Any behavior or action that may be contrary to this and in particular any form of moral or sexual harassment is unacceptable.

It is thus forbidden to knowingly seek to hurt, anger or force someone into error. It is also forbidden to behave in a way that someone has clearly indicated as undesirable.

In practice

My manager can be very intimidating. I know it's to motivate us to do quality work, but sometimes it can be really humiliating and derogatory, which undermines the entire team's morale. What should I do?

The role of each manager is to stimulate and motivate their team to do quality work. A manager must thus treat their team with respect and act in an appropriate manner. If an employee believe that they are not being treated professionally, they must do their best to talk about it openly with their manager. If they are unable to do this, or if after discussion the behavior persists, they must talk to human resources. They may also use the professional alert system. (see Chapter: Information Obligations and Alert System).

During a company party, one of my female colleagues found a manager's behavior towards her to be inappropriate, in particular with gestures, looks, and improper comments. She doesn't dare talk about it, because she doesn't want to seem prudish or risk her professional growth. How should I behave?

Any employee faced with this type of situation should encourage their colleague to speak with the manager involved if she feels capable. If not, the situation should be brought to the attention of human Resources. If the colleague does not act, it will be up to the employee to do it and to report what their colleague told them to Human Resources, even if they do not know all of the facts or were not a direct witness. It is essential to put an end to any unacceptable behavior before it escalates.

RESPECTING PRIVACY AND PERSONAL DATA PROTECTION

All employees and third parties with whom EDAP-TMS is involved (doctors, providers, representatives from the scientific community, etc.) have the right to privacy with regard to their private lives. To this end, EDAP-TMS is committed to protecting their personal data.

Personal data is information that would directly or indirectly identify a person (name, birthdate, social security number, photographs, email address, computer identification, etc.)

EDAP-TMS employees should:

- Ensure that the people for whom the group collects personal data are informed of the type of information collected and how EDAP-TMS intends to use it.
- Collect only the personal data that is necessary and destroy or correct inaccurate or incomplete data.
- Ensure that such information is transmitted, internally, only to authorized persons who have a legitimate need to know about it.
- Ask for advice before transferring personal data outside the country in which it was collected.
- Guarantee the right of their colleagues to have their privacy respected.

On the other hand, EDAP-TMS employees should not:

- Collect so-called “sensitive” information (relating in particular to health status, ethnicity, sexual preference, political opinions, religious beliefs) without the consent of the person involved, or only if the law requires it.
- Communicate personal data to someone outside the company, except in the event of legal obligation, use of technical service providers or if the person involved has given their express authorization.
- Save this information longer than the legal or professional reason for which it was acquired.
- Access or store personal data, except with necessary authorizations and if needed imperatively for company activities.
- Use these personal data for personal use.

In practice

During a business trip, my suitcase containing a USB with personal data about clients was stolen. Unfortunately, the data was not encrypted, but I don't see what the thief could do with it.

The loss of personal data could lead to legal consequences, impact EDAP-TMS' reputation, and may harm those whose data was lost. Indeed, there is an increasing amount of identity theft from data lost in this way. When possible, make personal data anonymous or use code names.

I recently heard a conversation between my manager and human resources about a colleague and the fact that he is very ill. I'd like to know if there is anything I can do to help him. Can I contact my colleague directly or should I speak with my manager first?

In such a case, it is important to not contact your colleague directly, but rather your manager or human resources, who will if needed get in touch with your colleague to let him know. Furthermore, in order to respect the privacy of every employee, it is important to not divulge personal information about other employees.

A friend that doesn't work at EDAP-TMS is asking me for my colleagues' email addresses, for professional use. Can I give them this list?

You must have the consent of those involved before giving out their information. Before personal data is transmitted outside the company, it is important to consider how that information could end up in other hands.

RESPECTING HYGIENE, SAFETY, AND THE ENVIRONMENT

EDAP-TMS is committed to protecting the health and safety of its employees and all persons in contact with the company in the short, medium and long term, i.e. assessing, preventing and controlling physical risks, radiological or environmental factors inherent in the activities carried out by the company.

To this end, the EDAP-TMS Committee on Hygiene and Safety of Working Conditions (CHSCT) provides regulatory, technical and scientific monitoring and supervises the safety of industrial processes and hygiene.

EDAP TMS also strives to train employees so that they are aware of their active role in and responsibility for preventing accidents.

Finally, EDAP TMS is committed to promoting safety and protection rules for its suppliers, processors and subcontractors.

EDAP-TMS is also committed to limiting the impact of its activity on the environment by favoring the use of recyclable materials and developing biodegradable packaging.

In practice

My manager told me that he thought I wasn't sleeping enough and advised me to not go out as much after work. He's afraid that I'll fall asleep and suffer an accident. It's true that sometimes I don't sleep much, but I can still do my job and what I do outside of my working hours has nothing to do with him. Don't I have the right to privacy?

What EDAP-TMS employees do outside of work concerns only them. But if their fatigue puts them or their colleagues in a dangerous situation, their managers are right to speak to them tactfully and while respecting their privacy. Even though EDAP-TMS respects employee privacy, it is not possible to accept behavior that may lead to a dangerous situation for anyone while carrying out professional functions, or that may adversely affect performance or the reputation of the company. This concerns sleep as well as consumption of alcohol or drugs, or any other addictive behavior that may have an impact on behavior at work. There is no compromise when it comes to safety.

One of our subcontractors was found drinking alcohol on premises. As he is not a salaried EDAP-TMS employee, do I have to worry about it?

It is important to let EDAP-TMS management know about any behavior that could put anyone in danger or compromise work environment safety for employees.

RULES OF GOOD CONDUCT REGARDING EDAP-TMS

CONFIDENTIALITY AND PROTECTION OF SENSITIVE INFORMATION

Any information that is not public must be protected, even in the absence of a formal obligation of secrecy, whether it is information concerning the Company, its employees or third parties.

The competitive advantage of EDAP-TMS is based primarily on sensitive information of a scientific, technical or commercial nature. This information is of great value to the company and its unintended or accidental disclosure may not only affect the competitiveness of the company but may also be a source of malicious or unfair competition (counterfeiting, industrial espionage). Indeed, the risks of file piracy and the introduction of viruses or other acts of this type are permanent and concern all employees.

All necessary measures must be taken to ensure their protection, whatever their medium, as well as their safe storage. In addition, the dissemination of such information, by any means including social networks, may constitute a breach of EDAP-TMS's confidentiality commitments towards third parties or insider trading.

Ensure the protection of such sensitive information and carefully consider any situation where it is intended to be spread outside the Company, even in the context of business relationships already established with third parties.

Examples of privileged information include information relating to financial results, acquisition or divestiture projects, research and development, significant clinical trial results, authorization for a new product, the loss or gain of a significant market, or ongoing litigation (see Chapter: "Prevention of Insider Trading").

It is therefore necessary not to divulge confidential information to persons outside the company and to always be vigilant during conversations in public places (train, plane, taxi, public transport, restaurant, seminar, etc.).

In the event of e-mail requests coming (seemingly) from management, concerning specific requests for information or money transfer, it is recommended not to reply without first contacting the issuer for oral confirmation.

It is also important to consult the legal officer to assess the need to sign a confidentiality agreement in order to take any specific protection measures before disclosing sensitive information to third parties.

Finally, alert management to any irregularity that may indicate that sensitive information confidentiality or protection may have been affected (documents disappearing, abnormal request for information, clues suggesting information systems have been manipulated, etc.).

In practice

My friends often ask me questions about my work at EDAP-TMS. They are curious about how our products work and what new launches we are preparing. Of course, I know a lot of the answers because of my work, but what information can I really tell them?

Any information (written, electronic, verbal or any other form) not available to the public and to which you have access as an EDAP-TMS employee, must be considered internal and thus confidential. Revealing it, even to friends in confidence, is unacceptable and may harm the interests of the company.

A colleague who left EDAP-TMS told me that he realized that he still had internal company documents at home. What advice can I give him?

If they are copies, ask him to destroy them. If they are originals, he should send them to an EDAP-TMS employee who can receive this information. Talk to your manager to make sure the appropriate measures are taken.

During a meeting, a person I don't know introduced herself as the marketing manager at an agency that was hired for a campaign for one of our products, but they have not yet signed a contract with EDAP-TMS. Can I provide information that is confidential, such as non-published results of a new study on this product?

Until our company has signed a confidentiality agreement or contract containing a confidentiality and non-disclosure clause, this person, and their company, may not have access to sensitive and confidential information on any of our products.

This contact should be directed to the appropriate person internally. Talk to your manager to make sure the appropriate measures are taken.

PRESERVING IMAGE

EDAP-TMS is committed to preserving its image and reputation, particularly in the context of the professional or individual use by its employees of new communication tools accessible via the Internet such as social networks, blogs and photo and video sharing sites, as well as forums.

Each employee thus commits to using, in a professional context, the tools at their disposal in the company's Graphical Charter, on the company's extranet, in the Corporate Identity section.

Only authorized employees are permitted to communicate, on behalf of the company, regarding the company's activities and products.

Employee comments made about the company while using social media, including in the private sector, can not only be attributed to the company, but also have negative repercussions on the reputation and image of the company. Employees must therefore use social networks responsibly and must remember that they can be held responsible for the content of their publications on the Internet.

Finally, EDAP-TMS employees must not respond to media questions about products or the company without being qualified and authorized to do so.

In practice

On a colleague's Facebook page, I saw that he was expressing personal views on EDAP-TMS operations.

Today, social networks have become a popular form of expression. Employees who participate must clearly indicate that they are expressing only their personal views and take the necessary precautions so that there is no confusion with EDAP-TMS positions. It is thus important to bring up the issue with the colleague who may not have realized how their behavior may be contrary to the company's interests.

Our team participated in a seminar in a hotel, where we had dinner and spent the night. One of the members of the team drank more than he should have and behaved irresponsibly, telling inappropriate jokes and acting aggressively towards hotel staff. What should I tell him?

Even if this incident occurred in the evening, the employee was attending the event for the company. To the other hotel guests, he was thus still representing EDAP-TMS. It is clear that his behavior is unacceptable and must be duly sanctioned.

PRESERVING INTELLECTUAL PROPERTY

Regarding EDAP-TMS identity and company brands: The EDAP-TMS name, the name of products (such as Focal One or Sonolith), the slogan (such as “Bringing New Horizons to Therapy”), and the logo create the EDAP-TMS company identity.

Before publicly using the EDAP-TMS name, the name of products, the slogan or the logo, it is important to confirm with the marketing department and/or the legal manager how these elements may be used and presented.

Regarding company inventions and patents: The practice of EDAP-TMS is to patent the inventions of their employees in the course of their duties.

If an employee is involved in product development, they must contact the R&D manager concerning the patentability of their work. Furthermore, each employee must be aware of any infringement of EDAP-TMS’s patents and must report any infringement directly to the legal manager and the R&D manager.

When a component requiring copyright protection is created for EDAP-TMS, it is essential to reference EDAP-TMS copyright on the development carried out, and to inform the legal manager in order to file the patent.

Conversely, each company employee must ensure that his or her work does not infringe upon the intellectual property of third parties.

In practice

I currently work with a laboratory, and in the context of these exchanges, I identified several good ideas that I could integrate into our products. Can I develop a model by implementing one of these ideas?

This is possible if the EDAP-TMS employee has first verified that this idea is free of copyright. If not, the employee must contact the legal manager or the EDAP-TMS R&D Director, who will analyze the situation.

USE OF COMPANY ASSETS

The purpose of the company's assets is to enable employees to achieve the economic objectives of EDAP-TMS. The misuse or waste of such resources, including working time, is harmful to the company and detracts from the operational and financial performance of EDAP-TMS.

Company employees must not use the Company's resources for private purposes. Personal use of communication tools such as e-mail, telephone, internet, etc. may be tolerated if limited, and if it does not lead to unreasonable costs or encroach on the employees' professional activity.

They also must not make inappropriate use of information systems, email and the Internet.

In practice

My home printer doesn't work but my wife urgently needs to send her CV for a job. Can I type and print it in the office?

Use of the computer for personal documents is possible as long as it remains reasonable, and does not impede upon the employee's professional activities and is done outside of their working hours.

A friend working for another company regularly sends me a "joke of the day" via email, and it's sometimes very funny. I'd like to forward some of these to my colleagues to entertain them but I'm not sure my manager would appreciate it.

It is not advisable to send these "jokes". The company email system and access to the Internet must never be used to access, save, send, or publish documents that are not compliant with the EDAP-TMS SPIRIT. This of course includes images, videos and text that are political, pornographic, religious, having racist commentary or anything that promotes violence, hatred or intolerance.

RULES OF GOOD CONDUCT REGARDING THIRD PARTIES AND STAKEHOLDERS

PREVENTING CONFLICTS OF INTEREST

Any employee may be confronted with situations in which his or her personal interests may be in conflict with those of the company. Anything that may appear to be a conflict of interest can cause problems and damage the reputation of the group.

Personal interests must be understood in the broad sense of the term, since they concern both the interests of the employee and those of any natural or legal person in his or her circle.

In order to prevent situations of conflict of interest, employees must be vigilant in situations where the objectivity of their professional decisions could be altered.

They must inform their manager in the event of a real, apparent or potential conflict of interest that could affect or could give the impression of affecting their judgment or actions (for example, when a parent is employed by a supplier) or when they hold a position, function or financial interest in any organization that is a competitor, customer, supplier or a commercial partner of EDAP-TMS when the functions at EDAP-TMS allow an influence on the relationship.

It is also important for a company employee to politely but firmly refuse any gift or invitation that may be offered and that could have the effect of creating a sense of indebtedness.

In some countries, refusal of a gift from a professional partner may be culturally unpopular or even detrimental to future professional relationships with the latter. In this case, discuss with management how the gift should be handled.

In practice

My wife works for one of our competitors. At home, we do not talk about work and I do not see how her professional activities concern our company. Some of my colleagues do not share this opinion.

This could create the appearance of a conflict of interest. It is important for the employee to discuss the subject with their manager or the Human Resources Department. The employee and his wife must also make every effort to ensure that confidential or proprietary information for both companies remains protected.

My brother runs a promotional printing company well-known for the quality of their services. As a person in charge of organizing an information campaign about a new product, can I propose the project, given that his company represents the most interesting offer?

A proposal is possible for the employee. However, it is important to communicate the relationship to the potential professional partner to management, so that the decision is made in an objective and informed manner and the employee is not involved in the decision-making process.

In my professional activities, I organize numerous trips, conferences, and meetings. The travel agency I work with often offers me an all-expense paid weekend for my parents for their wedding anniversary. It's very nice of them, and I wouldn't be directly benefitting. Can I accept?

An EDAP-TMS employee cannot accept such a gift even if they are not benefiting directly. Accepting such a gift would make it difficult to prove impartiality when the employee is making new reservations on behalf of EDAP-TMS. The mere appearance of a conflict is unacceptable and it is important to politely decline an offer and to clearly explain why.

Note: The opposite case (offering gifts to third parties) is covered in the chapter "Fighting Illicit Payments and Corruption".

PREVENTING INSIDER TRADING

Insider trading is the purchase or sale of a company's securities by a person who has knowledge of material information that has not yet been made public that could affect the value of such shares. An insider trader may also be an employee of the company who, while in possession of sensitive and confidential information, would exercise an option (see Chapter: "Confidentiality of Sensitive Information").

Company employees should therefore bear in mind that acquiring shares in the company is not prohibited but that the use of inside information in connection with their investments may be affected by the legislation on insider trading.

EDAP-TMS employees must also maintain confidentiality of any privileged information to which they may have access in order to avoid unintentional disclosure.

Insider trading may consist of the sale or purchase of shares prior to the announcement of new issues that may have an impact on the market price of EDAP-TMS shares, or those of a current or potential partner, if this transaction is based on privileged information, such as financial results, acquisition or divestiture projects, significant clinical research results, authorization of a new product, loss or gain of a significant market, ongoing litigation.

An insider trading offense is also characterized if a third party has carried out these operations, on behalf of the employee or not, on the basis of information provided directly or indirectly by the employee.

In practice

At lunch, in the dining hall, I heard colleagues at a table next to mine speaking about a sharp increase in our company's profits for the last quarter, which would be announced publicly in two days. I wonder if I should buy company shares before the news is made public so I can then resell them at a profit.

Having this information makes an employee an insider and consequently prohibits him or her from trading company securities, as long as this information is not public.

By the pricing of EDAP-TMS on the US stock market, the employee may be sued by the SEC (Securities and Exchange Commission) and impose heavy penalties and administrative penalties.

As a reminder, the procedure (03-006B) in force at EDAP-TMS controls purchases and sales by the employees, relating to EDAP stock.

I understand that I cannot buy EDAP-TMS shares myself due to privileged information that I have. But what if I "suggested" to my best friend that it would be smart to buy EDAP-TMS shares now?

This would be just as unacceptable as if the employee bought the shares himself. Even if the friend in question does not follow the advice, the simple fact of relaying a rumor is also contrary to ethics and the law.

RESPECTING FREE COMPETITION

Violation of antitrust laws and competition laws are punishable by fines and damages for the company and the individuals involved. Moreover, in some countries, serious violations, such as unlawful agreements on pricing or the distribution of markets between competitors, are punishable by imprisonment.

Competition and antitrust issues can arise both from contacts that EDAP-TMS has with its competitors and from its relationships with suppliers and customers.

In the case of relationships with EDAP-TMS competitors, the following should never be discussed: price matters (tariffs, discounts, pricing methods, etc.), product information (marketing and marketing strategies), production (industrial capacity, logistics, quality of products, etc.), market distribution, financial information, intent to compete or not for a call for tenders, agreements or contracts with suppliers or customers.

In the case of relationships with suppliers and customers, any implementation of discriminatory or boycotting practices constitutes a violation of the rules of competition law.

In practice

During a conference at a hospital in which an acquaintance who has a similar job with one of our competitors, I learned that both of our companies would respond to a call for tender from the same hospital. Can I discuss the call for tenders with him?

It is important for company employees to be careful when talking with an EDAP-TMS competitor about subjects that may involve prices or costs. You should thus avoid talking about this call for tenders with this person both in the professional context of the conference and in the context of a personal relationship. If a competitor spontaneously communicates such information it is best for the EDAP employee to end the conversation and alert their manager and the legal manager.

It is important that the information received is not disclosed to anyone, because even if the exchange was not voluntary, it could give the appearance of an unlawful agreement or a rigged offer, which is contrary to ethics and, in most countries, illegal.

FINANCIAL INFORMATION, TAXATION, AND FIGHTING MONEY LAUNDERING

Regulations require listed companies and their employees to correctly, accurately and truthfully disclose regulated information. The communication thus affects not only the image and reputation, but also the stock market price and the confidence of the shareholders of a company.

Failure to comply with the financial reporting rules can not only result in heavy fines imposed by financial or other authorities but also undermine the Company's image and undermine its credibility in financial markets.

In practice, all information publicly disseminated by EDAP-TMS must be analyzed and approved in accordance with the company's requirements. This applies in particular to official financial statements and annual reports to stock exchange authorities and other similar publications, and information made public in any manner whatsoever.

Irrespective of the publication of the company's financial statements or the announcement of financial transactions, the public must be informed in due time of any event likely to affect the price of EDAP-TMS shares. This includes annual and quarterly financial results, authorizations from administrative or regulatory authorities for a major product, the results of clinical trials related to a strategic product, developments in certain disputes affecting the company, or the withdrawal from the market a strategic product.

As a result, EDAP-TMS employees involved in the production of financial documents have an obligation to ensure that the information contained in the financial or other documents is accurate. This is an essential element in the honest, efficient and lawful conduct of the company's business. In particular, it is imperative to provide our shareholders with transparent, faithful and reliable information.

The company also commits to spreading information fairly to markets.

Company employees must also document and record their expense reports accurately and consult their managers if there is any doubt as to the legitimacy of reimbursement of certain expenses.

This also means that the company is committed to ensuring that its documents (financial, accounting, commercial, etc.) are kept safe and that employees comply with archiving instructions.

Finally, EDAP-TMS employees must comply fully with internal or external auditors.

The company's financial management commits to informing the Audit Committee of any information of which it is aware and which concerns significant deficiencies in the definition or implementation of the company's internal controls which could affect the ability to record, produce, synthesize or disclose financial or other material information to investors. It also commits to communicating any case of fraud, material or otherwise, which involves management or any employee who has a significant role in accounting and financial production or internal control.

Moreover, EDAP-TMS commits to complying scrupulously with tax legislation and to paying all necessary local and national taxes. Consequently, the company and its employees commit to keeping full and accurate books and accounting documents and to making tax returns on a regular, exhaustive and precise basis.

Finally, company employees must ensure that company activities are not used, directly or indirectly, to "launder" funds from criminal activities.

Employees agree to not accept cash transactions, or to conceal payments through the use of third parties.

In practice

I was asked to verify sales reports that my manager prepared for the end of year closing. I think I have detected an error no one else seems to have noticed. I am hesitant to talk about it for fear that this will harm my relationship with my manager.

The reason an employee is responsible for checking documents is precisely to ensure that they do not contain errors. By not bringing up this error, the employee is not doing his job properly and is not serving the interests of the company. The employee must therefore inform his or her manager of the error. He or she would have no reason to reproach him or her; on the contrary the employee will have acted well in preventing the return of inaccurate information.

One of our customers asked us if he could pay us from different accounts, both by checks and in cash. Is that acceptable?

Employees must be particularly vigilant with this type of transaction, which could be a money-laundering technique, a method allowing illicit funds (drug trafficking, corruption, etc.) to be concealed or transformed into seemingly legal operations.

The company's employees must therefore take all possible measures to ensure that it is indeed a regular transaction.

The warning signs to be taken into account include payments in foreign currencies other than those indicated on the invoice, proposals for cash payments or those made by a person not included in the contract; payments on or from accounts which are not those normally used in commercial dealings, or accounts located in tax havens or in a country other than that of the third party. If the account is not in the name of the contracting company, the payment must be refused.

I think we made a mistake in a tax return a few years ago that had the effect of lowering our tax rate at that time. What should I do?

EDAP-TMS is scrupulously committed to reporting its taxes in accordance with applicable legislation and maintaining trust with tax administrations. The best reaction is therefore to go back to the company's Financial Manager to verify that this is indeed an error and, if so, how to deal with the matter with the tax administration and what processes to put in place in order to limit this type of occurrence in the future.

FIGHTING ILLICIT PAYMENTS AND CORRUPTION

In every country in which it operates, EDAP-TMS is fully committed to fighting corruption in all its forms.

Employees must not offer, promise or give money, including a facilitation payment or anything else of value (gifts, invitations, promises of internship, etc.) to a representative of public authorities, a political party, a politician or union representative, or even to charitable or similar organizations in order to obtain any advantage for EDAP-TMS.

EDAP-TMS employees are also prohibited from accepting or soliciting money or other valuable information that may result in the EDAP-TMS loyalty requirement being breached.

Finally, company employees must not use intermediaries to do what EDAP-TMS has no right to do. They must respect, and require company providers to do the same, the legal and conventional anti-corruption and illegal payment provisions, such as the 1997¹ OECD Convention or the Foreign Corrupt Practices Act in the United States².

In the context of relations with service providers, certain warning signs may be indicators of a risk of corruption on the part of the latter.

Particular attention should be paid to:

- The provider's reputation in the country, especially given the general corruption indicators for the country involved (such as those from organizations such as Transparency International, for example).
- Contracts, which must precisely describe the parties' missions.
- Commissions' payment methods in the context of agreements with agents and consultants
- Fees which must correspond to market prices for equivalent services
- Invoices on which the services must be detailed

In practice

I am opening a new office and the local authorities have asked for a small gratuity to install our telephone lines. Do I have to pay?

If the payment demanded is not a legitimate installation fee, the employee does not have to pay. In this case, it is important to inform the company's financial manager, who will offer help and support.

I understand that the company cannot offer a gift to a public official. Can I, however, offer a gift to my agent to thank him for his help in obtaining a contract with an administration?

Whether such a gift is made to a public official by an employee using their own funds, or by the company, this is an offense. In doing so, the employee would be taking a risk not only for the EDAP-TMS company, but for himself. Furthermore, in the context of increased cooperation between states that have ratified international conventions against corruption, acts of corruption committed abroad can also be prosecuted in the country of origin.

¹<http://www.oecd.org/corruption/oecdantibriberyconvention.htm>

² <https://www.justice.gov/criminal-fraud/foreign-corrupt-practices-act>

SECURITY IN RELATIONSHIPS WITH SUPPLIERS

EDAP-TMS asks all the providers with which it works to respect the highest ethical standards in all their activities. This applies to the field of human rights and working conditions, safety and environmental health, conflicts of interest and the fight against corruption.

Company employees must therefore select suppliers based on open and competitive calls for tender and ensure that all bids are compared and considered equally and without favoritism.

Company employees must ensure that company expectations in terms of ethics are well understood and respected by all company providers, regardless of the country in which they are located.

EDAP-TMS employees must ensure that their suppliers are not in a situation of excessive economic dependence vis-à-vis the company.

EDAP-TMS is committed to paying its suppliers under the agreed conditions, unless there are legitimate reasons for not doing so, such as non-delivery of goods ordered, partial delivery or delivery of defective goods.

The company is also committed to respecting all contractual elements linking it with a supplier.

Finally, the company is committed to not continuing work with a supplier who repeatedly fails to meet the company's expectations or who does not respect its ethical principles, in particular with regard to human rights and/or the fight against corruption.

In practice

I was looking for a new hardware distributor. The first I contacted offers quality but expensive products. The products of the second are not of such good quality but they are cheaper. Can I inform the former of the prices offered by the latter in order to try to lower their prices?

It is possible for an employee to say, in general, that another supplier offers more attractive prices but not reveal the prices or the identity of the other supplier. It would otherwise be a disclosure of confidential information contrary to ethics and, in many countries, against the law.

BEST PRACTICES FOR PROMOTION

In all of its activities promoting and communicating products manufactured and marketed by the company, EDAP-TMS is committed to:

- Applying the highest ethical standards to all of its communications by ensuring that the information provided is up-to-date, accurate, objective and reliable but also sufficiently complete to allow good assessment of the quality of the product concerned and its proper use.
- Ensuring that all promotional materials and product information are based on scientifically proven results.
- Responding to requests for transparency regarding the relationship between EDAP-TMS and healthcare professionals as well as with patient associations and suppliers.

Regarding relations with health professionals more specifically, EDAP-TMS is committed to respecting the laws in force both in the country of origin of the healthcare professionals and the country where the event takes place, in particular with regard to invitations to conferences, conventions or scientific events.

Each doctor is reminded of this obligation for transparency in the context of the contract that links him or her to the company, by specifying that he or she must communicate the nature and fees received from EDAP-TMS each time he or she speaks about a company product.

In practice

Last week during a meeting with a doctor, the doctor told me that he could promote EDAP-TMS products to his colleagues if I thought I could offer him more frequent opportunities to speak as a paid expert at conferences in which EDAP-TMS participates. Can I respond to this request and immediately enter into a speaker's contract with this doctor?

EDAP-TMS regularly uses the services of health professionals who can provide expertise that the company does not have in conferences, publications or studies. Agreements formalizing this type of cooperation are strictly governed by the procedures and principles in force in the company and these agreements can in no way be linked to a request or an offer concerning an EDAP-TMS product.

PRODUCT SAFETY AND QUALITY

High performance, technological innovation, and the safety and quality of our products are proof of our commitment to and respect for our consumers, thus maintaining their confidence, building our brands' reputation and guaranteeing EDAP-TMS's performance in its field.

The company is also committed to marketing products that have proven safety and effectiveness, guaranteed by rigorous evaluation methods. Each EDAP-TMS employee involved in development, production, marketing, sales and services, must seek to achieve total product quality from conception to distribution even after it has been placed on the market.

Employees must respect all national and international laws and regulations to ensure the compliance of all company products.

EDAP-TMS is committed to the implementation of the highest standards of safety and quality control at every stage, from product design to production and distribution.

In order to guarantee this level of safety and quality, EDAP-TMS has implemented a quality approach based on the ISO 9001 and ISO 13485 standards.

The EDAP-TMS quality management system is based on the implementation of a quality manual, organizational procedures, instructions and records. This system is audited each year by a certifying body that is authorized, recognized and/or accredited by numerous bodies such as the ANSM, COFRAC, the CCN, the IECEE, the FDA, and INMETRO.

Moreover, company employees must not ignore potential problems concerning the safety and security of company products and quality controls.

In the context of monitoring vigilance, any employee who is aware of a side effect on a patient during treatment with one of our products must immediately inform the QA/RA, who will be responsible for making the statement to the competent authorities.

Employees should also not interfere with free and open dialogue on product safety issues so that none of them is ignored.

In practice

I worked on a production line and noticed that a machine had elements suggesting that it was defective. The problem is known but my supervisor has done nothing. I know the production plan is very tight. Do I think he's right to ignore the problem?

To ensure that our clients receive the highest quality products, EDAP-TMS has implemented quality control systems at every step of the production process. Quality is the company's priority, regardless of production plan constraints.

Every employee who is aware of a problem of this type must openly discuss the problem with his or her manager and work with them and the rest of the team to solve the problem before resuming production.

He or she must also trace the non-compliance by filling out a non-compliance form.

COMPLIANCE WITH AMERICAN LEGISLATION REGARDING COUNTRIES UNDER EMBARGO

In a globalized world, the development of EDAP-TMS is naturally oriented internationally.

In this context, and due to the company's listing on NASDAQ's capital markets in the United States, EDAP-TMS is committed to fully complying with US regulations on economic sanctions and embargoes.

As a result, EDAP-TMS is committed to ensuring that its foreign employees and affiliates do not enter into business relationships with certain countries, groups and individuals, particularly organizations associated with terrorist activities and drug trafficking.

Company employees must not engage in any business relationship with targeted governments or organizations, or any individuals or entities acting on their behalf.

The company is also committed to limiting investment, as well as trade in goods, technology and service in countries subject to the blacklist of countries under embargo issued by the United States.

EDAP-TMS is committed to not exporting to these countries any products or technologies which are considered to be of strategic importance because of the possibility of being used for military purposes.

In case of doubt about the legitimacy of initiating a business relationship with a foreign actor the employee must refer to the black list of the countries under embargo and to inform the EDAP-TMS financial manager.

In practice

During a urology conference, I was contacted by a Sudanese doctor who wanted to see his hospital equipped with an EDAP-TMS machine. Can I enter into negotiations with this hospital?

Sudan, like Iraq, Iran and other countries, is identified among countries under American embargo.

In this context, due in particular to the numerous spare parts of EDAP-TMS machines which can be dual-use and in particular of military use, it is necessary to act with the utmost caution and to contact the company's legal manager and financial manager before making any contact.

Depending on which country is on the blacklist, they will instruct the employee on how to proceed in order to strictly control the process (notably by providing the necessary documents such as the EAR99 declaration), or even by interrupting the process directly.

INFORMATION OBLIGATIONS AND ALERT SYSTEM

If an employee believes, in good faith, that a law, regulation or even one of the principles in this Ethics Code is being violated, or is about to be, he or she may, in accordance with applicable rules in the country in which he or she resides and carries out his or her activity, freely speak to his or her manager or the manager of the Internal Audit (bbayard@edap-tms.com), about his or her concerns regarding the potentially illegal or unethical practices.

In addition, if an employee in good faith has a doubt or suspicion of possible unlawful or unethical practices in financial, accounting, internal control, competition, fighting corruption, anti-competition practices, fighting discrimination and harassment at work, protection of the environment or health, or health and safety at work, an alert procedure is available. (See Regulation CNIL No. AU-004)

He or she can directly address internal control based at headquarters in France, where a specific and secure device has been set up, via the e-mail address: AlerteProfessionnelle@edap-tms.com

The reported facts will then be categorized by describing: which practice is concerned, who is concerned, when the facts occurred, how they occurred, and preferably the contact details of the person who initiated the alert.

No penalties or discriminatory measures shall be applied against the employee provided that he or she acted in good faith with no intention of harm, even if the facts alleged to have been the subject of the alert should prove to be inaccurate or do not give rise to any follow-up.

"Good faith" means that at the time the employee gave the alert, he or she believed that the information provided was complete, honest and accurate, even though it later appeared to be a mistake.

The Internal Audit department would conduct an investigation into the facts of the alert, respecting the principles of confidentiality and the presumption of innocence.

In the course of an ethics investigation, everyone is obliged to cooperate fully and to provide, at the first request, all information and documents.

The persons affected by the alert shall be informed as soon as possible, subject to any preliminary investigations required or to specific regulatory provisions (see Tracfin). They have the right to correct and/or delete data concerning them that appears to be inaccurate, incomplete, dubious or out of date.

Any alert resulting in fraudulent conduct, material failure or significant inadequacy of internal control results in corrective actions and/or disciplinary sanctions and/or prosecution.

EDAP-TMS EMPLOYEE ENDORSEMENT OF ETHICS CODE

The undersigned EDAP-TMS employee acknowledges that he or she has read the Ethics Code to which this endorsement is attached, and commits to complying fully with it, in all places and throughout the duration of the EDAP-TMS employment contract.

He or she recognizes the following principles and responsibilities as well as other EDAP-TMS regulations, procedures and policies.

- Act with honesty and integrity and limit conflicts of interest involving personal or professional relationships;
- Provide shareholders and the market with information that is fair, accurate, complete, objective, understandable and timely;
- Comply, in good faith, with the rules and regulations of governmental organizations and other private or public regulatory bodies to which the Corporation is subject;
- Act at all times in good faith, responsibly, competently, cautiously and intelligently, without distorting material facts and objective elements;
- Act objectively without allowing independent judgment to be compromised;
- Respect the confidentiality of company data (except when authorized to disclose information) and limit the use of company information for personal purposes;
- Share knowledge and skills with other employees in order to improve the company's communication with its stakeholders;
- Encourage ethical behavior among company employees and stakeholders;
- Guarantee responsible use and effective control of all company assets and resources entrusted to him or her;
- Immediately report any violation of the Ethics Code to the CEO, Finance Director and Internal Audit Department, if there are objective and reasonable reasons to believe that the code has not been complied with.

First name:

Last name:

Date:

Location:

Signature

EXHIBIT 12.1

**Annual Certification
Pursuant to Section 302 of Sarbanes-Oxley Act of 2002**

I, Marc Oczachowski, certify that:

1. I have reviewed this annual report on Form 20-F of EDAP TMS S.A.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Dated: April 3, 2017

/s/ MARC OCZACHOWSKI
Title: Chief Executive Officer

EXHIBIT 12.2

**Annual Certification
Pursuant to Section 302 of Sarbanes-Oxley Act of 2002**

I, François Dietsch, certify that:

1. I have reviewed this annual report on Form 20-F of EDAP TMS S.A.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Dated: April 3, 2017

/s/ FRANCOIS DIETSCH
Title: Chief Financial Officer

EXHIBIT 13.1

**Annual Certification
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), each of the undersigned officers of EDAP TMS S.A. (the "Company"), does hereby certify, to such officer's knowledge, that:

The Annual Report on Form 20-F for the year ended December 31, 2016 (the "Annual Report") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 3, 2017

/s/ MARC OCZACHOWSKI
Marc Oczachowski
Chief Executive Officer

Dated: April 3, 2017

/s/ FRANCOIS DIETSCH
François Dietsch
Chief Financial Officer

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act has been provided to EDAP TMS S.A. and will be retained by EDAP TMS S.A. and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 15.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form F-3 No. 333-195435 and on Form S-8 No. 333-188112 of EDAP TMS S.A. of our report dated April 3, 2017, relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 20-F.

Lyon, France, April 3, 2017

PricewaterhouseCoopers Audit

Represented by
/s/ Elisabeth L'hermite
Elisabeth L'hermite