As filed with the Securities and Exchange Commission on March 30, 2007

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2006

0-29374
(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 Dauphine
69120 Vaulx-en-Velin, France
(Address of principal executive offices)

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
None	**None**

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

American Depositary Shares, each representing one Ordinary Share
Ordinary Shares, nominal value € 0.13 per share

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, 2006: **8,817,007 Ordinary Share**

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

Yes o 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 o 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 o

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 o Accelerated filer o Non-accelerated filed x

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 o Item 18 x

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 o No x

TABLE OF CONTENTS

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Unless the context otherwise requires, references herein to "we," "us" or "our" 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. Unless otherwise stated, the translations of euro into dollars have been made at the rate of U.S.$1.00 = €0.7882, the rate 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'') on December 31, 2006. 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, Technomed, Ablatherm, Ablasonic, Ablapak, Praktis, Pulsolith and Sonolith 2000. This Annual Report also makes references to trade names and trademarks of companies other than the Company.

FORWARD-LOOKING INFORMATION

This report includes certain forward-looking statements, usually containing words such as ''believe,'' ''plan,'' ''intend,'' ''estimate,'' ''expect'' and ''anticipate'' or similar expressions, which reflect our views about future events and financial performance. Actual events or results may differ materially from those projected in such forward-looking statements as a result of various factors that may be beyond our control. These factors include, without limitation:

- the effects of intense competition in the markets in which we operate;
- the uncertainty of market acceptance for our HIFU devices;
- the uncertainty of reimbursement status of procedures performed with our products**;**
- the clinical status of our HIFU devices;
- the impact of government regulation, particularly relating to public healthcare systems and the commercial distribution of medical devices;
- dependence on our strategic partners;
- 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; and
- fluctuations in results of operations due to the cyclical nature of demand for medical devices.

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 (including our reports on Form 6-K) for further discussion of the risks and uncertainties that may cause such differences to occur.

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 balance sheet data as of December 31, 2004, 2005 and 2006 and the income statement data for the years ended December 31, 2004, 2005 and 2006 set forth below have been derived from our Consolidated Financial Statements included in this annual report. The balance sheet data as of December 31, 2002 and 2003 and the income statement data for the year ended December 31, 2002 and 2003 have been derived from our audited consolidated financial statements. Our Consolidated Financial Statements were 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	2002	2003	2004	2005	2006
INCOME STATEMENT DATA					
Total revenues	19,961	18,473	22,163	20,810	20,265
Total net sales	19,725	18,030	21,955	20,717	20,174
Gross profit	8,458	5,379	8,487	8,497	8,319
Operating expenses	(13,234)	(13,500)	(9,317)	(9,820)	(11,413)
Loss from operations	(4,776)	(8,121)	(830)	(1,323)	(3,094)
Income (loss) before income taxes	(3,873)	(9,090)	(871)	(961)	(3,375)
Income tax (expense) benefit	(167)	114	(278)	(104)	(56)
Net income (loss)	(4,040)	(8,976)	(1,149)	(1,065)	(3,431)
Basic earnings (loss) per share	(002)	(1.15)	(0.15)	(0.14)	(0.39)
Dividends per share[(1)]	—	—	—	—	—
Weighted average shares outstanding used in basic calculation	7,771,467	7,781,731	7,781,731	7,782,731	8,817,007
Weighted average shares outstanding used in diluted calculation	7,833,514	7,817,303	8,074,210	8,373,574	9,557,533
Diluted earnings (loss) per Share	(002)	(1.15)	(0.15)	(0.14)	(0.39)
BALANCE SHEET DATA					
Total current assets	34,091	25,870	22,041	22,777	26,393
Property and equipment, net	1,985	2,903	2,807	3,130	3,211
Total current liabilities	9,880	11,074	8,272	9,874	10,926
Total assets	39,787	31,910	27,901	28,796	32,473
Long-term debt, less current portion	95	7	-	55	58
Total shareholders' equity	28,375	18,961	17,964	17,372	19,300

(1) No dividends were paid with respect to fiscal years 2002 through 2005 and subject to approval of the annual shareholders' meeting to be held in May 2007, the Company does not anticipate paying any dividend with respect to fiscal year 2006. 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.

Year ended December 31,	**High**	**Low**	**Average[(1)]**	**End of Year**
	€	**€**	**€**	**€**
2002	1.16	0.95	1.05	0.95
2003	1.12	0.79	0.88	0.79
2004	0.85	0.73	0.80	0.74
2005	0.86	0.74	0.80	0.84
2006	0.84	0.75	0.80	0.76

(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.

	End of Month	**High**	**Low**	**Average**
	€	**€**	**€**	**€**
2006				
October	0.78	0.80	0.78	0.79
November	0.75	0.79	0.75	0.78
December	0.76	0.76	0.75	0.76
2007				
January	0.77	0.77	0.75	0.77
February	0.76	0.77	0.75	0.76
March, through March 16, 2007	0.75	0.76	0.75	0.76

On March 16, 2007, the Noon Buying Rate was U.S.$1.00 = €0.75

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 affect our business results.

RISK FACTORS

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

We depend on the success of our High Intensity Focused Ultrasound (''HIFU'') technology for future revenue growth and net income. Our Extracorporeal Shockwave Lithotripsy (''ESWL'') line of products competes in a mature market that has experienced declining unit sales prices in recent years, although total revenues have remained stable owing to increased sales volumes. 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, to generate significant additional revenues and achieve and sustain profitability in the future. The Ablatherm is in its commercialization phase in the European Union. The Ablatherm is not approved for commercial distribution in the United States and none of the Company's other HIFU products (excluding Ablatherm) have obtained approval for commercial distribution anywhere in the world. In December 2001, our request for an additional Investigational Device Exemption (''IDE'') from the U.S. Food and Drug Administration (''FDA'') to conduct clinical trials in the United States for the Ablatherm as a primary therapy was rejected. To assist in the successful completion of clinical trials to obtain FDA approval for the Ablatherm, we partnered with HealthTronics Surgical Services, Inc. ("HealthTronics") and signed a Distribution Agreement in February 2004 for assistance in the approval process for re-submission of an IDE to the FDA. Trials in the United States started in May 2006, with several centers fully approved and enrolling patients. In November 2006, HealthTronics informed us that they intended to discontinue Ablatherm FDA trials, at which time the trials were suspended. The parties are in the process of negotiating an agreement terminating the Distribution Agreement, which we expect will be finalized in the coming weeks, whereby HealthTronics will transition the study to EDAP, among other things. This will allow us to resume the trials soon while we look for the necessary resources to fund the study ourselves. We cannot guarantee that we will be able to find the necessary resources to fund the study in the coming weeks, and if we are unable to find funding ourselves we will suspend the trials until we have found a sponsor to provide funding. Also, we cannot guarantee the successful completion of clinical trials nor can we guarantee that the FDA will grant approval to market a device even if clinical trials are successfully completed. See ''—Uncertainty Relating to Clinical Trials; Clinical Status of Certain Products Using HIFU Technology'' and Item 4, ''Information on the Company—High Intensity Focused Ultrasound Division—HIFU Division Clinical and Regulatory Status.''

Our clinical trials for products using HIFU technology may not be successful.

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. The results from preclinical testing and early clinical trials may not predict the results that will be obtained in large scale clinical trials, and there can be no assurance that our clinical trials will demonstrate that our products are safe, effective, and marketable. A number of companies have suffered significant setbacks in advanced clinical trials, even after promising results in earlier trials. We, the FDA or other regulatory authorities may suspend or terminate clinical trials at any time and regulating agencies such as the FDA may even refuse to grant exemptions to conduct clinical trials. We may not have the necessary resources to pursue the trials. See Item 4, ''Information on the Company—High Intensity Focused Ultrasound Division—HIFU Division Clinical and Regulatory Status.''

We rely on scientific, technical and clinical data supplied by academics that work with us to evaluate and develop our devices. We cannot assure you that there are no errors or omissions in such data that would adversely affect the development of our products.

The process of applying for regulatory approval is unpredictable, often lengthy and requires the expenditure of substantial resources. 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. We do not anticipate receiving FDA approval for any HIFU device, including the Ablatherm, for several years, if at all. 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.

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 effectiveness, and any marketing approvals that we may 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 adequate reimbursement from healthcare payers, which has not been provided for our HIFU products in any country, except for partial reimbursements in Italy, Germany and the UK, and evidence of the cost effectiveness of a therapy as compared to existing therapies. Acceptance by patients depends in part on physician recommendations, as well as other factors, including the degree of invasiveness and the rate and severity of complications and other side effects associated with the therapy as compared to other therapies.

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. In 2006, 2005 and 2004, moreover, our operating cash flow was negative due to the cash requirements of operating activities, which we financed using cash and cash equivalents on hand. In addition, our 2006 and 2005 operating cash flow was negative due to the cash requirements of investing activity to expand our mobile activity and to expand the leasing of our products as part of our revenue-per-procedure model. Since we anticipate relying principally 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 activity (which is invoiced on a revenue-per-procedure 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. In 2006, we raised new equity funds via a $7.5 million Private Investment in Public Equity, aimed at financing our new marketing and sales campaign to promote and develop the Revenue-Per-Procedure business. Our future cash flow will be affected by the increased expenses in sales efforts as well as marketing and promotion tools, while there is no assurance that this will result in the increase in the demand for our products and services.

We have a history of operating losses and it is uncertain when and if we will reach profitability.

We have incurred operating losses in each fiscal year since 1998 and may never achieve profitability. We expect that our marketing, selling and research and development expenses will increase as we attempt to develop and commercialize HIFU devices. We may not, however, generate a sufficient level of revenue to offset these expenses and may not be able to adjust spending in a timely manner to respond to any unanticipated decline in revenue. In 2005 and 2004, we had positive operating income in both of our operating divisions (HIFU division and UDS division), reflecting efforts to restructure our operations in late 2003 and in control costs and operating losses in our holding company (holding expenses). In 2006, however, we had negative operating income in both of our operating divisions (HIFU division and UDS division), reflecting the clinical, marketing and sales efforts in the HIFU division to develop HIFU's status as a standard of care, and the R&D and regulatory efforts in the UDS division to develop a new, high-range lithotripter. We cannot assure you that we will realize sufficient revenue to become profitable in the future. See Item 5, ''Operating and Financial Review and Prospects.''

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 Siemens, 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, compete with all current treatments for localized tumors, including surgery, external beam radiotherapy, brachytherapy and cryotherapy. Other companies are working with HIFU for the minimally invasive treatment of tumors, including Focus Surgery, Inc. (''Focus Surgery''), which has developed a device called the Sonablate SB500 for the treatment of localized prostate cancer. Misonix, Inc., USHIFU and UKHIFU are also involved in the manufacturing, marketing and distribution of the Sonablate. Insightec, an Israeli company owned mainly by General Electric and Elbit Medical Imaging Ltd, has developed a device using HIFU technology to treat uterine fibroids. St. Jude Medical Inc. has developed a device using HIFU to treat atrial fibrillation. Haifu, a Chinese company developing HIFU products addressing various types of cancers, signed a development partnership agreement with Siemens Medical Solutions to offer a HIFU device coupled with IRM imaging system. Finally, Chinamed, a Chinese company, is also developing HIFU products for various types of cancer tumors, but the company is only marketing its HIFU products in China. See Item 4, ''Information on the Company—High Intensity Focused Ultrasound Division— HIFU Competition'' and Item 4, ''Information on the Company—Urology Devices and Services Division.''

Many of our competitors have significantly greater financial, technical, research, marketing, sales, distribution and other resources than us 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 you 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.

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.

Government regulation significantly impacts the development and marketing of our products, particularly in the United States. 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 still in the clinical trial stage, we are required to obtain approval or clearance from the relevant regulatory agencies, including the FDA in the United States. In particular, we are currently going through the FDA approval process with our Ablatherm device. Moreover, regulatory approval to market a product, if granted, may include limitations on the indicated uses for which it 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.''

It is also possible that additional statutes or regulations that affect our business will be adopted and could impose substantial additional costs or otherwise 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 in the United States and elsewhere for procedures performed with our products. In the United States, we are dependent upon favorable decisions by the Centers for Medicare & Medicaid Services (''CMS''), formerly the Health Care Financing Administration (''HCFA''), 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. 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 single 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 are reimbursed in the European Union, in Japan and in the United States. However, a decision to modify reimbursement policies for these procedures could have a material adverse effect on our business, financial conditions and results of operations. Procedures performed with our Ablatherm device are not reimbursed in the United States or in any of the European Union countries with the exception of Italy, Germany and the UK, where it is partially reimbursed. We cannot assure you that additional reimbursement approvals will be obtained. 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 good manufacturing practices (''GMP'') mandated by the FDA and European Union standards for quality assurance and manufacturing process control. 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. 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, could have a material adverse effect on our business, financial condition and results of operations.

For certain components or services we depend on single suppliers that for events beyond our control may fail to deliver sufficient supplies to us, which would interrupt our production processes.

We purchase the majority of the components used in our products from a number of suppliers, but rely on a single supplier for several components. In addition, we rely on single suppliers for certain services. If the supply of certain 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. 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 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, may be highly uncertain. The medical device industry has been characterized by extensive litigation regarding patents and other intellectual property 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—High Intensity Focused Ultrasound Division—HIFU Division Patents and Intellectual Property’’ and Item 4, ‘‘Information on the Company—Urology Devices and Services 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 patents being issued. We also cannot assure you 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 either in the United States or in foreign markets, including our HIFU devices.

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.

If the use of any of our products results in personal injury or death, we may face significant product liability claims. To date, we are a party to two product liability actions in the United States by patients claiming to have been injured in the course of a Prostatron procedure, for which we have retained liability following the sale of our Prostatron business in October 2000. See Item 5, ‘‘Operating and Financial Review and Prospects—Critical Accounting Policies—Litigation’’ and Item 8, ‘‘Financial Information—Legal Proceedings’’ for more information about these actions. These product liability claims, if successful, could have a material adverse effect on our business, financial condition and results of operations.

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. Also, if any of our products prove to be defective, we may be required to recall or redesign the product. 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.

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 2006, approximately 79% of our selling, marketing and general and administrative expenses and approximately 91% of our research and development expenses were denominated in euro, while approximately 32% 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, 2006, we had no outstanding hedging instrument. 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.

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, cyclicality of demand for our products, changes in pricing policies by us or our competitors, new product announcements by us or our competitors, customer order deferrals in anticipation of new or enhanced products offered by us or our competitors, product quality problems and exchange rate fluctuations. Furthermore, because our main products have relatively high unit prices, the amount and timing of individual orders can have a substantial effect on our results of operations in any given quarter.

Item 4. Information on the Company

We develop and market Ablatherm®, the most advanced and clinically proven choice for High Intensity Focused Ultrasound (HIFU) treatment of localized prostate cancer. HIFU treatment is shown to be a minimally invasive and effective treatment option with a low occurrence of side effects. Ablatherm-HIFU 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. In addition, we are developing this 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 Extra-corporeal Shockwave Lithotripsy (“ESWL”).

History and Development of the Company

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 piezo-electric

lithotripter (using electric shocks produced by a piezo-component) in 1985. In 1994, we purchased most of the assets of Technomed International S.A. (‘‘Technomed’’) out of liquidation. Technomed was established in 1985 and launched an electrohydraulic lithotripter (using electric shocks produced by an electrode within a hydraulic system) in 1986 and the Prostatron, a medical device using TransUrethral Microwave Thermotherapy (TUMT) for the minimally invasive treatment of BPH in the European Union in 1990. The assets we acquired in Technomed’s liquidation included the ownership of, and full distribution rights to, the Prostatron, the Sonolith series of lithotripters (Sonolith Praktis and Sonolith Vision) and the Ablatherm HIFU device.

In October 2000, we sold our Prostatron business to Urologix Inc. for consideration consisting of approximately $12 million in common stock and warrants to purchase additional shares of common stock and $8 million in cash.

In July 2002, we reorganized our management structure and created two separate operating divisions, the HIFU division and the UDS division. The implementation of the new corporate structure consolidated our management structure from a two-tiered management system with a Supervisory Board and a Management Board into a single Board of Directors with the consolidated management responsibilities of the two-tiered system.

On February 25, 2004, we finalized a distribution agreement, or the Distribution Agreement, with a subsidiary of HealthTronics Surgical Services, Inc. ("HealthTronics"), whereby 1,000,000 warrants were allocated to HealthTronics. These warrants were to be exercised upon the completion of certain milestones linked to the grant of the Ablatherm PMA pre-market approval and certain minimum sales of lithotripters in the United States. On December 29, 2005, we amended our distribution agreement with Healthtronics after it decided to focus all of its efforts on implementing Ablatherm clinical trials in the United States to gain FDA approval, and not to pursue distribution of our lithotripters in the United States. 200,000 warrants that had been issued to HealthTronics were then cancelled since their exercise was directly linked to future purchases of lithotriptors manufactured by us.

On August 3, 2006, we closed a private placement of 961,676 ordinary shares in the form of American Depositary Shares, resulting in net proceeds of approximately $7.5 million. These funds are intended to fund additional marketing efforts to accelerate the adoption of Ablatherm-HIFU in key European markets.

On November 10, 2006, HealthTronics informed us that they intended to cease conducting clinical trials and pursuing the Ablatherm PMA approval. The parties are in the process of negotiating an agreement, or the Termination Agreement, which we expect will be finalized in the coming weeks.

To reflect our focus on operations in key European countries, we announced a succession plan on December 19, 2006. Under this plan, the current Chief Operating Officer, Marc Oczachowski, will be appointed Chief Executive Officer, replacing Hugues de Bantel, who will be appointed to the Board of Directors to assist mainly on U.S. market entry. This succession plan will be effective March 31, 2007.

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 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. On July 1, 2004, we closed our U.S. offices, but retained EDAP Technomed Inc as a Delaware registered company. Mr. Lee Sanderson, CPA, 945 Concord Street, Framingham, MA 01701, is our agent for service of process in the United States.

Business Overview & Strategy

Through our HIFU and UDS divisions we develop, produce and market minimally invasive medical devices, mainly for urological diseases. We believe that the creation of these two operating divisions has allowed us to expand our market share by optimizing worldwide distribution capabilities, all of which is coordinated through our subsidiaries. It also allows for cost synergies, mainly in manufacturing and administrative expenses.

EDAP TMS S.A. is a holding company and is responsible for providing common services to its subsidiaries, performing the consolidation of the financial statements, 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 HIFU and UDS divisions operate in Europe, the Americas, and Eastern Asia and Rest of the world. Total revenues for the HIFU division were € 6.3 million, € 7.5 million, and €6.8 million in Europe, € 0.9 million, €0.3 million and no revenues for 2004 in the Americas, and €0.4 million, €0.1 million and €0.1 in Eastern Asia and the rest of the world, each for 2006, 2005, and 2004, respectively. Total revenues for the UDS division were €4.8 millions, €4.3 millions, and €3.2 million in Europe, €0.8 million, €0.4 million and €1.2 million in the Americas, and €7.0 million, €8.1 million and €10.8 million in Eastern Asia and the rest of the world, each for 2006, 2005, and 2004, respectively.

See Note 27 of the Notes to the Consolidated Financial Statements for a breakdown of total sales and revenue during the past three fiscal years by operating division.

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]
Technomed Medical Systems S.A	France	100%
EDAP S.A	France	100%
EDAP Technomed Inc.[2]	United States	100%
EDAP Technomed Co. Ltd	Japan	100%
EDAP Technomed Sdn Bhd	Malaysia	100%
EDAP Technomed Srl	Italy	100%
EDAP GmbH	Germany	100%

(1) Percentage of equity capital owned by EDAP TMS S.A. directly or indirectly through subsidiaries.
(2) EDAP Technomed Inc is still registered in the Delaware and maintained as a dormant company.

High Intensity Focused Ultrasound (“HIFU”) Division

Our HIFU division consists of three wholly owned and fully consolidated subsidiaries: EDAP S.A. (‘‘EDAP’’), a French corporation, EDAP Technomed Srl, an Italian Corporation and EDAP GmbH, a German Corporation. The HIFU division also has a branch office in Russia. The HIFU division is engaged in the development and marketing of medical devices based on HIFU technology for the minimally invasive treatment of urological and other clinical indications. The HIFU division had total revenues of €7.7 million during the fiscal year ended December 31, 2006.

HIFU Division Business Overview

The HIFU division currently develops 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 Ablatherm is a HIFU-based device developed and marketed by the HIFU division for 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. Ablatherm is approved for commercial distribution in the European Union, Canada, South Korea and Russia, and clinical trials in the United States have started, although they have been temporarily suspended as we unwind our relationship with HealthTronics. The HIFU division had a fixed installed base of 55 Ablatherm machines worldwide (with an additional four used for clinical studies) and 132 trained clinical sites were using this technology as of December 31, 2006.

In addition to developing and marketing HIFU devices, the HIFU division also generates revenues from the 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 revenue-per-procedure (''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. With the proceeds from the private placement finalized in early August 2006, we are expanding our marketing reach and accelerating Ablatherm penetration in major European countries.

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, 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 Prostate Cancer using HIFU*. Building upon our established position in the ESWL market of the UDS division, 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. The HIFU division intends to achieve this through a direct sales network in key European countries and through selected distributors in other European countries, through the distribution platform of the UDS division 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 indications 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. See ''—HIFU Products.'' The HIFU division continued to increase spending on research and development (''R&D'') projects in 2006 to develop HIFU applications beyond prostate cancer. The division is considering increasing R&D spending in 2007 and future years to strengthen its technological leadership in HIFU and expand its application beyond urology.

HIFU Products

Currently, the only commercial product produced by the HIFU division utilizing HIFU technology is the Ablatherm, an ultrasound guided HIFU device for the treatment of organ-confined prostate cancer. The Ablatherm is cleared for distribution in the European Union, South Korea, Canada, Australia, New Zealand and Russia. Clinical trials are underway in the United States, although they have been temporarily suspended as we unwind our relationship with HealthTronics. See Item 4, "Information on the Company—History and Development of the Company." The Ablatherm consists of a treatment module, 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 and defines the area to be treated. The computer automatically calculates the optimum treatment distribution of lesions. During the treatment, the transducer automatically moves and fires at each predefined lesion until the entire volume has been treated, while controlling and imaging the treatment in real time thanks to its integrated imaging system. Cell destruction by HIFU is accomplished by a combination of thermal and cavitation effects

caused by focused application of piezoelectric-generated high-intensity ultrasound. The procedure is generally performed under spinal anesthesia.

HIFU Division Patents and Intellectual Property

As of December 31, 2006, the HIFU division's patent portfolio contained 58 patents consisting of 26 in the United States, 24 in the European Union and Japan and 8 in Israel and the rest of the world. They belong to 24 families covering key technologies related to therapeutic ultrasound principles, systems and associated software.

An additional 15 patents covering certain other aspects of our HIFU technology in the European Union, the United States and Japan are still in the examination process. These patents relate to new transducer design for both HIFU and High Intensity Contact Ultrasound (HICU).

During 2006, two new patents have filed.

The HIFU division's ongoing research and development objectives are to maintain the company's leadership position in the treatment of prostate cancer and to extend the HIFU technology to new applications and minimally invasive systems.

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. The HIFU division's 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 the HIFU division's ability to market HIFU systems.

As part of our reorganization into two separate operating units, we transferred the assets and related intellectual property of the HIFU research program to the HIFU division.

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 R&D Director. This license agreement allows 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 for the time being, and this license agreement therefore allows Theraclion to pursue the development of HIFU for this application. We own no interest in Theraclion.

HIFU Division Clinical and Regulatory Status

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 suffering from 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.

The diagnosis of prostate cancer has two steps. The first one is the evaluation of the Prostate Specific Antigen (PSA), which although not specific to cancer tumors, measures the increase of cells' activity inside the prostate. The second is based on biopsies: a sextant biopsy is performed inside the prostate to reveal the presence of a tumor.

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 (hormonotherapy, radiation or prostatectomy). Of these patients, 80.7% and 67.9% had negative biopsies and normal PSA after treatment, respectively.

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

In June 2000, the HIFU division applied for an 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. The process of requesting approval to market the Ablatherm in Japan might be long and may never result in the approval to market the Ablatherm in Japan. See Item 3, ‘‘Key Information—Risk Factors—Dependence on HIFU Technology.’’

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. Patient follow-up is ongoing, with intermediate assessment at one year. The two-year follow-up results were presented at the AFU congress in November 2004. Follow-up with these patients will continue to evaluate the long-term efficacy of the treatment.

In March 2004, French authorities approved a new treatment protocol concerning the treatment of patients who failed radiotherapy. We obtained CE Marking, which currently allows us to market this new Ablatherm treatment option.

In February 2004, we entered into the Distribution Agreement with HealthTronics. The terms of the distribution agreement granted HealthTronics the right to pursue market approval from the FDA for the Ablatherm. Under the terms of the distribution agreement, HealthTronics would be granted exclusive distribution rights for the Ablatherm in the United States.

In November 2006, HealthTronics informed us that they intented to discontinue Ablatherm FDA trials. The parties are in the process of negotiating the Termination Agreement, which we expect will be finalized in the coming weeks, whereby among other things HealthTronics will transfer the study to us. A complete evaluation of the project is currently in process with the support of an external Experts’ Panel. The company is in the process of obtaining FDA clearance to conduct the trials under EDAP’s sponsorship, and we expect clinical trials to resume soon. In order to compete the trials, however, we will need to seek external financing, See Item 3, "Key Information—Risk Factors—Our cash flow is highly dependent on deman for our products" and Item 5,"Operating and Financial Review and Prospects—Liquidity and Capital Resources."

In 2005, a clinical trial was started in France to validate the efficacy and safety of Ablatherm as rescue treatment in patients after brachytherapy failure. Results should be ready by December 2007. Other clinical trials are currently ongoing to evaluate new treatment monitoring methods, to improve Ablatherm treatment efficacy in higher risk patients and to further extend inclusion criteria.

HIFU Division Manufacturing

The HIFU division’s policy is to subcontract the manufacture of its devices and accessories, including disposables. The HIFU division purchases all of the devices and accessories, including disposables used in its marketing and sales functions, from a single supplier, Technomed, part of the UDS division of the Company. It is the HIFU division’s belief that since its only supplier is also a subsidiary of the same parent, there is no significant risk associated with the use of a single supplier.

HIFU Division Quality and Design Control

The HIFU division has obtained the ISO 9001 (V:2000) and ISO 13485 (V:2003) certifications which indicate compliance with international standards for quality and design control.

The Ablatherm is available for commercial distribution in Canada, the European Union, South Korea, Russia, Australia and New Zealand.

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 being diagnosed every year to be approximately 220,000 out of which 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. The PSA test measures the blood level of a protein, the PSA, which is produced only by the prostate. 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.

If the efficacy of HIFU therapy is established, the HIFU division believes that its application could be expanded to other indications, such as certain localized thyroid, breast, gynecological, bladder, kidney, liver, brain, pancreatic and retroperitoneal tumors. However, the expansion of HIFU to other indications will require a significant investment in research and development, an investment which we will be undertaking gradually while focusing on the acceptance of HIFU as a treatment for localized prostate cancer.

HIFU Competition

The principal current therapies for prostate cancer carry side effects that can very 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, external beam radiotherapy and cryotherapy.

Our HIFU division's 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.

Other companies are working with HIFU for the minimally invasive treatment of tumors, including Focus Surgery, which has developed a device called the Sonablate SB500 for the treatment of localized prostate cancer. Misonix, USHIFU and UKHIFU are also involved in the manufacturing, marketing and distribution of the Sonablate. Insightec, an Israeli Company held mainly by General Electric and Elbit Medical Imaging, have developed a device using HIFU technology to treat uterine fibroids. St. Jude Medical has developed a device using HIFU to treat atrial fibrillation; Haifu, a Chinese company developing HIFU products addressing various cancers signed a development partnership agreement with Siemens Medical Solutions to offer a HIFU device coupled with IRM imaging system. Finally, Chinamed, a Chinese company is also developing HIFU products for various types of cancer tumors, but the company is only marketing its HIFU products in China. 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 its own direct marketing and sales organization as well as through third-party distributors and agents. The HIFU division has direct marketing and sales forces in France, Germany, Russia and Italy, which currently represent EDAP's largest markets. We created a fully owned subsidiary in Germany on July 1, 2006 to address the larger market in Europe. We also have a direct representative office in Moscow to increase our penetration of this large, key market. Additionally, the HIFU division markets and sells its products through our UDS division's distribution platform in South Korea and South East Asia and further markets its products through selected agents and third-party distributors in several countries.

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 informative and training programs for urologists "HIFU Tours", mainly in key European countries were 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 patients and physicians dedicated web site www.hifu-planet.com is well visited.

Urology Devices and Services ("UDS") Division

Our UDS division consists of four wholly owned and fully consolidated subsidiaries: TechnomedMedical Systems S.A. (''TMS''), a French corporation, EDAP Technomed Co. Ltd, a Japanese corporation, EDAP Technomed Sdn Bhd, a Malaysian corporation and EDAP Technomed Inc., a U.S. corporation. The UDS division also includes a South Korean branch office, Technomed Korea. The UDS division is engaged in the development, marketing, manufacturing and servicing of medical devices for the minimally invasive diagnosis or treatment of urological and other clinical indications. The UDS division had total revenues of €15.6 million during the fiscal year ended December 31, 2006.

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 anaesthesia, and the resulting complications. The UDS division currently manufactures two models of lithotripters: the Sonolith Praktis, which is available for commercial distribution in the European Union, Japan, Canada and the United States; and the Sonolith Vision, which is available for commercial distribution in the European Union, Japan and Canada only. The UDS division had an installed base of 452 ESWL lithotripters worldwide as of December 31, 2006.

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, including the maintenance and services business of HIFU-related devices and accessories on behalf of the HIFU division. The UDS division, as an additional part of its contract manufacturing business, manufactures HIFU related devices and accessories, including disposables, on behalf of the HIFU division. It also derives revenues from the distribution of Prostatron parts and related services in Japan and Italy under the Distribution Agreement entered into with Urologix in October 2000.

Under the Supply Agreement entered into with Urologix in connection with the sale of our Prostatron business in October 2000, the UDS division previously manufactured certain components of the Prostatron. Although the Supply Agreement expired in October 2003, the UDS division continued to manufacture machines on behalf of Urologix in 2004 to produce the machines that had been ordered before the expiration of the Agreement. In 2005, no more machines were manufactured and the UDS division does not expect to generate any additional revenues from the supply of machines to Urologix. The UDS division expects to derive only a small amount of revenues related to the sales of Prostatron parts.

The UDS division, via its Japanese subsidiary, recently signed an agreement with a Japanese Company, Medi Trend KK, importer of a new Muscle Trainer Device, manufactured by the U.S. company Neotonus, Inc, to distribute this system in Japan. This device helps users to exercise all of the muscles of the pelvic floor region. The UDS division, via its French subsidiary TMS SA, also recently signed a distribution agreement with LMA, a Swiss corporation, to distribute their StoneBreaker system dedicated to the fragmentation of urinary stones. This device complements our lithotripsy line as it allows the targeting of stones that are not accessible with ESWL generators.

UDS Division Business Strategy

The UDS division's business strategy 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. To achieve this strategic goal, the UDS division intends to capitalize and expand on its expertise as the manufacturer of

minimally invasive devices such as its ESWL lithotripters and HIFU devices. The UDS division manufactures the Ablatherm and the disposable Ablapack on behalf of the HIFU division. All the costs related to the manufacturing of these machines are supported by the UDS division, which invoices the HIFU division at cost plus a margin and records the sales of the devices as revenues. 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 units that are easily adaptable to various treatment environments, and a commitment to quality and service will allow the UDS division to achieve this goal. See ''—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. The UDS division's distribution platform in urology consists of a series of well-established subsidiaries in Europe 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 its FDA-inspected and ISO 9001 (V:2000) and ISO 13485 (V:2003) certified facilities allow it to offer manufacturing services to a wide range of potential medical equipment developers.

UDS Division Products

The UDS division offers the Sonolith Praktis to small and mid-size hospitals, while the Sonolith Vision 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 piezo-electric elements of the LT02 (although the manufacturing of new machines was discontinued in 2002) and the electrodes of the Sonolith line, which need to be replaced approximately every year and approximately every ten treatments, respectively. These parts incorporate key proprietary technologies, and the UDS division has retained sole marketing rights for these parts.

Product	Procedure	Development Stage	Clinical and Regulatory Status
Sonolith Praktis compact lithotripter	Electroconductive treatment of urinary stones	Commercial Production	Approved for distribution: European Union Japan United States Canada Russia South Korea Australia New Zealand
Sonolith Vision	Electroconductive treatment of urinary stones	Commercial Production	Approved for distribution: European Union Japan Canada South Korea Australia New Zealand

The Sonolith Praktis and the Sonolith Vision rely on an 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 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 Praktis, an electroconductive lithotripter designed for smaller clinics which is more compact than the Sonolith Vision, a fully dedicated and integrated electroconductive lithotripter for larger hospitals.

UDS Division Patents and Intellectual Property

As of December 31, 2006, the UDS division's patent portfolio contained 15 patents consisting of 5 in the United States, 8 in the European Union and Japan and 2 in Israel and the rest of the world. They belong to 9 families covering key technologies relating to ESWL systems and associated software capabilities.

An additional 4 patents covering certain other aspects of ESWL piezoelectric technologies in the European Union, the United States and Japan are still in the examination process.

During 2006, one patent covering obsolete technology was abandoned in the United States.

The UDS division's patents cover both piezoelectricity and electroconductivity technologies associated to ESWL treatment head, electrodes and localization systems. The UDS division's ongoing research and development 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.

UDS Division Regulatory Status

The Sonolith Praktis is available for commercial distribution in the United States, Canada, the European Union, South Korea, Australia, New Zealand and Japan. The Sonolith Vision is available for commercial distribution in the European Union, Canada, South Korea, Australia, New Zealand and Japan. The UDS division continues to provide disposables, replacement parts and services for the current installed base of LT02 machines, 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 urethral stones during their lifetime. 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 nearly 20 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) and 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.

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 Siemens, Storz and Dornier.

UDS Division Sales and Distribution of Products

The UDS division markets, sells and services its products through its own direct sales and service organization as well as through third-party distributors and agents. The UDS division has an established direct sales and service platform in France, Italy, Japan, South Korea and Malaysia and markets its products through agents and third-party distributors in several other countries. In December 2002, the UDS division closed its direct sales and service office in the United States. In February 2004, HealthTronics was appointed distributor in the United States for our Sonolith Praktis lithotripters. We are currently in the process of negotiating a termination agreement with HealthTronics, which we expect to be finalized in the coming weeks. See Item 4, “Information on the Company—History and Development of the Company.”

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 monitor the urological market, 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 Manufacturing Services and Distribution

The UDS division manufactures the Ablatherm on behalf of the HIFU division and Prostatron spare parts for Urologix. We believe that it can extend its outsourced services to provide device and disposable development and manufacturing services to a wide range of medical equipment development companies. The UDS division’s current operations consist of custom design, development and manufacture of medical products in its manufacturing facility that is FDA-approved and certified under international standards ISO 9001 and ISO 13485.

The UDS division is also pursuing various distribution options that use its strong network of worldwide subsidiaries and agents. Currently, the UDS division distributes products on behalf of Urologix in Italy and Japan, on behalf of Andromeda in Japan, and on behalf of the HIFU division in Malaysia and South Korea. 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.

UDS Division Manufacturing

The UDS division’s policy is to manufacture the critical components for its devices and accessories (unless a subcontractor can manufacture the component more cost-effectively), perform final assembly and quality control processes and maintain its own set of production standards. The UDS division purchases the majority of the raw materials used in its products from a number of suppliers, but for several components of its products, relies on a single source. The UDS division’s policy is to conduct regular quality audits of suppliers’ manufacturing facilities. The UDS division’s principal suppliers are located in France, Germany, Denmark, Korea and the United States. Management believes that the relationships between the UDS division and its suppliers are good.

In addition, the manufacturing operations of TMS (a French corporation that is the primary manufacturing organization of the UDS division) must comply with the GMP regulations enacted by the FDA, which establish requirements for assuring quality by controlling components, processes and document tractability and retention, among other things. TMS’s facilities are also subject to scheduled inspections by the FDA. TMS has obtained the ISO 9001 (V:2000) and ISO 13485 (V:2003) certifications, which indicate compliance by TMS’s manufacturing facilities with international standards for quality assurance, design and manufacturing process control. TMS also complies with the applicable requirements that will allow it to affix the CE Marking to certain of its products. See ‘‘—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 3,740 square meters and are rented under a renewable nine-year commercial lease agreement. 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, has ISO 9001 and ISO 13485 certifications. We are not aware of any environmental issues that could affect utilization of the facility.

In addition, we rent office and/or warehouse facilities in Kuala Lumpur (Malaysia), Rome (Italy), Flensburg (Germany), Moscow (Russia), Seoul (South Korea), Fukuoka, Osaka, Saporo and Tokyo (Japan).

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. We are principally subject to regulation of medical devices and of the healthcare system.

Healthcare Regulation in the United States

The Company and its 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 labeling, pre-market notification (known as ''510(k)'') and adherence to FDA-mandated GMP. Class II devices are those whose safety and effectiveness can reasonably be ensured through the use of ''special controls,'' such as performance standards, post-market surveillance, patient registries and FDA guidelines. Class III devices are those that must receive pre-market approval (''PMA'') by the FDA to ensure their safety and effectiveness. Except for the lithotripsy range of products, which has been recently reclassified by the FDA as a Class II device, all of our products are classified as Class III products. 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.

Advertising and promotional activities in the United States are subject to regulation by the FDA and, in certain instances, by the 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 in the past few years.

Healthcare Regulation in the European Union

In the European Union, we have received the ISO 9001 (V:2000) and ISO 13485 (V:2003) certifications, showing that we comply with standards for quality assurance and manufacturing and design process control. In the European Union, our products are also subject to legislation implementing the European Union Council Directive 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 ''CE Marking.'' Except in limited circumstances, Member States 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.

Healthcare Regulation in Japan

The import and sales of medical devices in Japan is regulated by the Ministry of Health, Labour and Welfare (‘‘the MHLW’’) under the license "Marketing Authorization" for the importer. 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 and the Prostatron 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, 2006, 2005 and 2004 is based on, and should be read in conjunction with, the Consolidated Financial Statements included elsewhere in this annual report. The Consolidated Financial Statements have been prepared in accordance with U.S. GAAP.

The following discussion contains certain forward-looking statements that involve risks and uncertainties. See ‘‘Forward-Looking Information’’ elsewhere in 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 its 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, 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 usually provides a one-year warranty upon installation. The Company accrues for the estimated training and warranty costs at the time of sale. Revenues related to disposables are recognized when goods are delivered.

Sales of Revenue-Per-Procedure Treatments and leases:

Revenues related to the sale of Ablatherm treatments invoiced on a ‘‘Revenue-Per-Procedure’’ (‘‘RPP’’) basis are recognized when the treatment procedure has been completed. If a contract of RPP includes a minimum number of treatments, as long as this level has not been reached, the revenue is recognized on a linear basis over the contract period. Afterwards, the revenue is recognized when the treatment procedure has been completed. Revenues related to the leasing of devices are recognized on a linear 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 linear basis. Billings or cash receipts in advance of services due under maintenance contracts are recorded as deferred revenue.

Warrants

In accordance with EITF 96-18, we accounted for the warrants issued to HealthTronics in 2004 and 2005 under the distribution agreement (now terminated) based on their fair value measured at the date of milestone achievement. The related amount, which was a non-cash charge, was then recorded as a reduction of revenue since the warrants vested as a result of HealthTronics’ purchase of a specified number of lithotripters and Ablatherms.

We used the Black-Scholes options pricing model to determine the fair value of the warrants that vested pursuant to the distribution agreement. The model was developed to estimate the fair value of traded options that have no vesting restrictions and are fully transferable. The application of the model to the warrants therefore requires the use of subjective assumptions, including historical share price volatility, the expected life of the warrants and our risk-free interest rate. A change in one or more of these assumptions could result in a material change to the estimated fair value of the vested warrants.

Warranty

We provide for the estimated cost of equipment warranties, which are generally for a period of one year, in full at the time revenue from the equipment sale is recognized. While we engage in product quality programs and processes, our warranty obligation is affected by product failure rates, material usage and service delivery costs incurred in correcting a product failure. Should actual product failure rates, material usage or service delivery costs differ from our estimates, revisions to the provision for estimated warranty liability would be required.

Accounts Receivable

We generate most of our revenues and corresponding accounts receivable from sales of medical equipment, spare parts, maintenance and service to 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 collectibility 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.

Inventories

On an annual basis, we analyze our inventories for obsolescence and, upon identification of obsolete stock, we record a full valuation reserve. Inventories are stated at the lower of costs, determined by the first-in, first-out valuation method (''FIFO''), or market. Our inventory valuation policy is based on a review of forecasted demand compared with existing inventory levels. At December 31, 2004, we determined that certain inventories were not appropriately valued and therefore reserved €0.3 million against these inventories. At December 31, 2005, we determined that certain inventories were not appropriately valued and therefore reserved €0.4 million against these inventories. At December 31, 2006, we determined that certain inventories were not appropriately valued and therefore reserved €0.4 million against these inventories.

Litigation

We are currently a defendant in two legal proceedings, both of which are associated with product liability matters. During 2004, we settled a claim alleging a patient was injured during a Prostatron treatment procedure. The cost for settling this claim, $0.5 million, was covered by our product liability insurance. We believe that the patients' claims in the product liability matters currently pending against us are without merit. In addition, if the claims against us are successful, we believe any potential damages assessed against us would be covered by insurance and/or by a contribution obligation of the physicians and/or the organization which provided services with the product. However, these product liability claims could have a material adverse impact on the Company. It is possible, moreover, that future results of operations for any particular quarterly or annual period could be materially affected by changes in our assumptions related to these proceedings. It is our policy in the case of product liability litigation to recognize the full amount of the self-insurance portion of our product liability insurance, unless a separate indemnification is being sought.

Deferred Tax

As of December 31, 2006, we had approximately €85 thousand deferred tax assets principally related to 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.

We also have a history of operating loss carryforwards with various future expirations. However, it is our policy to recognize a full valuation reserve against these deferred tax assets because we cannot be assured of future operating profits sufficient to utilize these assets before their expiration.

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, supplies and services, both net of commissions, as well as other revenues.

Net sales of medical devices have historically been comprised of net sales of Prostatrons, ESWL lithotripters and Ablatherms. With respect to lithotripter revenues, we booked in 2004 and 2005 a non-cash charge as a reduction of revenue as the warrants we granted to HealthTronics under the Distribution

Agreement vested as a result of the purchase by Healthtronics of a certain number of lithotripters and one Ablatherm. Following HealthTronics's announcement that it wished to terminate the Distribution Agreement, we are negotiating a termination agreement with them, which we currently expect to be finalized in the coming weeks. Pursuant to the expected termination agreement, HealthTronics would exercise 200,000 of the warrants that it had been granted under the Distribution Agreement and the remainder would be cancelled. Therefore, following the signature of the Termination Agreement, we will no longer incur any charges linked to the vesting of warrants. The sale price of our medical devices is subject to variation based on a number of factors, including market competitive environment, 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.

Net sales from revenue-per-procedure (RRP) activity include only the revenues arising from the sale of Ablatherm treatment procedures. RRP involves us initially providing devices 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 pay us on a revenue-per-procedure ("RPP") basis (i.e., on the basis of the number of individual treatments provided). With this business model, the hospital or clinic makes no initial investment until the increase in patient demand justifies the purchase of an Ablatherm. As a consequence, we are able to make Ablatherm 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, but more predictable stream of revenue and, if successful, should lead to more purchases of Ablatherms in the long term. This activity has already increased significantly in the past year and now accounts for approximately half of the net sales of the HIFU division.

Net sales of spare parts, supplies and services include revenues arising from maintenance services furnished by us for the installed base of Prostatrons, ESWL lithotripters and Ablatherms, and from sales of disposable parts for Prostatrons, ESWL lithotripters and Ablatherms, net of commissions, as well as from operating leases of our medical devices and RPP revenue related to the HIFU mobile treatment activity.

We derive a significant portion of both net sales of medical devices and net sales of spare parts, supplies 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 Korea (Edap Technomed Korea). Revenue derived from our operations in Asia represented approximately 26% of our total revenue in 2006. Net sales of medical devices in Asia represented approximately 20% of such sales in 2006 and consisted primarily of sales of ESWL lithotripters. Net sales of spare parts, supplies and services in Asia represented approximately 31% of such sales in 2006 and related primarily to ESWL lithotripters, reflecting the fact that approximately 40% of the installed base of our ESWL lithotripters are 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 2006, approximately 79% of our selling, marketing and general and administrative expenses and approximately 91% of our research and development expenses were denominated in euro, while approximately 32% 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 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 use certain financial instruments for hedging purposes.

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 €2.4 million, €1.8 million and €1.5 million in 2006, 2005 and 2004, respectively, representing approximately 12%, 9%,

and 7% of total revenues in 2006, 2005 and 2004, respectively. The increase in research and development in 2006 compared to 2005 was primarily due to an increase in HIFU and ESWL development activities, the development of a newly designed lithotripter and the launch of new clinical studies to maintain our leadership in HIFU for prostate cancer. Beginning 2007, management expects the budget for research and development expenses in Europe (excluding the conduct of FDA clinical trials in the United States) to level off at approximately 11% of total revenues, which allows us to maintain our strategy to launch new clinical studies (thus strengthening our clinical credibility) to focus our efforts on getting regulatory approvals and reimbursement in key countries and to fund projects to expand the use of HIFU beyond the treatment of prostate cancer. As a result of the termination of our collaboration with HealthTronics, the warrants granted to Healthtronics and linked to certain milestones in the FDA approval process will be canceled.

Selling and marketing expenses amounted to €4.6 million in 2006, €3.8 million in 2005 and €3.4 million in 2004. The increase of 23% from 2005 to 2006 was primarily due to an increase in marketing expenses, in line with efforts to increase awareness and educate patients and physicians on the availability of the Ablatherm-HIFU technology for treating localized prostate cancer. Management expects those marketing and sales efforts to increase in the future to consolidate the Ablatherm-HIFU technology's status as a standard of care for prostate cancer in Europe.

In 2006, we recorded €0.3 million of non-recurring operating expenses, including €0.2 million of employee termination expenses and €0.1 million of capital increase expenses. In 2005, the Company did not record any non-recurring operating expense. In 2004, we recorded a non-recurring operating expense of €0.3 million reflecting mainly the costs associated with a reduction of headcount initiated in 2003. See Note 18 of the Notes to the Consolidated Financial Statements.

On February 25, 2004, we entered into a distribution agreement with HealthTronics granting it, among other things, (i) the right to begin clinical trials in the U.S. with the Ablatherm, (ii) the right to seek PMA for the Ablatherm from the FDA and (iii) exclusive Ablatherm distribution rights in the United States, when and if a PMA is granted. Under the terms of the distribution agreement, we also granted HealthTronics 1 million warrants on January 28, 2005, each entitling HealthTronics to purchase a share of our Company at a price of U.S.$1.50 upon their vesting. Following the announcement by HealthTronics of its intention not to pursue Ablatherm FDA approval. We are negotiating a termination agreement with HealthTronics, which we expect to finalize in the coming weeks. See Item 4, "Information on the Company—History and Development of the Company." As a consequence, we will no longer incur any charge in the future linked to the vesting of warrants. In accordance with EITF 96-18, we accounted for the warrants issued to HealthTronics under the distribution agreement, in 2004 and 2005, based on their fair value, measured at the date that the warrants vested (which corresponded to dates that certain milestones in the distribution agreement were achieved). The related amount, which was a non-cash charge, was then recorded as a reduction of revenue since the warrants vested as a result of HealthTronics's purchase of a specified number of devices. The non-cash charge recorded for 2004 as a reduction of revenue related to a series of warrants linked to HealthTronics's purchase of four lithotripters in 2004, in accordance with the terms of the agreement. The non-cash charge recorded for 2005 as a reduction of revenue related to the vesting of a series of warrants linked to HealthTronics's purchase of two lithotripters and one Ablatherm in 2005, in accordance with the terms of the Amendment to the distribution agreement dated December 29, 2005.

For the last several years, we experienced declining sale prices in the market for ESWL lithotripters. We believe that the market for ESWL lithotripters is now mature and has become primarily a replacement and maintenance market, with high equipment penetration rates driving down demand and increasing price competition. As a result of these factors, we expect unit sale prices for ESWL lithotripters worldwide to continue to decline and total market volumes to remain stable at current levels in the foreseeable future.

We believe that our results of operations in the near future will be affected by our ability to control expenses in connection with the development, marketing and commercial launch of HIFU applications, including the Ablatherm, and the funding of Ablatherm trials in the United States in order to continue the FDA process. See ''—Liquidity and Capital Resources.'' Increases, if any, in expenses may only be offset partially in the near future by revenues arising from sale of HIFU devices and treatments.

See Item 3, ‘‘Key Information—Risk Factors—Risk of Exchange Rate Fluctuations’’ and Item 11, ‘‘Quantitative and Qualitative Disclosures About Market Risk’’ for a description of the impact of foreign currency fluctuations on the Company.

In October 2000, we sold our Prostatron business to Urologix. See Item 4, ‘‘Information on the Company’’. Historically we derived a significant proportion of net sales of medical devices and net sales of spare parts, supplies and services from our Prostatron business. Following the sale of the Prostatron business, we continued to generate revenues from the manufacturing and distribution of Prostatron units and disposable parts on behalf of Urologix under the related supply agreement and distribution agreement, although significantly less than before the sale. Revenues from sales under the supply agreement and the distribution agreement represented €0.2 million or approximately 1% of total revenues in 2004, €46 thousand in 2005. The supply agreement terminated in 2003 and subsequent revenue in 2004 and 2005 was derived from outstanding deliverables under the agreement; there was no remaining revenue from the Prostatron business in 2006.

Fiscal Year Ended December 31, 2006 Compared to Fiscal Year Ended December 31, 2005

Total revenues.

Our total revenues decreased 2.6% from €20.8 million in 2005 to €20.3 million in 2006, principally due to the transition in the HIFU division to the new RPP model, with the increase in the number of treatments invoiced only partially offsetting the decline in the number of machines sold.

HIFU division. The HIFU division’s total revenues decreased 4% from €7.9 million in 2005 (no significant internal segment revenues) to €7.6 million in 2006 (no significant internal segment revenues), principally due to a decrease in the number of Ablatherm units sold, an increase in Ablatherm RPP and revenues related to service activity.

The HIFU division’s net sales of medical devices decreased 38%, from €4.3 million in 2005 (including internal segment revenues) to €2.6 million in 2006, with 8 Ablatherm units sold in 2006 compared to 10 in 2005. Also, the decrease in the average unit sales price from €426 thousand in 2005 to €329 thousand in 2006 was due to the fact that three of the devices sold in 2006 were used machines compared to in 2005, net sales of medical devices included a €0.1 million charge related to the recognition of the non-cash charge associated with the warrants issued to HealthTronics.

Net sales of treatments on a RPP basis directly related to our HIFU mobile activity increased 60%, from €1.7 million in 2005 to €2.8 million in 2006. This was primarily due to an increase in demand as a result of our efforts to increase patient and physician awareness about the availability of Ablatherm-HIFU treatment for localized prostate cancer, which has increased demand from hospitals and clinics, as well as from patients, for this HIFU treatment. Primarily, as a result of the increase in the number of total HIFU treatments, net sales of HIFU-related spare parts, supplies, leasing and services increased 19% from €1.9 million in 2005 to €2.2 million in 2006.

Other HIFU-related revenue increased from €13 thousand in 2005 to €66 thousand in 2006.

UDS division. The UDS division’s total revenues decreased 4% from €16.2 million in 2005 to €15.6 million in 2006 (including €0.1 million related to the recognition of the non-cash charge associated with the warrants issued to HealthTronics in 2005, and including €3.0 million and €3.2 million related to internal segment revenues recorded in 2006 and 2005, respectively).

The UDS division’s net sales of medical devices stabilized at €5.9 million in 2006 (same as 2005) with 38 devices sold in 2006 compared to 34 in 2005. The decrease in the average unit price in 2006 resulted principally from the product mix (with a lower portion of high-range, fully equipped lithotripters from Japan), and from a negative Japanese Yen/Euro exchange rate variation.

Net sales of UDS-related spare parts, supplies and services decreased 6% from €7.0 million in 2005 to €6.6 million in 2006, primarily related to a decrease in rental and service revenues. See ‘‘—Operating Results—Overview.’’

Other UDS-related revenue decreased 68% from €80 thousand in 2005 to €26 thousand in 2006, primarily related to a reduction in the royalties received.

Cost of sales.

Cost of sales decreased 3% from €12.3 million in 2005 to €11.9 million in 2006, stable at 59% as a percentage of net sales.

Operating expenses.

Operating expenses increased 16% from €9.8 million in 2005 to €11.4 million in 2006. This increase in operating expenses was mainly due to our strategy to focus on market education on HIFU and to enhance our Ablatherm-HIFU global leadership position, as well as to develop a newly designed lithotripter to be launched in 2007, to sustain our sales in the UDS division. See Note 18 of the Notes to the Consolidated Financial Statements.

HIFU division R&D expenses increased 18% from €1.0 million in 2005 to €1.2 million in 2006. HIFU division R&D expenses specifically related to the development of new technologies and products and enhancement of existing products, remained stable at €0.6 million in 2006, while clinical trial expenses increased 56% from €0.4 million in 2005 to €0.6 million in 2006, as a result of the development of HIFU clinical studies to strengthen our HIFU clinical leadership. We anticipate these expenses will increase in the future, in line with our strategy to launch new clinical studies, thus enhancing our clinical credibility and focusing our efforts on getting regulatory approvals and reimbursement in key countries. See ‘‘—Operating Results—Overview.’’

UDS division R&D expenses increased 63% from €0.7 million in 2005 to €1.2 million in 2006, as a result of design development on lithotripters. UDS division R&D expenses specifically related to the development of new technologies and product enhancement increased 72% from €0.4 million in 2005 to €0.6 million in 2006. See ‘‘— Operating Results—Overview.’’

HIFU division marketing expenses increased 86% from €0.6 million in 2005 to €1.1 million in 2006, as a result of our continuing efforts to increase awareness and educate patients and physicians on the availability of the Ablatherm-HIFU technology for treating localized prostate cancer. We anticipate these expenses will increase in the future. See ‘‘—Operating Results—Overview.’’

HIFU division selling expenses remained stable at €1.4 million in 2006 (18% of net sales).We anticipate these expenses will increase in the future, as we execute the HIFU dedicated marketing and sales strategy to increase penetration of Ablatherm-HIFU on the European market.

UDS division selling expenses increased 15% from €1.4 million in 2005 to €1.7 million in 2006. We anticipate that these expenses will remain stable in the future. As a percentage of net sales, selling expenses increased from 9% in 2005 to 10% in 2006.

General and administrative expenses, at the consolidated level, remained stable at €4.3 million in 2006. As a percentage of net sales, general and administrative expenses increased from 20% in 2005 to 22% in 2006. Our holding company continues to manage these expenses so that the expenses at each of the divisions remain consistent with the business and revenue levels of each segment.

Operating loss.

As a result of the factors discussed above, we recorded a consolidated operating loss of €3.1 million in 2006, including the holding company expenses, as compared to a consolidated operating loss of €1.3 million in 2005.

We realized an operating loss in the HIFU division of €0.3 million in 2006, compared to an operating profit of €0.1 million in 2005 and an operating loss in the UDS division of €0.5 million in 2006, as compared to operating profit of €0.2 million in 2005.

Interest income, net. Interest income, net remained stable at €0.1 million in 2005 and 2006.

Foreign currency exchange gains (loss), net. In 2006, we recorded a net foreign currency exchange loss of €430 thousand compared to a loss of €38 thousand in 2005 mainly due to the weakening of the Japanese Yen against the Euro.

Other income (expense), net. Other income (expense), net decreased from a gain of €9,000 in 2005 to a loss of €5,000 in 2006.

Income taxes. We recorded a corporate income tax expense of €56 thousand in 2006 compared to €0.1 million in 2005, principally reflecting current income tax. In 2004, this income tax also reflected an exceptional exit tax in France of 2.5% (which was enacted in compensation for the mandatory reclassification as equity of the capital gains tax on participation).

Net loss.

We realized a consolidated net loss of €3.4 million in 2006 compared with consolidated net loss of €1.1 million in 2005, as a result of the factors mentioned above.

Fiscal Year Ended December 31, 2005 Compared to Fiscal Year Ended December 31, 2004

Total revenues. Our total revenues decreased 6% from €22.2 million in 2004 to €20.8 million in 2005, principally due to a decline in ESWL unit sales, particularly in Japan.

HIFU division. The HIFU division's total revenues increased 14% from €7.0 million in 2004 (including €0.3 million of internal segment revenues) to €7.9 million in 2005 (no significant internal segment revenues), principally due to a slight increase in the number of Ablatherm units sold, an increase in Ablatherm RPP and revenues related to service activity.

The HIFU division's net sales of medical devices increased 5%, from €4.0 million in 2004 (including internal segment revenues) to €4.3 million in 2005, with 10 Ablatherm units sold in 2005 compared to 9 in 2004. In 2005, net sales of medical devices included a €0.1 million charge related to the recognition of the non-cash charge associated with the warrants issued to HealthTronics.

Net sales of RPPs directly related to our HIFU mobile activity increased 23%, from €1.4 million in 2004 to €1.7 million in 2005. This is primarily due to an increase in demand as a result of our efforts to increase patient and physician awareness about the availability of Ablatherm-HIFU treatment for localized prostate cancer, which has increased demand from hospitals and clinics, as well as from patients, for this HIFU treatment. As a result of the increase in activity, net sales of HIFU-related spare parts, supplies, leasing and services increased 28% from €1.5 million in 2004 to €1.9 million in 2005.

Other HIFU-related revenue decreased from €34 thousand in 2004 to €14 thousand in 2005, primarily related to a decrease in subsidies received.

UDS division. The UDS division's total revenues decreased 7% from €17.4 million in 2004 to €16.2 million in 2005 (including €0.1 million and €0.2 million related to the recognition of the non-cash charge associated with the warrants issued to HealthTronics in 2005 and 2004, respectively, and including €3.2 million and €1.9 million related to internal segment revenues recorded in 2005 and 2004, respectively).

The UDS division's net sales of medical devices decreased 27% from €8.0 million in 2004 to €5.9 million in 2005 with 39 lithotripters sold in 2004 compared to 33 in 2005. The decrease in the number of units sold in 2005 resulted principally from the decline in ESWL unit sales in Japan.

Net sales of UDS-related spare parts, supplies and services decreased 4% from €7.3 million in 2004 to €7.0 million in 2005, primarily related to a decrease in TUMT service revenues. See ''—Operating Results—Overview.''

Other UDS-related revenue decreased 55% from €174 thousand in 2004 to €79 thousand in 2005, primarily related to a reduction in the royalties received.

Cost of sales. Cost of sales decreased 10% from €13.7 million in 2004 to €12.3 million in 2005, and as a percentage of net sales decreased from 62% in 2004 to 59% in 2005, primarily due to the cost reduction program initiated in 2003 and continued in 2004 and 2005.

Operating expenses. Operating expenses increased 5% from €9.3 million in 2004 to €9.8 million in 2005. This increase in operating expenses was mainly due to the strengthening of our strategy to focus on market education on HIFU and to enhance our Ablatherm-HIFU global leadership position. See Note 18 of the Notes to the Consolidated Financial Statements.

HIFU division R&D expenses increased 28% from €0.8 million in 2004 to €1.0 million in 2005. HIFU division R&D expenses specifically related to the development of new technologies and products and enhancement of existing products, increased 30% from €0.5 million in 2004 to €0.6 million in 2005 as a result of our focus on strengthening our leadership on HIFU technology by developing our HIFU patent portofolio and developing HIFU for indications beyond prostate cancer. In addition, clinical trial expenses increased 24% from €0.3 million in 2004 to €0.4 million in 2005, as a result of launch of HIFU clinical studies to strengthen our HIFU clinical leadership. We anticipate these expenses will increase in the future, in line with our strategy to launch new clinical studies, thus enhancing our clinical credibility and focusing our efforts on getting regulatory approvals and reimbursement in key countries. See ‘‘—Operating Results—Overview.’’

UDS division R&D expenses remained stable at €0.7 million in 2005 and 2004. UDS division R&D expenses specifically related to the development of new technologies and products and enhancement of existing products, increased 14% from €0.3 million in 2004 to €0.4 million in 2005. We anticipate increasing these R&D expenses in the near future. See ‘‘— Operating Results—Overview.’’

HIFU division marketing expenses increased 110% from €0.3 million in 2004 to €0.6 million in 2005, as a result of our continuing efforts to increase awareness and educate patients and physicians on the availability of the Ablatherm-HIFU technology for treating localized prostate cancer. We anticipate these expenses will increase in the future. See ‘‘—Operating Results—Overview.’’

HIFU division selling expenses increased 39% from €1.0 million in 2004 to €1.4 million in 2005, as a result of the Company's strengthening of its Sales force to develop market shares. As a percentage of net sales, HIFU division related selling expenses increased from 14% in 2004 to 18% in 2005.

UDS division selling expenses decreased 14% from €1.7 million in 2004 to €1.4 million in 2005, primarily due to continued control of expenses. We anticipate that these expenses will remain stable in the future. As a percentage of net sales, selling expenses decreased from 10% in 2004 to 9% in 2005.

General and administrative expenses, at the consolidated level, increased 4.5% from €4.1 million in 2004 to €4.3 million in 2005, primarily due to an increase of expenses related to the implementation of Sarbanes-Oxley Act, Section 404. As a percentage of net sales, general and administrative expenses increased from 18% in 2004 to 20% in 2005. Our holding company continues to manage these expenses so that the expenses at each of the divisions remain consistent with the business and revenue levels of each segment.

Operating loss. As a result of the factors discussed above, we recorded a consolidated operating loss of €1.3 million in 2005, including the holding company expenses, as compared to a consolidated operating loss of €0.8 million in 2004.

We realized an operating profit in its HIFU division of €0.1 million in 2005, compared to an operating profit of €0.4 million in 2004 and an operating profit in its UDS division of €0.2 million in 2005, as compared to operating profit of €0.2 million in 2004.

Interest income, net. Interest income, net remained stable at €0.1 million in 2004 and 2005.

Foreign currency exchange gains (loss), net. In 2004, we recorded a net foreign currency exchange loss of €38,000 compared to a gain of €0.2 million in 2005 due to a strengthening of the U.S. dollar against the Euro.

Other income (expense), net. Other income (expense), net decreased from a loss of €0.1 million in 2004 to a gain of €9,000 in 2005.

Income taxes. We recorded a corporate income tax benefit of €0.1 million in 2005 compared to €0.3 million in 2004, principally reflecting current income tax. In 2004, this income tax also reflected an exceptional exit tax in France of 2.5% (which was enacted in compensation for the mandatory reclassification as equity of the capital gains tax on participation). Accordingly, in 2004, we had booked a deferred tax liability amounting to €161,000 related to this exit tax, which will be paid in two equal instalments in 2006 and 2007, pursuant to the Amended Finance Law of 2004, dated December 30, 2004.

Net loss. We realized a consolidated net loss of €1.2 million in 2004 compared with consolidated net loss of €1.1 million in 2005, as a result of the factors mentioned above.

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, 2006.

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 negative cash flow situation and management's plans to address it, are described in more detail below.

We anticipate that cash flow in future periods will be mainly derived from ongoing operations and any capital raising the company undertakes. We do not have any commercial commitments nor do we employ any off-balance sheet financing. Because we anticipate relying principally on cash flow from operating activities and cash and cash flow 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.

Our cash position as of December 31, 2006, 2005 and 2004, was €10.9 million (including 1 million of short term treasury investments), €8.3 million and €9.4 million, respectively. We experienced positive cash flows of €1.5 million in 2006, and negative cash flows of €1.1 million and €1.0 million in 2005 and 2004, respectively. In 2006, our positive cash flow situation was primarily due to the net capital increase of €5.2 million realized during the summer through a $7.5 million Private Offering in Public Equity. To finance the FDA approval process for the Ablatherm to completion, we are contemplating seeking a dedicated financing, preferably through a debt and/or convertible debt financing.

In 2006, net cash used in operating activities was €1.9 million compared with net cash used in operating activities of €0.3 million and €1.1 million in 2005 and 2004, respectively. In 2006, net cash used in operating activities reflected principally:

- a net loss of €3.4 million,
- elimination of €1.9 million of net expenses without effects on cash,
- an increase in trade accounts receivable of €1.2 million,
- a decrease in inventories of €0.4 million, reflecting dedicated actions to reduce the level of both the inventory of finished goods and spare parts,
- an increase in accrued expenses and other current liabilities of €0.3 million.

In 2005, net cash used in operating activities reflected principally a net loss of €1.1 million, an increase in trade accounts of €1.5 million, an increase in inventories of €0.7 million, an increase in trade accounts payable of €0.7 million and an increase in accrued expenses and other current liabilities of €0.4 million.

In 2004, net cash used in operating activities reflected principally a net loss of €1.2 million, a decrease in inventories of €2.3 million related to both a reduction of the inventory of finished goods and work-in-progress and the retirement of previously depreciated spare parts assets, a decrease in trade accounts payable of €0.4 million and a decrease in accrued expenses and other current liabilities of €1.9

million, primarily related to severance packages linked to the restructuring that took place at the end of 2003.

In 2006, net cash used in investing activities was €1.6 million compared with net cash used of €1.1 million in investing activities in 2005 and no net cash used in investing activities in 2004. In 2006, net cash used in investing activities reflected principally an increased investment of €1.3 million in capitalized assets produced by the company (mainly Ablatherm devices as a support of the Revenue-Per-Procedure business model in HIFU), an investment of €0.2 million in property and equipment, net proceeds from sales of lease-back assets of €0.7 million and net proceeds from sales of assets of €0.2 million. Cash flows from investing activities also include short term treasury investments of €1.0 million, as part of the cash management investment support.

In 2005, net cash used in investing activities reflected principally an increased investment of €1.0 million in capitalized assets produced by the company (specifically devices), an investment of €0.4 million in property and equipment, net proceeds from sales of lease-back assets of €0.2 million and net proceeds from sales of assets of €0.1 million. In 2004, net cash used in investing activities reflected principally an increased investment of €0.8 million in capitalized assets produced by the Company, net proceeds from sales of devices produced by the Company of €0.7 million, an investment of €0.2 million in property and equipment, net proceeds from sales of lease-back assets of €0.3 million and a decrease in deposits and guarantees of €0.1 million.

In 2006, net cash provided by financing activities was €5.2 million compared with net cash provided in financing activities of €0.2 million in 2005, and net cash used of €0.1 million in 2004. In 2006 net cash provided by financing activities reflected principally a share capital increase of €5.2 million, a short-term debt increase of €0.4 million, an increase in long term borrowing for €0.2 million reimbursed of €0.2 million and repayment of capital lease obligations totaling €0.5 million.

In 2005 net cash provided by financing activities reflected principally a short-term debt increase of €0.4 million, an increase in long term borrowing for €0.3 million reimbursed of €0.1 million and repayment of capital lease obligations totalling €0.4 million. In 2004, net cash used in financing activities was €0.1 million, reflecting mainly the repayment of capital lease obligations totalling €0.3 million and long-term debt repayment of €0.1 million.

We anticipate that cash flows from operations, together with our current cash balances, will provide us with sufficient resources to sustain our European strategy and bring our European operations to a cash positive situation. As discussed above, we are contemplating raising additional funding to finance our U.S. strategy and the FDA approval process requirements over the next four years.

Our future cash flow may also be affected by the expansion of our mobile RPP business. In 1999, in an effort to increase the availability of our equipment, we implemented a new marketing strategy of leasing our medical devices on a monthly, quarterly or yearly basis, rather than selling them directly to end-users, and in 2002, we began to develop our mobile activity by making certain devices available to hospitals and clinics free of charge, charging instead on the basis of each procedure that was performed. Relative to the sale of devices, this business model initially generates smaller, but more predictable cash flows. The RPP model is now established in Europe as a growth and profitability model, and we will continue expand this business model in the near future.

Our policy is that the treasury function should maintain liquidity with the use of short-term borrowings and the minimal use of long-term borrowings. The treasury function currently adheres to this objective with the use of fixed-rate debt, which normally consists of long-term borrowing from a Japanese bank and with certain long-term borrowings consisting of sale-leaseback equipment financing. Currently the majority of our short-term debt is based on an annual variable rate: Euribor+0.5 and Eonia+0.5. We maintain bank accounts, at 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. As of December 31, 2006 and as of March 16, 2007, there were no outstanding hedging instruments.

Contractual Obligations and Commercial Commitments as of December 31, 2006 (in thousands of euro)

		Payments Due by Period			
	Total	**Less than 1 year**	**1-3 years**	**4-5 years**	**More than 5 years**
Short-Term Debt.....	1 308	1 308	—	—	—
Long-Term Debt.....	181	123	58	—	—
Capital Lease Obligations.....	1 132	436	696	—	—
Operating Leases.....	836	452	384	—	—

New Accounting Pronouncements

(i) Accounting for Certain Hybrid Financial Instruments

FAS No. 155 "Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and No. 140" was issued in February 2006 and is effective for all financial instruments acquired, issued, or subject to a remeasurement event occurring after the beginning of an entity's first fiscal year that begins after September 15, 2006. FAS No.155 provides entity with relief from having to separately determine the fair value of an embedded derivative that would otherwise be required to be bifurcated from its host contract in accordance with FAS No. 133. FAS No. 155 allows an entity to make an irrevocable election to measure such hybrid financial instrument at fair value in its entirety with changes in fair value recognized in earnings.
The adoption of FAS No. 155 will have no material effect on the Group's earnings and shareholder's equity, as determined under U.S. GAAP.

(ii) Accounting for Servicing of Financial Assets

FAS No. 156 "Accounting for Servicing of Financial Assets, an amendment of FASB Statements No. 140" was issued in March 2006 and is effective prospectively to all transactions occurring after the beginning of an entity's first fiscal year that begins after September 15, 2006. FAS No. 156 requires that an entity separately recognize a servicing asset or a servicing liability when it undertakes an obligation to service a financial asset under a servicing contract in certain situations.

The adoption of FAS No. 156 will have no material effect on the Group's earnings and shareholder's equity, as determined under U.S. GAAP.

(iii) Fair Value Measurements

FAS No. 157 “Fair Value Measurements” was issued in September 2006 and is effective prospectively for fiscal years beginning after November 15, 2007. FAS No. 157 provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities. The statement also sets out a fair value hierarchy.
The adoption of FAS No. 157 is not expected to have significant effect on the Group's earnings and shareholder's equity, as determined under U.S. GAAP.

(iv) Accounting for Defined Benefit Pension and Other Postretirement Plans

FAS No. 158 “Employer’s Accounting for Defined Benefit Pension and Other Postretirement Plans –an amendment of FASB Statements No.87, 88, 106, 132(R)”, was issued in September 2006 and is effective for fiscal years ending after December 15,2006. FAS No. 158 requires a full recognition of the plan overfunded or underfunded status of its benefit plans in the balance sheet. Therefore, unrecognized actuarial gain and loss and prior service costs and credits need to be recognized in Other Comprehensive Income and are “recycled” to the income statement based on current amortization and recognition criteria.

In addition, the statement also required a company to measure its plan assets and benefit obligations as of its year-end balance sheet date.

(v) FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" - an interpretation of FASB Statement No. 109

On July 2006, the FASB issued FIN No. 48 which is effective for fiscal years beginning after December 15, 2006, and should be applied to all tax positions upon initial adoption. FIN No. 48 clarifies the accounting for income taxes by prescribing a "more-likely-than-not" recognition threshold a tax position is required to meet before being recognised in the financial statements. Once the recognition threshold has been met, FIN No. 48 requires to recognize the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with the taxing authority.
The Interpretation also requires making explicit disclosures about uncertainties in Company's income tax positions.
The adoption of FIN No. 48 is not expected to have significant effect on the Group's earnings and shareholder's equity, as determined under U.S. GAAP.

(vi) Planned Major Maintenance Activities

On September 2006, the FASB issued FSP No. AUG AIR-1 “Accounting for Planned Major Maintenance Activities” which is effective for the fiscal year beginning after December 15, 2006 and should be applied retrospectively. The FSP prohibits the use of the accrue-in advance method of accounting for planned major maintenance activities. It continues to permit the application of the other three alternative methods of accounting for planned major maintenance activities: direct expense, built-in overhaul, and deferral.
The adoption of the FSP No. AUG AIR-1 will have no material effect on the Group's earnings and shareholder's equity, as determined under U.S. GAAP
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(vii) Fair Value Option for Financial Assets and Financial Liabilities

FAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities" was issued in February 2007 and is effective as of the beginning of the first fiscal year that begins after November 15, 2007. FAS No. 159 offers an irrevocable option to carry the vast majority of financial assets and liabilities at fair value, with changes in fair value recorded in earnings. The adoption of FAS No. 159 is not expected to have significant effect on the Group's earnings and shareholder's equity, as adjusted to accord with U.S. GAAP.

(viii) Quantification of financial statement misstatements

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 (SAB 108) regarding the quantification of financial statement misstatements. SAB 108 requires a “dual approach” for quantifications of errors consisting of "the roll-over method" and the "iron curtain method". The roll-over method focuses primarily on the impact of a misstatement on the income statement—including the reversing effect of prior year misstatements and the iron-curtain method, on the other hand, focuses primarily on the effect of correcting the period-end balance sheet with less emphasis on the reversing effects of prior year errors on the income statement. EDAP adopted the provisions of SAB 108 for the year ended December 31, 2006. The adoption of this standard did not have a material impact on EDAP.

Research and Development, Patents and Licenses

See “-Operating Results-Overview” and Item 4, ‘‘Information on the Company—High Intensity Focused Ultrasound Division—HIFU Division Patents and Intellectual Property’’ and ‘‘Information on the Company—Urology and Services Division—UDS Division Patents and Intellectual Property.’’

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

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 March 16, 2007. The Chief Executive Officer, the Chief Operating Officer and the Chief Financial Officer listed below have entered into employment contracts with the Company or its subsidiaries (which permits the employee to resign subject to varying notice periods). On March 31, 2007, a transition will occur whereby the current Chief Executive Officer will be stepping down to join the Board of Directors, and the current Chief Operating Officer will officially be appointed Chief Executive Officer. This transition plan was publicly announced in December 2006. 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 € 0.4 million.

Name	Age	Position
Philippe Chauveau	71	Chairman of the Board of Directors
Hugues de Bantel	37	Chief Executive Officer of EDAP TMS S.A.
Marc Oczachowski	35	Chief Operating Officer of EDAP TMS SA and President of the HIFU Division and the UDS Division
Eric Soyer	40	Chief Financial Officer of EDAP TMS SA

Philippe Chauveau	In 1997, Philippe Chauveau was named chairman of EDAP-TMS S.A.'s Supervisory Board, involving a two-tier board structure overseeing a Management Board. In 2002, both these boards were replaced by a single Board of Directors, which Philippe Chauveau headed as Chairman and CEO. While remaining Chairman of the Board, he was succeeded by Hugues de Bantel as CEO in 2004. Since 2000, Philippe Chauveau was also founding Chairman of the Board of Scynexis Inc., funded by private equity, which is an innovative drug discovery company based in the United States, partnering with major pharmaceutical companies worldwide. He is also personal executive coach to senior research leaders at Hoffmann LaRoche. Additionally, he is involved in management development programs at Solvay Business School, in Brussels, Belgium. He was R&D Vice-President 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 & G amble. He has an Honours Degree from Trinity College Dublin with a B.A. and a Bsc.
Hugues de Bantel	Hugues de Bantel joined the Company in 1996, and since then has served as Asia Pacific Area Manager and Manager of EDAP Technomed Malaysia from its founding in 1997 and, since April 2000, President of EDAP Technomed Japan. He was appointed President of TMS S.A. on November 6, 2002, and President of EDAP S.A. on November 13, 2003. Before joining EDAP Technomed, Mr. de Bantel was Sales Manager for Europe and Asia at AFE's Lifts Division. He previously worked at Procter & Gamble as Area Sales Manager. Mr. de Bantel graduated from Ecole Superieure de Commerce, Rouen (France).

Marc Oczachowski	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. Previously he worked for Sodem Systems - power tools for orthopedie - as Area Sales Manager. He is a graduate of Institut Commercial de Lyon, France
Eric Soyer	Eric Soyer joined the Company in December 2006. He was previously CFO of Medica, a € 270 million French company operating 108 nursing home and post-care clinics throughout France and Italy. Previously he was CFO and a Managing Director of April Group, an insurance services business with 22 subsidiaries in France, the UK, Spain, Germany and Italy. He has international experience as a controller and cost accountant for Michelin Group in France, the United States and Africa. Eric Soyer has degrees from Clermont Management School, the University of Kansas and the HEC Paris School of Management.

Board of Directors

The following table sets forth the names of the members of the Board of Directors and the background of the members of the Board of Directors who are individuals. The mandate for each member of the Board of Directors expires on the date of the assembly meeting of shareholders approving the financial results for fiscal year 2007. There is no contract providing for benefits upon termination of Director's mandates.

Philippe Chauveau	See biography under "—Senior Executive Officers."
Pierre Beysson Age: 65	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. He is now an M&A consultant. 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.
Karim Fizazi Age: 41	Dr. Karim Fizazi was appointed as a member of the Company's Board of Directors in November 2002. He is currently Chairman of the Genito-Urinary Oncology group at Institut Gustave Roussy (“IGR”) in Villejuif, France, which is the biggest cancer center in Europe. He was appointed Head of Department of Medicine of Institut Gustave Roussy in 2005. He was visiting Assistant Professor, Genitourinary Medical Oncology Department, MD Anderson Cancer Center in Houston, Texas, for 18 months. His residency included a position at the Institut Curie in Paris.
Guy Vallancien Age: 60	Dr. Guy Vallancien was appointed as a member of the Company's Board of Directors in November 2002. He is Professor of Urology and Chief of the Urology Department at the Institut Mutualiste Montsouris (Paris, France). He was a member of the Executive Committee of the French Urological Association (AFU) from 1986 to 1992 and is a member of the European and International Urological Association.

Jean-Philippe Deschamps Age: 65	Pr. Jean-Philippe Deschamps was appointed as a member of the Company's Board of Directors in March 2007. He is Professor of Technology and Innovation Management at IMD, in Lausanne, Switzerland. Prior to joining IMD in November 1996, he was based in Brussels as a corporate Vice-President with Arthur D. Little and Chairman of the firm's technology and innovation management practice, which he created in 1981. Before that, he was Arthur D. Little's first European practice leader for strategy and organisation. He has thirty years of international management consulting experience throughout Europe, North America, Asia and the Middle East. He Graduated from Ecole des Hautes Etudes Commerciales in Paris and received his MBA from INSEAD and from the Harvard Business School.

Compensation and Options

On December 17, 2002, the Board of Directors decided that the whole Board of Directors would act as a ‘‘Compensation Committee’’ to review the compensation of our Senior Executive Officers and to propose any changes to compensation paid to the Board of Directors, which under French law is the competent body to approve any such change. On July 22, 2005, to comply with Nasdaq Corporate Governance rules, the Board of Directors decided to review the composition of the Compensation Committee and appointed two members out of the six Directors: Mr. Olivier Missoffe and Mr. Pierre Beysson, to act as the Compensation Committee. Mr. Olivier Missoffe was elected Chairman of the Compensation Committee. On December 15, 2006, following the resignation of Olivier Missoffe as member of the Board for personal reasons, it was decided that the whole Board would act temporarily as a "Compensation Committee" provided that the majority of independent members would participate in the votes for Management compensations. During that meeting, the Board of Directors approved an updated version of the charter of the "Compensation Committee". 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 2006 was approximately €0.5 million. 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 2006.

As of December 18, 2002, the shareholders of two of our wholly owned and fully consolidated subsidiaries, TMS S.A. and EDAP S.A., authorized the respective Boards of Directors to grant certain Senior Executive Officers warrants to subscribe to an aggregate of 604,538 new shares of TMS S.A.’s and EDAP S.A.’s common stock. The average exercise price of such warrants is equivalent to the higher of either (a) the share value of the capital of each company or (b) the net book value, each such amount to be calculated on the date of exercise. Following the resignation of the President of EDAP S.A. in November 2003, outstanding warrants allow the current President of each division to subscribe to an aggregate of 252,111 new shares of each of TMS S.A.’s and EDAP S.A.’s common stock. The total number of warrants granted, if exercised, would represent 3.6% and 2.6% of the respective share capital of TMS S.A. and EDAP S.A. after subscription. These warrants begin vesting three years after their date of grant. These warrants to subscribe to shares expire on the earlier of December 18, 2007 or when employment with the Company ceases.

As of December 31, 2006, Senior Executive Officers held an aggregate of 167,425 options to purchase or to subscribe to shares of our common stock, with a weighted average exercise price of €1.78. Of these options, 12,000 expire on December 31, 2008, 19,000 expire on September 25, 2011, 6,425 expire on June 18, 2012 and 130,000 expire on February 24, 2014.

Audit Committee

On December 17, 2002, the Board of Directors decided that the whole Board of Directors will act as an ‘‘Audit Committee’’ headed by Mr. Pierre Beysson. On July 22, 2005, in order to fully comply with Nasdaq Corporate Governance rules on Independence of Directors, the composition of the Company Audit Committee was reviewed. The Board of Directors elected four fully independent Members to the Audit Committee: Mr. Olivier Missoffe, Mr. Guy Vallancien, Mr. Karim Fizazi and Mr. Pierre Beysson, the latter acting as the Head of the Audit Committee. The Audit Committee Charter was also reviewed to reflect those changes. Following Mr. Olivier Missoffe’s resignation from the Board in November 2006, and the appointment of Mr. Jean-Philippe Deschamps on March 8, 2007, the Audit Committee accounts for four fully independent Members as of today. The purpose of the Committee 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 the Company's financial statements, the Company's compliance with legal and regulatory requirements, the accounting practices and financial reporting processes of the Company, the effectiveness of the Company's disclosure controls and procedures and internal control over financial reporting, the independent auditor's qualifications and independence, and the performance of the Company's internal audit function and independent auditors.
- Prepare the Audit Committee report that SEC proxy rules require to be included in our annual proxy statement. The Audit Committee may request any officer or employee of the Company or the Company's outside counsel or independent auditor to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee.

Employees

As of December 31, 2004, we employed 122 individuals on a full-time basis, employed as follows:

	Sales & Marketing	Manufac-turing	Service	Research & Dvpt	Regula-tory	Clinical Affairs	Adminis-trative	Total
France	11	21	22	8	3	1	14	80
Italy	3	0	0	0	0	0	2	5
Japan	9	0	13	0	2	0	4	28
Malaysia	2	0	3	0	0	0	2	7
South Korea	1	0	0	0	0	0	1	2
Total =	26	21	38	8	5	1	23	122

As of December 31, 2005, we employed 134 individuals on a full-time basis, employed as follows:

	Sales & Marketing	Manufac-turing	Service	Research & Dvpt	Regula-tory	Clinical Affairs	Adminis-trative	Total
France	13	22	24	8	3	2	15	87
Italy	3	0	0	0	0	0	3	6
Germany	2	0	2	0	0	0	2	4
Japan	9	0	13	0	2	0	4	28
Malaysia	2	0	3	0	0	0	2	7
South Korea	1	0	0	0	0	0	1	2
Total =	30	22	40	8	5	2	27	134

As of December 31, 2006, we employed 142 individuals on a full-time basis, employed as follows:

	Sales & Marketing	Manufac-turing	Service	Research & Dvpt	Regula-tory	Clinical Affairs	Adminis-trative	Total
France	15	22	24	9	3	3	17	93
Italy	3	0	0	0	0	0	2	5
Germany	2	0	2	0	0	0	2	6
Japan	9	0	14	0	2	0	4	29
Malaysia	2	0	3	0	0	0	2	7
South Korea	1	0	0	0	0	0	1	2
Total =	32	22	43	9	5	3	28	142

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

Share Ownership

On March 5, 2007, the CEO exercised 100,000 options to subscribed to 100,000 new shares, thus bringing the total number of issued shares to 9,424,497 and to 8,942,007 the total of voting rights.

On February 28, 2007, Siemens France Holding resigned from the Board of Directors. As of March 16, 2007, Siemens France Holding owned 1,003,250 Shares representing 10.65% of the total share capital and (after subtracting treasury stock which under French law carries no voting rights) 11.22% of the voting rights of the Company.

As of March 16, 2007, the Board of Directors and the Senior Executive Officers of the Company hold a total of 111,125 Shares representing 1.18% of the total share capital and (after subtracting treasury stock which under French law carries no voting rights) 1.24% of the voting rights of the Company.

Options to Purchase or Subscribe for Securities

As of March 16, 2007, we have sponsored six stock purchase and subscription option plans and one Free Performance Shares plan.

On December 2, 1996, the shareholders of EDAP TMS S.A. authorized the Board of Directors to grant up to 177,750 options to purchase pre-existing Shares and 156,625 options to subscribe to newly issued Shares at a fixed exercise price of € 6.97 per Share.

On May 14, 1998, the shareholders of EDAP TMS S.A. authorized the Board of Directors to grant up to 713,425 options to purchase pre-existing Shares at a fixed exercise price to be set by the Board of Directors. The shareholders also authorized the Board of Directors to cause EDAP TMS S.A. to repurchase up to 535,675 of its own Shares (treasury stock) to cover the options granted under the new plan. Up to 279,000 of the 713,425 options were reserved for modification of the terms of pre-existing options.

On June 12, 2001, the shareholders of EDAP TMS S.A. authorized the Board of Directors to grant up to 300,000 options to purchase pre-existing Shares and 80,000 options to subscribe to new Shares, at a fixed exercise price to be set by the Supervisory Board.

On January 29, 2004, the shareholders of EDAP TMS S.A. authorized the Board of Directors to grant up to 240,000 options to purchase pre-existing Shares and 100,000 options to subscribe to new 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 January 29, 2004, the shareholders also authorized the Board of Directors to grant up to 1,000,000 warrants to H.T. Prostate LLC, a fully owned subsidiary of HealthTronics Surgical Services Inc, at a fixed price of U.S. $1.50. The Board of Directors granted these warrants on January 28, 2005. Pursuant to an amendment to the agreement between HealthTronics and us, 200,000 warrants were cancelled on December 29, 2005. Pursuant to the termination agreement currently being negotiated between HealthTronics and us, which we expect to finalize in the coming weeks, 200,000 warrants would be exercised in 2007 and the remaining warrants would be cancelled.

On February 17, 2005, the shareholders of EDAP TMS S.A. authorized the Board of Directors to grant up to 625,000 free shares to be issued to certain employees of the Company, subject to compliance with the conditions and performance criteria fixed by the Board of Directors. On March 30, 2005, 500,900 rights to subscribe for free shares were granted by the Board of Directors, based on certain performance criteria to be met for years 2005 and 2006. However, given the dramatic shift of business model during 2005 from the sales of Ablatherm equipment towards the sales of treatment procedures (RPPs), on January 6, 2006, the Board of Directors decided to cancel the 2005 allocation plan and to set up a new one reflecting the new business model for years 2006 and 2007. On January 6, 2006, in accordance with the

Performance Stock Plan authorized by the shareholders, 564,100 rights to subscribe to new shares were distributed, including new entrants. On July 3, 2006, an additional 13,800 rights to subscribe to new shares were distributed to new entrants. On March 8, 2007, 47,100 rights to subscribe to new shares were granted to new entrants by the Board of Directors, based on certain performance criteria to be met for years 2007 and 2008. On that same date, upon reviewing and approving the consolidated 2006 results, the Board confirmed that 2006 performance criteria fixed by the Board on January 6, 2006 were not met. 313,680 rights to susbscribe to new shares, based on these fixed performance criteria were then cancelled and these shares will then never be subscribed and issued. As of March 16, 2007, only 256,220 rights out of the 625,000 initially distributed were still in force due to employees' departures.

On December 31, 2006, the duration of our stock option contracts was as follows:

months until expiration	**Number of Shares**
12	33,625
24	46,900
36	1,212
60	93,000
66	12,425
86	300,000
97	15,000

As of December 31, 2006, a summary of stock option activity to purchase or to subscribe to Shares under these plans is as follows:

	2006		2005		2004	
	Options	Weighted average exercise price (€)	Options	Weighted average exercise price (€)	Options	Weighted average exercise price (€)
Outstanding on January 1,	593,262	2.50	580,262	2.49	391,262	2.68
Granted			15,000	2.78	325,000	2.19
Exercised	(72,600)	3,20	(1,000)	1.62	0	
Forfeited	(18,500)	2,60	(1,000)	3.81	(136,000)	2.34
Expired	-	-	-	-	-	-
Outstanding on December 31,	502,162	2.38	593,262	2.50	580,262	2.49
Exercisable on December 31,	405,162	2,73	409,652	2.45	219,547	2.99
	0	-	0	-	0	-

Shares purchase options available for grant on December 31

The following table summarizes information about options to purchase Shares already held by the Company as treasury Shares, or to subscribe to new Shares, at December 31, 2006:

	Outstanding options			Exercisable options	
Exercise price (€)	Options	Weighted average remaining contractual life	Weighted average exercise price (€)	Options	Weighted average exercise price (€)
3.81	71,525	1.5	3.81	71,525	3.81
2.78	15,000	8.1	2.78	15,000	2.78
2.60	200,000	7.2	2.60	103,000	2.60
2.08[(1)]	93,000	5.0	2.08	93,000	2.08
2.02[(2)]	12,425	5.5	2.02	12,425	2.02
1.83	10,212	2.5	1.83	10,212	1.83
1.28	100,000	7.2	1.28	100,000	1.28
1.28 to 3.81	502,162	5.9	2.39	405,162	2.34

(1) All the 93,000 options were granted on September 25, 2001 with an exercise price expressed in U.S. dollars ($1.92) and converted here to euros based on the noon buying rate on September 25, 2001 ($1 = € 1.085).

(2) All the 12,425 options were granted on June 18, 2002 with an exercise price expressed in U.S. dollars ($1.92) and converted here to euros based on the noon buying rate on June 18, 2002 ($1 = € 1.0545).

As of March 16, 2007, 25,000 options to purchase 25,000 shares of the company were exercised, bringing to 482,490 the number of treasury stocks held by the company.

Exemptions from Certain Nasdaq Corporate Governance Rules

Nasdaq rules permit Nasdaq to provide exemptions from the Nasdaq corporate governance standards to a foreign issuer when those standards are contrary to a law, rule or regulation of any public authority exercising jurisdiction over such issuer or contrary to generally accepted business practices in the issuer's country of domicile. We received from Nasdaq an exemption from compliance with one certain corporate governance standard that is contrary to the law, rules, regulations or generally accepted business practices of France. The exemption, and the practices followed by the company, are described below:

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 25% (in the case of an ordinary general meeting or an extraordinary general meeting deciding upon any capital increase by capitalization of reserves) or 33 1/3% (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 25% of the Shares is necessary for a quorum in the case of any other type of extraordinary general meeting. We petitioned for this exemption because there are doubts as to whether it would be legally permissible for a French company to adopt in its articles of association quorum requirements that would be more stringent than those prescribed by French law, and this would in any event be contrary to generally accepted business practice in France.

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. At March 16, 2007, to our knowledge, the following persons had beneficial ownership of more than 5% of the Shares: Siemens France Holding owned 1,003,250 Shares representing 10.65% of the total share capital of the Company and (after subtracting treasury stock, which under French law carries no voting rights) 11.22% of voting rights, Wells Capital Management, Inc., formerly Benson Associates LLC, owned 1,260,425 Shares representing 13.37% of the total share capital of the Company and (after subtracting treasury stock, which under French law carries no voting rights) 14.09% of voting rights and Bruce & Co., Inc, owned 550,050 shares representing 5.84% of the total share capital of the Company and (after subtracting treasury stock, which under French law carries no voting rights) 6.15% of voting rights. The Shares owned by these persons do not carry special voting rights.

To our knowledge, there have been no significant changes in the percentage of ownership of our Shares over the past three years.

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.

As of March 16, 2007, 9,424,497 Shares were issued, including 8,942,007 outstanding and 482,490 treasury Shares. At the same date, there were 8,258,639 ADSs, each representing one Share, all of which were held of record by 17 registered holders in the United States (including The Depository Trust Company).

Related Party Transactions

The General Manager of our Korean branch, EDAP-TMS Korea, is also the Chairman of Dae You, a company incorporated in Korea and unrelated to EDAP TMS. Dae You acts as an agent for the promotion of our medical devices in Korea. EDAP TMS Korea also subcontracts the maintenance of our medical devices installed in Korea to Dae You. Dae You also purchases medical devices from us and operates them in partnership with hospitals and clinics in Korea.

In 2006, EDAP TMS Korea paid Dae You a total of €74,100 for its services under service maintenance contracts, and Dae You purchased €588,000 of medical devices and services from us.

We purchase certain technological elements from Siemens AG. Total purchases amounted €444,000 in 2006, €547,000 in 2005 and €405,000 in 2004. Payables due to Siemens AG amounted to €17,700, €46,000 and € 3,000 as of December 31, 2006, 2005 and 2004 respectively.

Item 8. Financial Information

Consolidated Financial Statements

See Item 18, ''Financial Statements.''

Export Sales

As of December 31, 2006, total consolidated export sales, which we define as sales made outside of France, were €14.4 million, which represented 71% of total sales.

Legal Proceedings

To date, we are a party to two product liability actions in the United States by patients claiming to have been injured in the course of a Prostatron procedure. We retained liability for these two cases following the sale of the Prostatron business to Urologix Inc. in October 2000. However, in one of the two cases, we believe that we may be able to claim indemnification from Urologix. We also believe that the patients' claims against us are without merit. In addition, if the claims against us are successful, we believe any potential damages assessed against us would be covered by insurance and/or by a contribution obligation of the physicians and/or the organization that provided services with the product. However, these product liability claims could have a material adverse impact on the Company.

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.

In France, dividends are paid out of after-tax income. Dividends paid to holders of shares who are not residents of France generally will be subject to French withholding tax at a rate of 25%. Holders who qualify for benefits under an applicable tax treaty and who comply with the procedures for claiming treaty benefits may be entitled to a reduced rate of withholding tax and, in certain circumstances, certain other benefits, under conditions provided for in the relevant treaty under French law. See Item 10 ''Additional Information—French Taxation—Taxation of Dividends on Shares or ADSs.''

No dividends were paid with respect to fiscal years 2002 through 2005. Subject to the approval of the shareholders' meeting to be held on or before June 30, 2007, we do not anticipate paying any dividends with respect to fiscal year 2006.

Significant Changes

Except as otherwise disclosed in this Annual Report, there has been no material change in the financial position of EDAP TMS and its consolidated subsidiaries since December 31, 2006.

Item 9. The Offer and Listing

Description of Securities

The Shares are traded solely in the form of ADSs, each ADS representing one Share. Each ADS is evidenced by an American Depositary Receipt issued by The Bank of New York acting as Depositary in respect thereof. The principal United States trading market for the ADSs, which is also the principal trading market for the ADSs overall, is the Nasdaq National Market of the Nasdaq Stock Market, Inc. (''Nasdaq''), on which the ADSs are quoted under the symbol ''EDAP.'' The principal non-U.S. trading market for the ADSs was Nasdaq Europe, formerly known as the European Association of Securities Dealers Automated Quotation System (''EASDAQ''), on which the ADSs were quoted under the symbol ''EDAP''. We requested and received a conditional approval from Nasdaq Europe for the delisting of its ADSs effective on April 25, 2002.

Trading Markets

The following tables set forth, for the years 2002 through 2006, the reported high and low sales prices of the ADSs on Nasdaq.

	Nasdaq	
	High	**Low**
	$	
2006	21.64	5.12
2005	5.68	3.10
2004	3.92	1.55
2003	1.99	1.00
2002	2.49	1.15

The following tables set forth, for the years 2005 and 2006, the reported high and low sales prices of the ADSs on Nasdaq for each full financial quarter:

	Nasdaq	
	High	**Low**
	$	
2006:		
First Quarter	21.64	5.30
Second Quarter	19.46	7.02
Third Quarter	12.20	6.50
Fourth Quarter	8.60	5.12
2005:		
First Quarter	5.50	3.41
Second Quarter	5.00	3.65
Third Quarter	4.27	3.18
Fourth Quarter	5.68	3.10

The following table sets forth, for the most recent six months (from October 2006 through March 16, 2007), the reported high and low sale prices of the ADSs on Nasdaq for each month:

	Nasdaq	
	High	**Low**
	$	
2006:		
October	8.60	7.00
November	7.55	5.12
December	6.89	5.33
2007:		
January	9.40	5.62
February	8.19	7.06
March (through March 16, 2007)	7.48	6.18

Item 10. Additional Information

Memorandum and Articles of Association

Set forth below is a brief summary of significant provisions of the Company's articles of association (*statuts*) and applicable French laws. This is not a complete description and is qualified in its entirety by reference to our *statuts*. Each time they are modified, the Company files copies of its articles of association with, and such articles of association are publicly available from, the Registry of Commerce and Companies in Lyon, France, under number 316488204 RCS-LYON.

The Company's corporate affairs are governed by its articles of association and by Book II of the French Commercial Code, as amended.

The Company's articles of association were last updated in July 2002 to formally comply with French Rules on Economic Regulation (the NRE law) and to reflect our new management structure.

Corporate Purposes

Pursuant to Article 2 of the articles of association, the purposes of the Company are:

- 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 interests;
- the direction, management, control 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 other similar or related purposes which may favor the extension or development of said purposes.

Board of Directors

On July 30, 2002, the shareholders approved a new management structure for EDAP TMS. The shareholders opted for management by a Board of Directors instead of a Management Board controlled by a Supervisory Board.

The Board of Directors is currently composed of five members who were appointed by the shareholders for a period of six years expiring upon the date of the general shareholders' meeting approving the financial results for fiscal year 2007. (See Item 6, ''Directors, Senior Management and Employees'')The tenure of a Director terminates at the end of the ordinary general shareholders' meeting convened to vote upon the accounts of the then-preceding fiscal year and is held in the year during which

the term of such Director comes to an end. Directors may always be re-elected; the Director may also be dismissed at any time at the shareholders' meeting.

The mandate for each member of the Board of Directors expires on the date of the ordinary general shareholders' meeting approving the financial results for the 2007 fiscal year.

Each Director must own at least one share during his/her term of office. If, at the time of his/her appointment, the 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 is considered to have automatically resigned if he/she fails to comply with the shareholding requirement within three months.

An individual person cannot be on more than five Boards of Directors or Supervisory Boards in companies registered in France; directorships 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 the death or resignation of one or more Director, 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 following ordinary shareholders meeting. Even if a provisional appointment is not ratified, resolutions and acts previously approved by the Board of Directors nonetheless remain valid.

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

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.

One of our employees may be appointed to serve as a Director. His/her contract of employment must however entail actual work obligations. 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 cannot exceed one third of the Directors then in office and in any case five members.

Directors cannot be more than seventy-five years old. If one of the Directors reaches this limit during his/her tenure, such Director is automatically considered to have resigned at the next general shareholders meeting.

The Board of Directors determines the direction of the Company's business and supervises its operations. 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 the Company's business. However, 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. A Director cannot borrow money from the Company.

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 person. The Board of Directors determines the duration of the tenure of the Chairman, which cannot exceed that of his/her tenure as a Director. The Board of Directors may dismiss the Chairman at any time. The remuneration of the Chairman is decided by the Board of Directors, upon recommendation of the Compensation Committee.

The Chairman represents the Board of Directors 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 our organization and for supervising 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 power to represent us in any criminal proceedings that we may face.

As with any other Director, the Chairman cannot be over seventy-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 an individual elected by the Board 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 as provided for by the articles of association. On July 1, 2004, the Board of Directors appointed Mr. Hugues de Bantel as Chief Executive Officer. Following a Management succession plan announced in December 2006, Hugues de Bantel will be replaced by Marc Oczachowski, current Chief Operating Officer. Hugues de Bantel will be appointed Member of the Board of Directors.

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 us with respect to third parties. We are 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 articles of association alone is not sufficient evidence of such knowledge.

The remuneration of the Chief Executive Officer is set by the Board of Directors, upon recommendation of the Compensation Committee. The Chief Executive Officer can be terminated 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 Management Board in a company 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 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 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, as 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 articles of association.

Under French law and the Company's articles of association, 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.

The shareholders of the Company 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.

The Company's articles of association provide that, if so agreed by the shareholders, reserves that are available for distribution under French law and the Company's articles of association may be distributed as dividends, subject to certain limitations.

If the Company has made distributable profits since the end of the preceding fiscal year (as shown on an interim income statement certified by the Company's 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. The Company has 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 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 the Company's 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, the Company's assets remaining after payment of its debts, liquidation expenses and all of its 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.

Changes in Share Capital (French Law)

The share capital of the Company may be increased only with the approval of the shareholders entitled to vote 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.

The share capital of the Company may be decreased only with the approval of the shareholders entitled to vote 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 the Company, 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, (b) to provide shares for distribution to employees under a profit sharing or stock option plan and (c) after obtaining approval from the shareholders at an ordinary general meeting, to make purchases for stabilization of quotations on a regulated stock exchange. In either case, the amounts to be repurchased under (b) and (c) may not result in the Company holding 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 articles of association, 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 the Company's 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 the Company's 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 Company's 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 six days before the date set for any general meeting on second notice, notice of the meeting 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. Holders of ADSs will receive notices of shareholders meetings and other reports and communications that are made generally available to shareholders from The Bank of New York, the Depositary for the ADSs. The Work Council may also require the registration of resolution proposals on the agenda.

Attendance and exercise of voting rights at ordinary and extraordinary general 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. Certain procedures to effect such requirements will be required of a holder of ADSs to exercise the voting rights relating to the shares represented by such ADSs.

All shareholders who have properly registered their shares have the right to participate in general 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 controlled directly or indirectly by the Company is prohibited from holding shares in the Company and, in the event it becomes a shareholder, such entity would not be entitled to any voting rights. A proxy may be granted by a shareholder whose name is registered on the Company's 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 25% (in the case of an ordinary general meeting or an extraordinary general meeting deciding upon any capital increase by capitalization of reserves) or 33 1/3% (in the case of an 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 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 25% 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, a two-thirds majority 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 is required to 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 the Company's articles of association, shareholders' meetings are held at the registered office of the Company or at any other locations specified in the written notice. The Company has no 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

The Company's articles of association 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 the Company may issue or cause to be issued confirmations of shareholdings registered in such registry to the persons in whose names the shares are registered. 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 1/3% 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).

Certain Exemptions (French Law)

Under the U.S. securities laws, as a foreign private issuer, EDAP TMS is 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. EDAP TMS is also exempt from certain of the current corporate governance requirements of the Nasdaq Stock Market. For more information on these exemptions, see Item 6, ‘‘Directors, Senior Management and Employees—Exemptions from Certain Nasdaq Corporate Governance Rules.’’

Enforceability of Civil Liabilities (French Law)

The Company is 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

We are a party to a commercial lease agreement for our corporate headquarters and research and development and manufacturing facilities are located in Vaulx-en-Velin, on the outskirts of Lyon. The premises comprise 3,740 square meters. The lease has a term of nine years and is renewable at the lessee’s option. We believe that the terms of the lease reflect commercial practice and market rates.

To assist in the successful completion of clinical trials to obtain FDA approval for the Ablatherm, we partnered with HealthTronics and signed a Distribution Agreement in February 2004 for assistance in the approval process for re-submission of an IDE to the FDA. Trials in the United States started in May 2006, with several centers fully approved and enrolling patients. In November 2006, HealthTronics informed us that they intended to discontinue Ablatherm FDA trials, at which time the trials were suspended. The parties are in the process of negotiating a termination agreement, which we expect to finalize in the coming weeks, whereby HealthTronics will transition the study to EDAP, upon payment of agreed compensation by HealthTronics. This will allow us to resume the trials soon while we look for the necessary resources to fund the study ourselves. See Item 3, “Risk Factors—Our future revenue growth a nd income depends, among other things, on the success of our HIFU technology”, and Item 4, “Information on the Company—History and Development of the Company.”

On August 3, 2006, we closed a private placement of 961,676 ordinary shares in the form of American Depositary Shares, resulting in net proceeds of approximately $7.5 million. The Securities Purchase Agreement among EDAP TMS S.A. and each purchaser set forth the purchase price for the ordinary shares. The terms for registering the American Depositary Shares with the SEC are covered by the Registration Rights Agreement.

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. All registered banks and credit institutions in France are accredited intermediaries.

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 20% or more of a listed 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).

French Taxation

The following generally summarizes the material French tax consequences of purchasing, owning and disposing of Shares or ADSs. The statements relating to French tax laws set forth below are based on the laws in force as of the date hereof, and are subject to any future changes in applicable laws and tax treaties.

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 Shares or ADSs. The following summary does not address the treatment of Shares or ADSs 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, 2006.

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 ADSs or Shares registered in the name of a nominee. Such holders should consult their own tax advisor about the consequences of owning and disposing of ADSs.

Investors should consult their own tax advisors regarding the tax consequences of the purchase, ownership and disposition of shares in light of their particular circumstances.

Taxation of Dividends on Shares or ADSs - Withholding Tax

In France, dividends are paid out of after-tax income. Dividends paid to non-residents normally are subject to a 25% French withholding tax. 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 before the payment of a dividend, then French tax generally will be withheld at the reduced rate provided under the treaty.

New Tax Credit

As a result of the reforms implemented by the French Finance Law for 2004 and the French Finance Law for 2006, from January 1, 2006, French resident individuals are taxed on only 60% of the dividends they receive and, in addition to a fixed allowance, are entitled to a tax credit equal to 50% of all dividends received within one year (the "Tax Credit"). The Tax Credit is capped at €230 for married couples and members of a union agreement subject to joint taxation and €115 for single persons, widows or widowers, divorcees or married persons subject to separate taxation.

Dividends paid to non-residents are not normally eligible for the Tax Credit described above. However, qualifying non-resident individuals may, depending on the provisions of the income tax treaty (if any) between France and their country of residence, benefit from a refund of the Tax Credit (net of applicable withholding tax) under certain conditions, subject to compliance with the procedures for

claiming benefits under the applicable treaty. The French tax authorities have not yet issued any guidance with regard to the procedures for claiming the refund of the Tax Credit to non-resident individuals.

Individual investors are urged to consult their own tax advisors in this respect.

Taxation on Sale or Disposition of Shares or ADSs

Subject to the more favorable provisions of a relevant tax treaty, holders that are not residents of France for tax purposes, do not hold Shares or ADSs in connection with the conduct of a business or profession in France, and have not held more than 25% of dividend rights (*droits aux bénéfices sociaux*) of the Company, directly or indirectly, at any time during the preceding five years, are not subject to French income tax or capital gains tax on the sale or disposition of Shares or ADSs.

A 1.1% *ad valorem* registration duty (subject to a maximum of €4,000 per transfer) applies to certain transfers of shares in French companies. This duty does not apply to transfers of shares in listed companies that are not evidenced by a written agreement, or if any such agreement is executed outside France.

Estate and Gift Tax

France imposes estate and gift tax on shares or ADSs 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 company, provided that such ownership interest is less than 10% of the company's share capital and does not enable the shareholder to exercise influence over the company. Double taxation treaties may provide for a more favorable tax treatment.

Taxation of U.S. Investors

The following is a summary of the material French and U.S. federal income tax consequences of the purchase, ownership and disposition of Shares or ADSs by a holder that is a resident of the United States for purposes of the income tax convention between the United States and France (the ''Treaty'') and is fully eligible for benefits under the Treaty (a ''U.S. holder''). A holder generally will be entitled to Treaty benefits in respect of Shares or ADSs if he is:

- the beneficial owner of the shares or ADSs (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.

For U.S. federal income tax purposes, a U.S. holder's ownership of the company's ADSs will be treated as ownership of the company's underlying shares.

This summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to any particular investor, and does not discuss tax considerations that arise from rules of general application or that are generally assumed to be known by investors. In particular, the summary does not deal with Shares or ADSs that are not held as capital assets, and does not address the tax treatment of 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 Shares or ADSs as a position in a synthetic security, straddle or conversion transaction, persons that own, directly or indirectly, 5% or more of the Company's voting stock or 10% or more of the Company's

outstanding capital and persons whose functional currency is not the U.S. dollar. 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.

This summary does not discuss the treatment of Shares or ADSs 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. Moreover, the following discussion of the tax treatment of dividends only deals with distributions made on or after January 1, 2006.

Holders should consult their own tax advisers regarding the tax consequences of the purchase, ownership and disposition of Shares or ADSs in light of their particular circumstances, including the effect of any state, local, or other laws.

Dividends

Generally, dividend distributions to non-residents of France are subject to French withholding tax at a 25% rate and are not eligible for the benefit of the Tax Credit available to French resident individuals, as described above. However, under the Treaty, holders can claim the benefit of a reduced dividend withholding tax rate of 15%.

In addition, individual U.S. holders may be entitled to a refund of the Tax Credit, less a 15% withholding tax (subject to the discussion of the Tax Credit above), provided that they are subject to U.S. federal income tax on the Tax Credit and the dividend to which it relates. The French tax authorities have not yet issued guidance with respect to the refund of the Tax Credit to non-resident individuals.

U.S. holders that are not individuals are no longer entitled to tax credit payments from the French Treasury.

French withholding tax will be withheld at the 15% Treaty rate for holders that have established before the date of payment that they are residents of the United States under the Treaty by following the simplified procedure described below.

The gross amount of dividends and Tax Credit 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.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual before January 1, 2011 with respect to the Shares or ADSs will be subject to taxation at a maximum rate of 15% if the dividends are “qualified dividends.” Dividends paid on the Shares or ADSs 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 (“PFIC”). The Treaty has been approved for the purposes of the qualified dividend rules. Based on the Company’s audited financial statements and relevant market and shareholder data, we believe that the Company was not treated as a PFIC for U.S. federal income tax purposes with respect to its 2006 taxable year. In addition, based on the Company’s audited financial statements and our current expectations regarding the value and nature of its assets, the sources and nature of its income, and relevant market and shareholder data, we do not anticipate it becoming a PFIC for the 2007 taxable year. Accordingly, dividends paid by us in 2007 to a U.S. holder should constitute “qualified dividends” unless such holder acquired its Shares or ADSs during a year in which the Company was a PFIC and such holder did not make a mark-to-market election (as described under “—Passive Foreign Investment Company Rules” below).

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

Distributions out of earnings and profits with respect to the Shares or ADSs 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 with respect to taxable years starting after December 31, 2006, or as “passive” (or, in the

case of certain U.S. holders, "financial services") income with respect to taxable years starting before January 1, 2007. Subject to certain limitations, French income tax withheld in connection with any distribution with respect to the Shares or ADSs 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.

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 Shares or ADSs 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 Shares or ADSs.

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.

Procedures for Claiming Treaty Benefits

The French tax authorities issued new guidelines in the instruction no 4-J-1-05, dated February 25, 2005 that significantly changed the formalities to be complied with by non-resident shareholders, including U.S. holders, to obtain the reduced withholding tax rate on distributions made on or after January 1, 2005.

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

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 before the dividend payment, a withholding tax will be levied at the 25% 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 year following the year in which the dividend is paid.

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).

Finally, as mentioned above, the French tax authorities have not yet issued any guidance with respect to the procedures for claiming the refund of the Tax Credit to non-resident individuals.

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 Shares or ADSs, 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 Shares or ADSs will be capital gain or loss, and will be long-term capital gain or loss if the Shares or ADSs were held for more than one year. The net amount of long-term capital gain recognized by an individual U.S. holder before January 1, 2011 generally is subject to taxation at a maximum rate of 15%. U.S. holders' ability to offset capital losses against ordinary income is limited.

Passive Foreign Investment Company Rules

The Company will be classified as a PFIC in a particular taxable year if either:

- 75% or more of the Company's gross income is treated as passive income for purposes of the PFIC rules; or
- the average percentage of the value of the Company's assets that produce or are held for the production of passive income is at least 50%.

As discussed above (see "—Dividends"), the Company believes that it was not a PFIC in 2006 and does not anticipate being a PFIC in 2007. However, as discussed in Forms 20-F filed by the Company with respect to prior years, the Company believes that it was a PFIC during certain periods.

If a U.S. holder held Shares or ADSs during a year in which the Company was a PFIC and does not make the mark-to-market election, described in the next paragraph, such holder will be subject to a special additional tax, determined as described below, on certain dividends received and gains realized (''excess distributions'') in subsequent years, without regard to whether the Company was a PFIC in the year the excess distribution was received. The amount of this tax is equal to the sum of (i) tax at ordinary rates on the amount of the excess distribution, plus (ii) an interest charge to compensate for tax deferral, calculated as if the excess distribution had been earned ratably over the period the U.S. holder held its Shares or ADSs. Classification as a PFIC may also have other adverse tax consequences, including the denial of a step-up in the basis of Shares and ADSs at death.

U.S. holders may be enable to avoid the unfavorable treatment described above by electing to mark their Shares or ADSs to market. For any year in which the Company is a PFIC, a U.S. holder who makes a mark-to-market election would include as ordinary income the excess of the fair market value of the Shares or ADSs at year-end over the holder's basis in those Shares or ADSs. In addition, any gain recognized upon a sale of Shares or ADSs in such year would be taxed as ordinary income.

The Company does not intend to furnish holders with the information necessary to make a qualified electing fund (''QEF'') election.

French Estate and Gift Tax

Under the estate and gift tax convention between the United States and France, a transfer of Shares or ADSs by gift or by reason of the death of a U.S. holder entitled to benefits under that convention will not be subject to French gift or inheritance tax, so long as the donor or decedent was not domiciled in France at the time of the transfer, and Shares or ADSs 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 shares or ADSs of a U.S. holder if the holder is a resident of the United States for purposes of the Treaty.

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.

Documents on Display

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended. In accordance with these requirements, we file reports and other information with the Securities and Exchange Commission. These materials, including this annual report and the exhibits hereto, may be inspected and copied at the Commission's public reference room at 100F Street, N.E., Washington, D.C. 20549 and at the Commission's regional offices at 500 West Madison Street, Suite 1400, Chicago, Illinois 60661, and 233 Broadway, New York, New York 10279. Copies of the materials may be obtained from the public reference room of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. The public may obtain information on the operation of the Commission's Public Reference Room by calling the Commission in the United States at +1 800 SEC 0330.

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 for trading purposes. As of December 31, 2006, we had no outstanding foreign exchange sale 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 2006, approximately 79% of our selling and general and administrative expenses and approximately 91% of our research and development expenses were denominated in euro. During the same period, only 68% 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, 2006 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 €65,000 for the year ended December 31, 2006, compared to an increase of approximately €28,000 for the year ended December 31, 2005. 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, 2006 and as of March 16, 2007, 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. Approximately €0.05 million, €0.2 million and €0.5 million of our outstanding indebtedness at December 31, 2006, 2005 and 2004, respectively, was denominated in Japanese yen. None of our outstanding indebtedness over the past three years was denominated in U.S. dollars. In addition, we had approximately €0.4 million, €0.5 million and €1.2 million of cash denominated in U.S. dollars at December 31, 2006, 2005 and 2004, respectively, and €1.2 million, €0.9 million and €1.3 million of cash denominated in Japanese yen at December 31, 2006, 2005 and 2004, respectively.

Item 12. Description of Securities Other than Equity Securities

Not Applicable.

PART II.

Item 13. Defaults, Dividend Arrearages and Delinquencies

Not Applicable.

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

Not Applicable.

Item 15. Controls and Procedures

We carried out an evaluation under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2006. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance 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.

There has been no change in our internal control over financial reporting during our 2006 fiscal year that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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. In 2006, there were no waivers of its applicability. We have attached the code of ethics as an exhibit to this report and have made it available on our website at www.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 and reviewed on July 22, 2005. This requires all services which are to be performed by our external auditors to be pre-approved. This 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. No services which are classified as prohibited services by the U.S. Securities and Exchange Commission under the 2003 Rules were commissioned after May 6, 2003. Our external auditors Ernst & Young Audit ("E&Y") billed the following services related to our 2006 financial year:

Nature of the Fees

	2005 (in €)	2006 (in €)
Audit fees	136,020	175,780
Audit-related fees	97,305	96,850
Tax fees	-	-
All other fees	-	-
Total	**233,325**	**272,630**

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 services also included the auditing of information systems and processes and tests, which serve to promote understanding and reliability of the systems and internal corporate controls, as well as advice on issues of billing, accounting and reporting.

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.

Tax Fees

Tax services consisted of services relating to issues of domestic and international taxation (adherence to tax law, tax planning and tax consulting). Furthermore, services were commissioned for the review of tax returns, assistance with tax audits, as well as assistance relating to tax law. No tax services were rendered during the 2006 fiscal year.

All Other Fees

Other services mainly consisted of routine and administrative follow-up of patents and brand names. All these services were unrelated to the audits of our financial statements.

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 2006, neither the Company nor affiliated purchasers made purchases of equity securities of the Company registered pursuant to Section 12 of the Exchange Act.

PART III

Item 17. Financial Statements.

See Item 18, "Financial Statements."

Item 18. Financial Statements

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

Item 19. Exhibits

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

INDEX TO EXHIBITS

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

Number:	**Exhibit Description**
1.1	By-laws (*statuts*) of EDAP TMS S.A. as amended as of July 27, 2006 (together with an English translation thereof).
4.1	(a) Distribution Agreement, dated as of February 25, 2004, among the Company, HT Prostate Therapy Management Company, LLC, EDAP S.A. and Technomed Medical Systems, S.A (incorporated herein by reference to Exhibit 4.1 to the Annual Report on Form 20-F filed on June 4, 2004 (File No. 000-29374)). (b) Amendment No. 1 to the Distribution Agreement dated December 23, 2004 (incorporated herein by reference to Exhibit 4.1(b) to the Annual Report on Form 20-F filed on May 20, 2005 (File No. 000-29374)). (c) Amendment No. 2 to the Distribution Agreement dated December 29, 2005 (incorporated herein by reference to Exhibit 4.1(c) to the Annual Report on Form 20-F filed on June 6, 2006 (File No. 000-29374)).
4.2	(a) Commercial Leases dated October 1, 2002 and Amendment No. 1 dated October 15, 2002, between Maison Antoine Baud and EDAP TMS S.A., EDAP S.A. and Technomed Medical Systems S.A. (together with an English translation thereof) (incorporated herein by reference to Exhibit 4.4 to the Annual Report on Form 20-F filed on May 8, 2003 (File No. 000-29374)). (b) Amendment No. 2 to commercial leases between TMS S.A. and Maison Antoine Baud, signed on June 28, 2004(incorporated herein by reference to Exhibit 4.2(b) to the Annual Report on Form 20-F filed on May 20, 2005 (File No. 000-29374)).
4.3	Form of Securities Purchase Agreement dated as of July 27, 2006 among EDAP TMS S.A. and each purchaser identified on the signature pages thereto (incorporated herein by reference to Exhibit 1 to the Report of Foreign Private Issuer on Form 6-K/A filed on August 18, 2006 (File No. 000-29374))
4.4	Form of Registration Rights Agreement dated as of July 27, 2006, among EDAP TMS S.A. and the investors signatory thereto (incorporated herein by reference to Exhibit 2 to the Report of Foreign Private Issuer on Form 6-K/A filed on August 18, 2006 (File No. 000-29374)).
8.1	List of subsidiaries of EDAP TMS S.A. as of March 1, 2007.
11.1	Code of Ethics of the Company, approved by the Board of Directors on July 22, 2005(incorporated herein by reference to Exhibit 11.1 to the Annual Report on Form 20-F filed on June 6, 2006 (File No. 000-29374)).
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 Ernst & Young.

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SIGNATURES

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

EDAP TMS S.A.

Dated: March 30, 2007

/s/ HUGUES DE BANTEL
Hugues de Bantel
Chief Executive Officer

Dated: March 30, 2007

/s/ ERIC SOYER
Eric Soyer
Chief Financial Officer

INDEX TO FINANCIAL STATEMENTS

Audited Consolidated Financial Statements for EDAP TMS S.A. and Subsidiaries for the Years Ended December 31, 2006, 2005 and 2004

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of EDAP TMS S.A. as of December 31, 2004, 2005 and 2006, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of EDAP TMS's management. Our responsibility is to express an opinion on these consolidated financial statements based on our 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of EDAP TMS, S.A. at December 31, 2004, 2005 and 2006, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 of the Consolidated Financial Statements, the Company adopted, as of January 1, 2006 the provisions of Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment".

ERNST & YOUNG Audit

/s/ LAURENT CHAPOULAUD
Represented by
Laurent Chapoulaud

March 30, 2007
Lyon, France

EDAP TMS S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of December 31, 2006 and 2005

(in thousands of euros unless otherwise noted)

ASSETS	Notes	2006	2005
Current assets			
Cash and cash equivalents	2	9,894	8,317
Net Trade accounts and notes receivable	3	10,142	8,769
Other receivables	4	732	850
Inventories	5	3,766	4,450
Deferred tax assets	21-3	85	0
Prepaid expenses		744	391
Short-term investment	2	1,031	
Total current assets		26,393	22,777
Property and equipment, net	6	3,211	3,130
Intangible assets, net	7	71	86
Goodwill	7	2,412	2,412
Deposits and other non-current assets		386	391
Total assets		32,473	28,796
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade accounts and notes payable	8	4,718	4,305
Deferred revenues, current portion	9	669	771
Social security and other payroll withholdings taxes		715	605
Employee absences compensation		467	438
Income taxes payable		31	19
Other accrued liabilities	10	2458	2,305
Short-term borrowings	12	1308	899
Current portion of capital lease obligations	11	436	385
Current portion of long-term debt	13	123	147
Total current liabilities		10,926	9,874
Deferred revenues, non current	9	613	439
Capital lease obligations, non current	11	696	474
Long-term debt, non current	13	58	55
Deferred income taxes	21-3	0	7
Other long-term liabilities	14	880	575
Total liabilities		13,172	11,424
Shareholders' equity			
Common stock, €0.13 par value; 9,324,497 shares issued and 8,817,007 shares outstanding; 8,362,821 shares issued and 7,782,731 shares outstanding at December 31, 2006 and 2005, respectively		1,212	1,087
Additional paid-in capital		25,476	20,359
Retained earnings		(2,835)	597
Cumulative other comprehensive loss		(3,016)	(2,877)
Treasury stock, at cost; 507,490 and 580,090 shares at December 31, 2006 and 2005, respectively		(1,538)	(1,794)
Total shareholders' equity	15	19,300	17,372
Total liabilities and shareholders' equity		32,473	28,796

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

EDAP TMS S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
For the years ended December 31, 2006, 2005 and 2004
(in thousands of euros unless otherwise noted)

	Notes	2006	2005	2004
Sales of goods		10,849	12,198	13,823
Sales of RPPs & leases		3,805	3,146	2,986
Sales of spare parts and services		5,520	5,606	5,320
Total sales		20,174	20,952	22,129
Warrants granted			(235)	(174)
Total net sales	16	20,174	20,717	21,955
Other revenues	17	91	93	208
Total revenues		20,265	20,810	22,163
Cost of goods		(5,582)	(6,453)	(7,837)
Cost of RPPs & leases		(1,576)	(1,115)	(862)
Cost of spare parts and services		(4,789)	(4,744)	(4,977)
Total cost of sales		(11,946)	(12,313)	(13,676)
Gross profit		8,319	8,497	8,487
Research and development expenses		(2,442)	(1,784)	(1,523)
Selling and marketing expenses		(4,621)	(3,758)	(3,402)
General and administrative expenses		(4,082)	(4,278)	(4,074)
Non recurring operating expenses	18	(267)	-	(318)
Loss from operations		(3,094)	(1,323)	(830)
Interest income, net	19	153	135	71
Foreign currency exchange gain (loss), net		(430)	218	(38)
Other income (expense), net	20	(5)	9	(74)
Loss before taxes		(3,375)	(961)	(871)
Income tax (expense) benefit	21	(56)	(104)	(278)
Net loss		(3,431)	(1,065)	(1,149)
Basic loss per share	1-18	(0.39)	(0.14)	(0.15)
Diluted loss per share	1-18	(0.39)	(0.14)	(0.15)
Basic Weighted average shares outstanding	1-18	8,817,007	7,782,731	7,781,731
Diluted Weighted average shares outstanding	1-18	9,557,533	8,373,574	8,074,210

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

EDAP TMS S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2006, 2005 and 2004
(in thousands of euros unless otherwise noted)

	2006	2005	2004
Net loss	(3,431)	(1,065)	(1,149)
Other comprehensive loss:			
Foreign currency translation adjustments	(55)	110	(36)
Provision for retirement indemnities	(84)		
Comprehensive loss, net of tax	(3,570)	(955)	(1,185)

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, 2006, 2005 and 2004
(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 January 1, 2004	7,781,731	1,087	19,811	2,811	(2,951)	(1,797)	18,961
Net loss				(1,149)			(1,149)
Translation adjustment					(36)		(36)
Warrants and stock options granted			188				188
Balance as of December 31, 2004	7,781,731	1,087	19,999	1,662	(2,987)	(1,797)	17,964
Net loss				(1,065)			(1,065)
Translation adjustment					110		110
Warrants and stock options granted	1,000		360			3	363
Balance as of December 31, 2005	7,782,731	1,087	20,359	597	(2,877)	(1,794)	17,372
Net loss				(3,431)			(3,431)
Translation adjustment					(55)		(55)
Warrants and stock options granted	72,600		4			256	260
Capital increase	961,676	125	5,114				5,239
Provision for retirement indemnities					(84)		(84)
Balance as of December 31, 2006	8,817,007	1,212	25,476	(2,835)	(3,016)	(1,538)	19,300

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2006, 2005 and 2004
(in thousands of euros unless otherwise noted).

	2006	2005	2004
Cash flows from operating activities			
Net loss	(3,431)	(1,065)	(1,149)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	1,257	1,202	1,049
Non-cash compensation	32	360	188
Change in allowances for doubtful accounts & slow-moving inventories	273	128	(834)
Change in long-term provisions	229	67	(94)
Net capital loss on disposals of assets	245	—	—
Deferred tax expense/(benefit)	(91)	84	255
Net loss (gain) on sale of assets	—	(21)	(389)
Net loss (gain) on sale of investments available for sale	—	—	—
Operating cash flow	(1,486)	755	(974)
Increase/Decrease in operating assets and liabilities:			
Decrease/(Increase) in trade accounts and notes and other receivables	(1,201)	(1,473)	20
Decrease/(Increase) in inventories	429	(681)	2,341
Decrease/(Increase) in prepaid expenses	(353)	41	(9)
(Decrease)/Increase in trade accounts and notes payable	395	632	(439)
(Decrease)/Increase in accrued expenses, other current liabilities	315	441	(1,884)
Working Capital requirement :	(415)	(1040)	29
Net cash used in operating activities	(1,901)	(285)	(945)
Cash flows from investing activities			
Capitalized assets produced by the Company	(1,287)	(1,042)	(750)
Net proceeds from sale of leased back assets	737	239	342
Acquisitions of property and equipment	(208)	(372)	(247)
Acquisitions of intangible assets	(43)	(24)	(18)
Acquisitions of short term investments	(1,031)		
Net proceeds from sale of assets	221	113	722
Proceeds from sale of investments available for sale	—	—	—
Increase in deposits and guarantees	(18)	(21)	(108)
Reimbursement of deposits and guarantees	—	48	75
Net cash (used in) provided by investing activities	(1,629)	(1,059)	16
Cash flow from financing activities			
Proceeds from capital increase	5,239	—	—
Proceeds from long term borrowings	150	288	—
Repayment of long term borrowings	(148)	(93)	(77)
Repayment of obligations under capital leases	(464)	(378)	(316)
Increase/(decrease) in bank overdrafts and short-term borrowings	409	371	310
Net cash used in financing activities	5,186	188	(83)
Net effect of exchange rate changes on cash and cash equivalents	(80)	75	(19)

Net increase/(decrease) in cash and cash equivalents	1,575	(1,081)	(1,031)
Cash and cash equivalents at beginning of year	8,317	9,398	10,429
Cash and cash equivalents at end of year	9,894	8,317	9,398

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

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, benign prostatic hyperplasia 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 Italy and Asia.

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 (‘‘US GAAP’’) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the 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 Technomed Medical Systems S.A. (‘‘TMS S.A.’’), EDAP Technomed Inc., Edap Technomed Sdn Bhd, Edap Technomed Italia S.R.L, EDAP Technomed Co. Ltd. (formerly Nippon Euro Edap Technomed KK), EDAP S.A and EDAP Gmbh. Edap Technomed Sdn Bhd was incorporated in early 1997. Edap Technomed Co. Ltd. was created in late 1996. EDAP S.A. was incorporated in May 2000. EDAP Gmbh was created in July 2006. 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 usually provides a one-year warranty upon installation. The Company accrues for the estimated training and warranty costs at the time of sale. Revenues related to disposables are recognized when goods are delivered.

Sales of RPPs and leases:

Revenues related to the sale of Ablatherm treatments invoiced on a ‘‘Revenue-Per-Procedure’’ (‘‘RPP’’) basis are recognized when the treatment procedure has been completed. If a contract of RPP

includes a minimum number of treatments, as long as this level has not been reached, the revenue is recognized on a linear basis over the contract period. Afterwards, the revenue is recognized when the treatment procedure has been completed. Revenues related to the leasing of devices are recognized on a linear 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 linear 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 judgements 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.

1-8 Inventories

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

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 lease-back transactions. This equipment is depreciated over a period of seven years.

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

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.

Intangible assets consist primarily of purchased patents relating to lithotripters, purchased licenses, a purchased tradename 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
Tradename and trademark	7 years

1-12 Treasury Stocks

Treasury Stocks 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.

1-13 Warranty expenses

The Company generally provides customers with a warranty for each product sold and accrues warranty expense at time of sale based upon historical claims experience. 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 €483 thousand, €517 thousand and €558 thousand for the years ended December 31, 2006, 2005 and 2004, respectively.

1-14 Income taxes

The Company accounts for income taxes in accordance with SFAS No. 109, ‘‘Accounting for Income Taxes’’ Under SFAS No. 109, 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 SFAS No. 109, no provision has been made for income or withholding taxes on undistributed earnings of foreign subsidiaries, such undistributed earnings being permanently reinvested.

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 annual increased spending for innovative research and development. Income tax benefits correspond to these French research tax credits, which are credited against income taxes payable in each of the four years after being incurred or, if not utilized, are recoverable in cash. As of December 31, 2006, EDAP TMS had total research tax credits receivable of €111 thousand.

1-16 Advertising costs

Advertising costs are recorded as an expense in the period in which they are incurred. Advertising costs for the years ended December 31, 2006, 2005 and 2004 were not material to the consolidated financial statements.

1-17 Foreign currency translation and transactions

Translation of the financial statements of consolidated companies

The translation rules applicable to the financial statements of foreign subsidiaries (EDAP Technomed Inc., Edap Technomed Sdn Bhd and Edap Technomed Co. Ltd.) are 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

Financial Accounting Standards Board Statement No. 133 ‘‘Accounting for Derivative Instruments and Hedging Activities’’ (‘‘SFAS 133’’) 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 instruments 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.

Given the Company’s minimal use of derivative Instruments, this standard does not have any significant effect on the Company’s financial position, results of operations or cash flows.

1-20 Employee stock option plans

At December 31, 2006, the Company had six stock-based employee compensation plans. The Company adopted SFAS 123R, “Share-Based Payment”, effective January 1, 2006. SFAS 123R requires the recognition of fair value of stock compensation as an expense in the calculation of net income (loss). Prior to January 1, 2006, the Company followed the Accounting Principle Board (“APB”) Opinion 25, “Accounting for Stocks Issued to Employees”, and related interpretation for the accounting of stock compensation, as permitted by SFAS 123, “Accounting for Stock Based Compensation”.

The Group has elected the modified prospective transition method for adopting SFAS 123R. Compensation cost recognized in the year ended December 31, 2006 includes (1) compensation for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provision of SFAS 123 and determined using the Black-Scholes valuation method, and (2) compensation cost for all share-based payments granted subsequently to January 1, 2006, based on the grants date fair value estimated in accordance with the original provisions of SFAS 123(R) and determined using the Black-Scholes valuation model. Results from prior periods have not been restated.

For options that are subject to garded vesting on a service conditions, the Company recognizes the stock compensation expense under the accelerated recognition method specified in FASB Interpretation (FIN) 28 “Accounting for Stock Appreciation Rights and Other Variable Stock Options or Award Plan”. For options that cliff vest at the end of the vesting period, the Company recognizes the stock compensation expense ratably over the vesting period.

SFAS 123R requires the presentation of pro forma information for the comparative period prior to the adoption as if the group had accounted for all our employee stock options under the fair value method of the original SFAS 123. The following tables illustrate the effect on net income (loss) per share if the group had applied the fair value recognition provision of SFAS 123 to stock-based employee compensation to the prior year-end periods.

For the purpose of this proforma disclosure, the value of the options and warrants was estimated using Black Scholes evaluation model method and amortized to expense over their respective vesting period:

	Year Ended December 31,	
	2005	**2004**
Net loss, as reported	(1,065)	(1,149)
Add: Stock-based employee compensation expense included in Reported net loss, net of related tax effects	125	14
Deduct: Total stock-based employee compensation expense Determined under fair value-based method for all awards, net of related tax effects	(231)	(44)
Pro forma net loss	(1,171)	(1,179)
Loss per share:		
Basic, as reported	(0.14)	(0.15)
Basic, pro forma	(0.15)	(0.15)
Diluted, as reported	(0.14)	(0.15)
Diluted, pro forma	(0.15)	(0.15)

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,		
	2006	**2005**	**2004**
Weighted-average expected life (years)		2	3.08
Expected volatility rates		75%	85%
Expected dividend yield		—	—
Risk-free interest rate		4.3%	3.3%
Weighted-average exercise price (€)		2.78	2.19
Weighted-average fair value of options granted during the year (€)		1.82	0.51

1-21 New accounting pronouncements

(i) Accounting for Certain Hybrid Financial Instruments

FAS No. 155 "Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and No. 140" was issued in February 2006 and is effective for all financial instruments acquired, issued, or subject to a remeasurement event occurring after the beginning of an entity's first fiscal year that begins after September 15, 2006. FAS No.155 provides entity with relief from having to separately determine the fair value of an embedded derivative that would otherwise be required to be bifurcated from its host contract in accordance with FAS No. 133. FAS No. 155 allows an entity to make an irrevocable election to measure such hybrid financial instrument at fair value in its entirety with changes in fair value recognized in earnings.
The adoption of FAS No. 155 will have no material effect on the Group's earnings and shareholder's equity, as determined under U.S GAAP.

(ii) Accounting for Servicing of Financial Assets

FAS No. 156 "Accounting for Servicing of Financial Assets, an amendment of FASB Statements No. 140" was issued in March 2006 and is effective prospectively to all transactions occurring after the beginning of an entity's first fiscal year that begins after September 15, 2006. FAS No. 156 requires that an entity separately recognize a servicing asset or a servicing liability when it undertakes an obligation to service a financial asset under a servicing contract in certain situations.
The adoption of FAS No. 156 will have no material effect on the Group's earnings and shareholder's equity, as determined under U.S GAAP.

(iii) Fair Value Measurements

FAS No. 157 “Fair Value Measurements” was issued in September 2006 and is effective prospectively for fiscal years beginning after November 15, 2007. FAS No. 157 provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities. The statement also sets out a fair value hierarchy.
The adoption of FAS No. 157 is not expected to have significant effect on the Group's earnings and shareholder's equity, as determined under U.S GAAP.

(iv) Accounting for Defined Benefit Pension and Other Postretirement Plans

FAS No. 158 “Employer’s Accounting for Defined Benefit Pension and Other Postretirement Plans –an amendment of FASB Statements No.87, 88, 106, 132(R)”, was issued in September 2006 and is effective for fiscal years ending after December 15,2006. FAS No. 158 requires a full recognition of the plan overfunded or underfunded status of its benefit plans in the balance sheet. Therefore, unrecognized actuarial gain and loss and prior service costs and credits need to be recognized in Other Comprehensive Income and are “recycled” to the income statement based on current amortization and recognition criteria. In addition, the statement also required a company to measure its plan assets and benefit obligations as of its year-end balance sheet date.

(v) FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" - an interpretation of FASB Statement No. 109

On July 2006, the FASB issued FIN No. 48 which is effective for fiscal years beginning after December 15, 2006, and should be applied to all tax positions upon initial adoption. FIN No. 48 clarifies the accounting for income taxes by prescribing a "more-likely-than-not" recognition threshold a tax position is required to meet before being recognised in the financial statements. Once the recognition threshold has been met, FIN No. 48 requires to recognize the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with the taxing authority.
The Interpretation also requires making explicit disclosures about uncertainties in Company's income tax positions.
The adoption of FIN No. 48 is not expected to have significant effect on the Group's earnings and shareholder's equity, as determined under U.S GAAP.

(vi) Planned Major Maintenance Activities

On September 2006, the FASB issued FSP No. AUG AIR-1 “Accounting for Planned Major Maintenance Activities” which is effective for the fiscal year beginning after December 15, 2006 and should be applied retrospectively. The FSP prohibits the use of the accrue-in advance method of accounting for planned major maintenance activities. It continues to permit the application of the other three alternative methods of accounting for planned major maintenance activities: direct expense, built-in overhaul, and deferral.

The adoption of the FSP No. AUG AIR-1 will have no material effect on the Group's earnings and shareholder's equity, as determined under U.S GAAP.

(vii) Fair Value Option for Financial Assets and Financial Liabilities

FAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities" was issued in February 2007 and is effective as of the beginning of the first fiscal year that begins after November 15, 2007. FAS No. 159 offers an irrevocable option to carry the vast majority of financial assets and liabilities at fair value, with changes in fair value recorded in earnings. The adoption of FAS No. 159 is not expected to have significant effect on the Group's earnings and shareholder's equity, as adjusted to accord with U.S. GAAP.

(viii) Quantification of financial statement misstatements

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 (SAB 108) regarding the quantification of financial statement misstatements. SAB 108 requires a “dual approach” for quantifications of errors consisting of "the roll-over method" and the "iron curtain method". The roll-over method focuses primarily on the impact of a misstatement on the income statement—including the reversing effect of prior year misstatements and the iron-curtain method, on the other hand, focuses primarily on the effect of correcting the period-end balance sheet with less emphasis on the reversing effects of prior year errors on the income statement.
EDAP adopted the provisions of SAB 108 for the year ended December 31, 2006. The adoption of this standard did not have a material impact on EDAP.

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

2—CASH EQUIVALENTS AND SHORT TERM INVESTMENTS

Cash and cash equivalents are comprised of the following:

	December 31,	
	2006	2005
Total cash and cash equivalents	9,894	8,317
Short term investment	1,031	-
Total cash and short term investments	10,925	8,317

3—TRADE ACCOUNTS AND NOTES RECEIVABLE, NET

Trade accounts and notes receivable consist of the following:

	December 31,	
	2006	2005
Trade accounts receivable	10 631	9 281
Notes receivable	192	151
Less: allowance for doubtful accounts	(681)	(663)
Total	10 142	8 769

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

4—OTHER RECEIVABLES

Other receivables consist of the following:

	December 31,	
	2006	2005
Value-added taxes receivable	420	521
Research and development tax credit receivable from the French State	111	64
Other receivables from the French State	52	31
Others	149	234
Total	732	850

Research and development tax credits can be used to offset income taxes due during the three years following the year in which the credits were recorded. Any balance of receivable at the end of this three-year period will be reimbursed by the French State.

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

5—INVENTORIES

Inventories consist of the following:

	December 31,	
	2006	2005
Components, spare parts	3 678	3 759
Work-in-progress	495	369
Finished goods	521	1 196
Total gross inventories	4 694	5 324
Less: provision for slow-moving inventory	(928)	(874)
Total	3 766	4 450

The provision for slow moving inventory essentially concerns the components and spare parts. The allowance for slow moving inventory, which is classified as a cost of sales, amounted to €388 thousand, €386 thousand and €252 thousand for the years ended December 31, 2006, 2005 and 2004, respectively.

6—PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following:

	December 31,	
	2006	2005
Equipment	6 690	5 852
Furniture, fixture, and fittings and other	2 341	2 280
Total gross value	9 031	8 132
Less: accumulated depreciation and amortization	(5 820)	(5 002)
Total	3 211	3 130

Depreciation and amortization expense related to property and equipment amounted to €1,200 thousand, €1,145 thousand and €934 thousand for the years ended December 31, 2006, 2005 and 2004, respectively.

Capitalized costs on assets held under capital leases of €1,557 thousand and €1,297 thousand are included in property and equipment at December 31, 2006 and 2005, respectively. Accumulated amortization of these assets leased to third parties was €828 thousand and €550 thousand, at December 31, 2006 and 2005, respectively. Amortization expense on assets held under capital leases is included in total amortization expense and amounted to €277 thousand, €267 thousand and €217 thousand for the years ended December 31, 2006, 2005 and 2004, respectively.

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

7—GOODWILL AND INTANGIBLE ASSETS

As discussed in Note 1-11, the Company adopted SFAS 142, ''Goodwill and Other Intangible Assets'', on January 1, 2002. SFAS 142 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 SFAS 131 operating segment — High Intensity Focused Ultrasound (HIFU) and Urology Devices and Services (UDS) — to be its reporting units for purposes of testing for impairment, as the components within each operating segment have similar economic characteristics and thus do not represent separate reporting units. Goodwill amounts to €1,767 thousand for the UDS division and to €645 thousand for the HIFU division, at December 31, 2006.

The Company completed the required annual impairment test in the fourth quarter of 2006. 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%, (iii) a residual value based on a multiple of Profit Before Tax (PBT) 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.

Intangible assets consist of the following:

	December 31,	
	2006	**2005**
Licenses	486	443
Tradename and trademark	540	585
Patents	412	412
Organization costs	363	363
Total gross value	1 801	1 803
Less: accumulated amortization	(1 730)	(1 717)
Total	71	86

Amortization expenses related to intangible assets amounted to €57 thousand, €57 thousand and €71 thousand, for the years ended December 31, 2006, 2005 and 2004, respectively.

For the two coming years, the annual estimated amortization expense for intangible assets will be approximately €60 thousand.

8—TRADE ACCOUNTS AND NOTES PAYABLE

Trade accounts and notes payable consist of the following:

	December 31,	
	2006	**2005**
Trade accounts payable	3 987	3 532
Notes payable	731	773
Total	4 718	4 305

Trade accounts payable usually represent invoices with a due date of 90 days or less.

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

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

9—DEFERRED REVENUES

Deferred revenues consist of the following :

	December 31,	
	2006	2005
Deferred revenues on maintenance contracts	447	375
Deferred revenue on RPP	67	-
Deferred revenue on sale of devices	627	645
Deferral of the gain on sale-lease-back transactions	141	189
Total	1 282	1 210
Less long term portion	613	439
Current portion	669	771

10—OTHER ACCRUED LIABILITIES

Other accrued liabilities consist of the following:

	December 31,	
	2006	2005
Provision for warranty costs	700	700
Value added tax payable	580	543
Accruals for social expenses	344	348
Conditional government subsidies	588	398
Advance from debtors	11	29
Retirement indemnities	20	
Others	215	287
Total	2 458	2 305

Changes in the provision for warranty costs are as follows:

	December 31,	
	2006	2005
Beginning of year	700	660
Amount used during the year (payments)	(483)	(477)
New warranty expenses	483	517
End of year	700	700

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

11—LEASE OBLIGATIONS

11-1 Capital leases

The Company leases certain of its equipment under capital leases. At December 31, 2006, this equipment consists of medical devices for an amount of €1,051 thousand and vehicles for an amount of €81 thousand. Future minimum lease payments under capital leases for the years ending December 31, are as follows:

	December 31, 2006
2007	491
2008	341
2009	254
2010	99
Thereafter	61
Total minimum lease payments	1246
Less: amount representing interest	(114)
Present value of minimum lease payments	1132
Less: current portion	436
Long-term portion	696

Interest paid under capital lease obligations was €48 thousand, €28 thousand, and €19 thousand for the years ended December 31, 2006, 2005, and 2004, respectively.

11-2 Operating leases

As of December 31, 2006, 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 and several leases for facilities in Japan. The French lease contract has a lease term of nine years expiring at the option of the lessee at the end of a first four-year period, then a two-year and finally a three-year period, through 2011 (i.e., in 2006, 2008 or 2011).

Future minimum lease payments for these operating leases consist of the following amounts, unless leases are otherwise cancelled by the lessees:

	TMS	Japan
2007	267	185
2008	267	118
2009	-	-
Total	533	303

Total rent expense under operating leases amounted to €689 thousand, €703 thousand and €899 thousand for the years ended December 31, 2006, 2005 and 2004, 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.

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

12—SHORT-TERM BORROWINGS

As of December 31, 2006, short-term borrowings consist of €430 thousand of account receivables factored and for which the Company is supporting the risk of uncollectibility and loans in euros amounting to €878 thousand with the following conditions:

	Amount	Maturation	Interest rate
TMS SA	103	December 21, 2007	Euribor + 0,5%
EDAP SA	517	June 29, 2007	Euribor + 0,5%
EDAP SA	103	September 28, 2007	Euribor + 0,5%
EDAP SA	155	December 21, 2007	Eonia + 0,5%
Total	878		

As of December 31, 2005, short-term borrowings consist of a loan in euros amounting to €155 thousand due to mature on December 20, 2006 at an annual variable rate based on Eonia +0.5% and €744 thousand of account receivables factored and for which the Company is supporting the risk of uncollectibility.

13—LONG-TERM DEBT

Long-term debt consists of the following:

	December 31,	
	2006	2005
Japanese yen term loan	49	202
Italy	132	-
Total	181	202
Less current portion	(123)	(147)
Total long-term portion	58	55

Long-term debt at December 31, 2006 matures as follows:

2007	123
2008	58
Total	181

As of December 31, 2006, long-term debt consist of a loan in Japanese yen amounting to JPY 28.1 million (€179 thousand) with a 2.4% interest rate, due to mature on May 11, 2007; and a loan in euro amounting to €150 thousand with a quarterly variable interest rate based on Euribor + 1.375%, due to mature on September 18, 2008.

14—OTHER LONG-TERM LIABILITIES

Other long-term liabilities consist of the following:

	December 31,	
	2006	2005
Provision for retirement indemnities	577	469
Other	303	106
Total	880	575

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, certain subsidiaries within the Company have defined benefit retirement indemnity plans in place. The provision for retirement indemnities at December 31, 2006 represents an accrual for lump-sum retirement indemnity payments to be paid at the time an employee retires. The largest part of this liability relates to employees in France. This provision has been calculated taking into account the estimated payment at retirement (discounted to the current date), turnover and salary increases. Calculations have been performed by an actuary consultant.

The actuarial assumptions as of year-end are as follows:

	Pension Benefits – France		
	2006	**2005**	**2004**
Weighted average assumptions:			
Discount rate	4.50%	4.00%	4.50%
Salary increase	2.00%	2.00%	2.00%
Retirement age	65	65	65
Average retirement remaining service period	26	27	26

	Pension Benefits – Japan		
	2006	**2005**	**2004**
Weighted average assumptions:			
Discount rate	1.75%	1.50%	1.50%
Salary increase	1.80%	1.80%	1.80%

The reconciliation between projected benefit obligations and the accumulated benefit obligations is as follows as of December 31, 2006 (in thousands of euros):

	France	**Japan**
Projected benefit obligation	218	239
Normal cost	21	31
Accumulated benefit obligation	152	208

Provision presentation according to FAS 158 :

Non current liabilities	**France**	**Japan**
Current liabilities	212 769	223 914
Non current asset	4 945	15 488
Accumulated other comprehensive income		
Total	17 716	(101 654)
	235 430	137 748

Detailed reconciliation of pension cost components (in thousands of euros) during fiscal year ending December 31, 2006:

France	2006	2005	2004
Change in benefit obligations			
Benefit obligations at beginning of year	229	132	155
Service cost	23	17	19
Interest cost	9	6	7
Plan amendments	-	-	-
(gain) / loss	(44)	74	(49)
Benefits paids	-	-	-
Benefit obligations at end of year	**218**	**229**	**132**
Change in plan assets			
Fair value of plan assets at beginning of year	-	-	-
Employer contribution	-	-	-
Return on plan assets	-	-	-
Benefits paid	-	-	-
Fair value of plan assets at end of year			
Unrecognized actuarial (gain) loss	(17)	27	(49)
Unrecognized prior service cost	-	-	-
Accrued pension cost	**235**	**202**	**181**

JAPAN	2006	2005	2004
Change in benefit obligations			
Benefit obligations at beginning of year	262	217	140
Service cost	32	35	-
Interest cost	3	3	-
Plan amendments	-	-	-
Termination benefits	-	-	25
(gain) / loss	(3)	7	136
Benefits paids	(25)	-	(84)
Exchange rate impact	(30)		
Benefit obligations at end of year	**239**	**262**	**217**
Change in plan assets			
Fair value of plan assets at beginning of year	-	-	-

Employer contribution	-	-	-
Return on plan assets		-	-
Benefits paid		-	-
Fair value of plan assets at end of year			
Unrecognized actuarial (gain) loss	101	130	136
Unrecognized prior service cost	0	0	0
Accrued pension cost	**138**	**132**	**81**

15—SHAREHOLDERS' EQUITY

15-1 Common stock

As of December 31, 2006, EDAP TMS S.A.'s common stock consisted of 9,324,497 issued shares, fully paid, and with a par value of €0.13 each. 8,817,007 of the shares were outstanding.

15-2 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.

15-3 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. Distributable statutory retained earnings amounted to €26,438 thousand and €22,906 thousand at December 31, 2006 and 2005, respectively. Dividend distributions, if any, will be made in euros. The Company has no plans to distribute dividends in the foreseeable future.

15-4 Treasury stock

As of December 31, 2006, the 507,490 shares of treasury stock consisted of (i) 105,150 shares acquired on December 2, 1996 for €418 thousand, (ii) 352,800 shares acquired between August and December 1998 for €1,016 thousand, and (iii) 49,540 shares acquired in June and July 2001 for €150 thousand. All 507,490 shares of treasury stock have been acquired to cover outstanding stock options (see Note 15-5).

15-5 Stock-option plans

As of December 31, 2006, EDAP TMS S.A. sponsored six stock purchase and subscription option plans:

On December 2, 1996, the shareholders of EDAP TMS S.A. authorized the Board of Directors to grant up to 177,750 options to purchase pre-existing Shares and 156,625 options to subscribe for newly issued Shares at a fixed exercise price of €6.97 per share. The authorization to grant the options expired at the end of the five-year period beginning December 2, 1996. On February 7 and March 3, 1997, the Board of Directors granted the 177,750 options to buy pre-existing Shares and 134,750 of the options to subscribe for newly issued Shares to 10 employees. 25% of the options were exercisable as of the date of grant and the right to exercise the remaining 75% of the options vested at the rate of 25% each January 1 following the date of grant. The options expired five years after the date of grant. On October 29, 1998, the Board of Directors amended the terms of 124,125 of the options to conform to the terms of the 1998 option plan discussed below.

On May 14, 1998, the shareholders of EDAP TMS S.A. authorized the Board of Directors to grant up to 713,425 options to purchase pre-existing Shares at a fixed exercise price to be set by the Board of Directors at the time of grant provided that the exercise price may not be less than the average stock market price of the Shares over the 20 business days preceding the date of grant. The shareholders also authorized the Board of Directors to cause EDAP TMS S.A. to repurchase up to 535,675 of its own Shares (treasury stock) to cover the options granted under the new plan. The authorization to grant the options expired one year after the completion of the share repurchase program, which was completed in December 1998. Up to 279,000 of the 713,425 options were reserved for modifications to the terms of pre-existing options.

On October 29, 1998, the Board of Directors granted 327,000 options to French employees meeting certain tenure criteria. The exercise price was fixed at €3.81 per Share for 152,000 options and €1.83 per Share for 175,000 options; both exercise prices were not less than the average stock market price of the Shares over the 20 business days preceding the date of grant and also exceeded the market price of the Shares on the date of grant. The options were to begin vesting two years after the date of grant and were fully vested as of January 1, 2002 (i.e., four years and two months after the date of grant). Shares acquired pursuant to the options cannot be sold prior to five years from the date of grant. The options expire on December 31, 2008 (i.e., ten years and two months after the date of grant) or when employment with the Company ceases, whichever occurs earlier. As noted above, on October 29, 1998, the Board of Directors amended the terms of 124,125 of the options granted in 1997 to conform to the terms of the 1998 stock option plan.

Conforming to the 1998 stock option plan, on January 4, 1999, the Board of Directors granted 24,000 options to French employees meeting certain tenure criteria. The exercise price was fixed at €3.81 per Share for 11,000 options and €1.83 per Share for 13,000 options. The options were to begin vesting two years after the date of grant and were fully vested as of January 1, 2002 (i.e., three years after the date of grant). Shares acquired pursuant to the options cannot be sold prior to five years from the date of grant. The options expire on December 31, 2008 (i.e., ten years after the date of grant) or when employment with the Company ceases, whichever occurs earlier. On March 15, 1999, the Board of Directors granted 60,000 options to certain employees of the Company; 40,000 options were granted with an exercise price of €3.81 and 20,000 options at an exercise price of €2.74. Exercise prices corresponding to options granted on these two dates were not less than the average stock market price of the Shares over the 20 business days preceding the date of grant. Among these options granted on March 15, 1999: 50,000 were to begin vesting two years after the date of grant and were fully vested as of June 1, 2002 (i.e. three years and two and half months after the date of grant); Shares acquired pursuant to the options cannot be sold prior to five years from the date of grant; 40,000 options expire on March 31, 2009 (i.e. ten years after the date of grant) and 10,000 options expire on December 31, 2009 (i.e. ten years and nine months after the date of grant) or when employment with the Company ceases, whichever occurs earlier. For the remaining 10,000 options, granted on March 15, 1999, 50% of the options are exercisable as of the date of grant and the right to exercise the remaining 50% of the options vested at the rate of 25% each January 1 following the date of grant. The options expired on December 31, 2003 (i.e., four years and nine months after the date of grant).

On September 27, 1999, the Board of Directors decided to grant 2,425 options to certain employees of the Company at an exercise price of €1.83, which is not less than the average stock market price of the Shares over the 20 business days preceding the date of grant. The options were to begin vesting two years after the date of grant and were fully vested as of January 1, 2003 (i.e., three years and three months after the date of grant). Shares acquired pursuant to the options cannot be sold prior to five years from the date of grant. The options expire on December 31, 2009 (i.e., ten years and three months after the date of grant) or when employment with the Company ceases, whichever occurs earlier.

On June 12, 2001, the shareholders of EDAP TMS S.A. authorized the Board of Directors to grant up to 300,000 options to purchase pre-existing Shares and 80,000 options to subscribe to new Shares, at a fixed exercise price to be set by the Supervisory Board. Conforming this plan, on September 25, 2001, the Board of Directors granted 307,115 options to purchase Shares (among which 33,540 options were related to the plan authorized by the shareholders on June 24, 1999) and granted 80,000 options to subscribe to new Shares to employees of the Company meeting certain tenure criteria. The exercise price was fixed at U.S.$1.92 (€2.08) per share. Options were to begin vesting one year after the date of grant and will be fully vested as of September 25, 2005. Shares acquired pursuant to the options cannot be sold prior to four years from the date of grant. The options expire on September 25, 2011 (i.e., ten years after the date of grant) or when employment with the Company ceases, whichever occurs earlier.

On March 21, 2002, a Member of the Management Board exercised his option to subscribe to 47,421 new Shares (out of the 86,885 options to subscribe to new Shares authorized on June 24, 1999) at an exercise price of U.S.$1.561 (€1.76). The capital of the Company was thus increased from €1,081 thousand to €1,087 thousand and the number of Shares issued increased from 8,315,400 to 8,362,821.

On June 18, 2002, conforming the June 12, 2001 stock option plan, the Board of Directors granted the remaining 26,425 options to French employees meeting certain tenure criteria. The exercise price was fixed at U.S.$1.92 (€2.02) per share. Options were to begin vesting one year after the date of grant and will be fully vested as of June 18, 2006 (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 18, 2012 (i.e., ten years after the date of grant) or when employment with the Company ceases, whichever occurs earlier. All Shares that may purchased through the exercise of stock options are currently held as treasury stock.

On January 29, 2004, the shareholders of EDAP TMS S.A. authorized the Board of Directors to grant up to 240,000 options to purchase pre-existing Shares and 100,000 options to subscribe to new Shares, to employees of the Company meeting certain tenure criteria, at a fixed exercise price to be set by the Board of Directors.

Conforming this stock option plan, on February 24, 2004, the Board of Directors granted 225,000 options to purchase pre-existing Shares to certain employees of EDAP TMS. The exercise price was fixed at €2.60 per share. Options were to begin vesting one year after the date of grant and will be fully vested as of February 24, 2008 (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 February 24, 2014 (i.e., ten years after the date of grant) or when employment with the Company ceases, whichever occurs earlier. All Shares that may be purchased through the exercise of stock options are currently held as treasury stock.

On February 24, 2004, the Board of Directors granted 100,000 options to subscribe to new Shares to the Chief Executive Officer of EDAP S.A. and TMS S.A. The exercise price was fixed at €1.28 per share. All options were to begin vesting one year 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 February 24, 2014 (i.e., ten years after the date of grant) or when employment with the Company ceases, whichever occurs earlier.

On January 28, 2005, the Board of Directors granted 15,000 options to purchase pre-existing Shares to certain employees of EDAP TMS. The exercise price was fixed at €2.78 per share. 3,750 options were to begin vesting on December 31, 2005 and 11,250 on December 31, 2006. The options expire on January 28, 2015 (i.e., ten years after the date of grant) or when employment with the Company ceases, whichever occurs earlier. All Shares that may be purchased through the exercise of stock options are currently held as treasury stock.

On February 17, 2005, the shareholders of EDAP TMS S.A. authorized the Board of Directors to grant up to 625,000 free shares to be issued to certain employees of the Company, subject to compliance with the conditions and performance criteria fixed by the Board of Directors. On March 30, 2005, 500,900 rights to subscribe to free shares were granted to by the Board of Directors, based on certain performances and criteria to be met for years 2005 and 2006. However, given the shift of business model, during 2005, from the sales of Ablatherm equipment towards the sales of treatment procedures (RPPs), the Board of Directors decided to modify the conditions and performance criteria to be met by employees, to reflect the new business model. Therefore, on January 6, 2006, the Board of Directors cancelled the Free Performance Share Plan approved on March 30, 2005 and set up a new Plan with performance criteria based on the new RPP business model for years 2006 and 2007, in accordance with the Performance Stock plan approved by the shareholders. On January 6, 2006, 564.100 rights to subscribe to new shares were distributed, including new entrants, subject to the achievement of certain milestones in the years 2006 and 2007. On July 3, 2006, 13,800 rights to subscribe to new shares were distributed to new entrants, subject to the achievement of certain milestones in the years 2006 and 2007. As of December 31, 2006, none of the milestones for the

year 2006 have been reached. As of December 31, 2006, only 524,900 rights were still in force due to employees departure. This plan is accounted for in compliance with FASB 123-(R).

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

As of December 31, 2006, a summary of stock option activity to purchase or to subscribe to Shares under these plans is as follows:

	2006		2005		2004	
	Options	Weighted average exercise price (€)	Options	Weighted average exercise price (€)	Options	Weighted average exercise price (€)
Outstanding on January 1,	593,262	2.50	580,262	2.49	391,262	2.68
Granted			15,000	2.78	325,000	2.19
Exercised	(72,600)	3,20	(1,000)	1.62	0	
Forfeited	(18,500)	2,60	(1,000)	3.81	(136,000)	2.34
Expired	-	-	-	-	-	-
Outstanding on December 31,	502,162	2.38	593,262	2.50	580,262	2.49
Exercisable on December 31,	405,162	2,73	409,652	2.45	219,547	2.99
	0	-	0	-	0	-

Shares purchase options available for grant on December 31

The following table summarizes information about options to purchase Shares already held by the Company as treasury Shares, or to subscribe to new Shares, at December 31, 2006:

	Outstanding options			Exercisable options	
Exercise price (€)	Options	Weighted average remaining contractual life	Weighted average exercise price (€)	Options	Weighted average exercise price (€)
3.81	71,525	1.5	3.81	71,525	3.81
2.78	15,000	8.1	2.78	15,000	2.78
2.60	200,000	7.2	2.60	103,000	2.60
2.08[(1)]	93,000	5.0	2.08	93,000	2.08
2.02[(2)]	12,425	5.5	2.02	12,425	2.02
1.83	10,212	2.5	1.83	10,212	1.83
1.28	100,000	7.2	1.28	100,000	1.28
1.28 to 3.81	502,162	5.9	2.39	405,162	2.34

(1) All the 93,000 options were granted on September 25, 2001 with an exercise price expressed in U.S. dollars ($1.92) and converted here to euros based on the noon buying rate on September 25, 2001 ($1 = € 1.085).

(2) All the 12,425 options were granted on June 18, 2002 with an exercise price expressed in U.S. dollars ($1.92) and converted here to euros based on the noon buying rate on June 18, 2002 ($1 = € 1.0545).

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

15-6 Warrants granted to certain employees

As of December 18, 2002, the shareholders of two of the Company's wholly owned and fully consolidated subsidiaries, TMS S.A. and EDAP S.A., authorized the respective Boards of Directors to grant certain Senior Executive Officers warrants to subscribe to an aggregate of 604,538 new shares of TMS S.A.'s and EDAP S.A.'s common stock. The average exercise price of such warrants is equivalent to the higher of either (a) the share value of the capital of each company or (b) the net book value, each such amount to be calculated on the date of exercise. Following the resignation of the President of EDAP S.A. in November 2003, outstanding warrants allow the current President of each divisions, to subscribe to an aggregate of 252,111 new shares of each of TMS S.A.'s and EDAP S.A.'s common stock. The total number of warrants granted, if exercised, would represent 3.6% and 2.6% of the respective share capital of TMS S.A. and EDAP S.A. after subscription. These warrants begin vesting three years after their date of grant, i.e. December 18, 2005. These warrants to subscribe to shares expire on the earlier of December 18, 2007 or when employment with the Company ceases. A compensation charge has been booked for an amount of €0 thousand as at December 31, 2006, €115 as at December 31, 2005 and €0 as at December 31, 2004.

16—NET SALES

Net sales consist of the following:

	2006	2005	2004
Sales of goods	10,849	12,198	13,823
Sales of RPPs & Leases	3,805	3,146	2,986
Sales of spare parts & services	5,520	5,606	5,320
Total sales	20,174	20,952	22,129
Warrants granted	-	(235)	(174)
Total net sales	20,174	20,717	21,955

Warrants

On February 25, 2004, the Company entered into a distribution agreement with HealthTronics granting it, among other things, (i) the right to begin clinical trials in the U.S. with the Ablatherm, (ii) the right to seek PMA for the Ablatherm from the FDA and (iii) exclusive Ablatherm distribution rights in the United States, when and if a PMA is granted. Under the terms of the distribution agreement, the Company also agreed to grant HealthTronics 1 million warrants on January 28, 2005, each entitling HealthTronics to purchase a share of the Company at a price of U.S.$1.50 upon their vesting. The distribution agreement allows HealthTronics to exercise specified numbers of warrants as it meets various specified milestones set out in the distribution agreement, some of which relate to HealthTronics's commitment to purchase a specified number of lithotripter units and others which relate to completion of various stages of the clinical trials and the regulatory process leading to the PMA for the Ablatherm.

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

In accordance with EITF 96-18, the company accounts for the warrants issued to HealthTronics under the distribution agreement based upon the fair value of the warrants, measured at the date of milestone achievement, as there is no performance obligation from HealthTronics. The related amount, which is a non-cash charge, is then recorded as a reduction of revenue. On December 29, 2005, HealthTronics, through its subsidiary, and EDAP TMS entered into an amendment to the distribution agreement. HealthTronics wishes to focus its efforts on obtaining the PMA for Ablatherm and on developing the HIFU market potential on the US territory, and does not want to pursue the distribution of EDAP's lithotripters in the US, therefore the parties decided to amend the terms and conditions of the contract. From then, no more warrants were directly linked to the purchase of additional lithotripters and revenues from the sales of lithotripters have not been impacted by warrants.

The non-cash charge of €235 thousand recorded for 2005 related to a series of warrants is linked to HealthTronics's purchase of two lithotripters and one Ablatherm in 2005, in accordance with the terms of the Amendment to the distribution agreement dated December 29, 2005.

17—OTHER REVENUES

Other revenues consists of the following:

	2006	2005	2004
Royalties	-	47	163
Grants and others	91	46	45
Total	91	93	208

In 2006, EDAP SA received grants of €45 thousand from ANVAR a French government agency.

TMS S.A. and EDAP S.A. received grants of €6 thousand in 2005 and €25 thousand in 2004, from the French Ministry of Research and Development.

18—OPERATING EXPENSES

Operating expenses include bad debt expenses amounting to €86 thousand, €274 thousand and €204 thousand, for the years ended December 31, 2006, 2005, and 2004. These operating expenses also include allowance for slow moving inventory which is classified as cost of goods sold and amounts to €388 thousand, €386 thousand and €252 thousand for the years ended December 31, 2006, 2005 and 2004 respectively.

In 2006, the Company recorded non recurring expenses of €0.3 million including €0.2 million of employee termination expenses and €0.1 million of capital increase expenses.

In 2004, following the Company’s decision in 2003 to reduce headcount in both divisions, the Company recorded non-recurring expenses of €0.3 million, including €0.2 million of employee termination expenses.

19—INTEREST INCOME, NET

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

	2006	2005	2004
Interest income	224	187	146
Interest expense	(71)	(52)	(75)
Total	153	135	71

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

20—OTHER INCOME (EXPENSE), NET

Other income (expense), consists of the following:

	2006	2005	2004
Other income (expense), net	(5)	9	(74)
Total	(5)	9	(74)

21—INCOME TAXES

21-1 Loss before income taxes

Loss before income taxes is comprised of the following:	2006	2005	2004
France	(2,990)	(755)	(361)
Other countries	(385)	(206)	(510)
Total	(3,375)	(961)	(871)

21-2 Income tax (expense)/ benefit

Income tax (expense)/benefit consists of the following:	2006	2005	2004
Current income tax expense:			
France	4	38	6
Other countries	(69)	(57)	(29)
Sub-total current income tax expense	(65)	(19)	(23)
Deferred income tax (expense) benefit:			
France	72	(90)	(255)
Other countries	(63)	5	-
Sub-total deferred income tax (expense) benefit	*9*	*(85)*	*(255)*
Total	(56)	(104)	(278)

21-3 Deferred income taxes:

Deferred income taxes reflect the impact of temporary differences between the amounts of assets and liabilities reported for financial reporting purposes and such amounts as measured in accordance with tax laws. The tax effect of temporary differences which give rise to significant deferred tax assets (liabilities) are as follows:

	December 31,	
	2006	2005
Elimination of intercompany profit in inventory	169	212
Other items	540	431
Net operating loss carryforwards	6,874	5,941
Total deferred tax assets	7,583	6,584
Capital leases treated as operating leases for tax	(38)	(9)
Exit tax	(81)	(161)
Other items	(224)	(198)
Total deferred tax liabilities	(343)	(368)
Net deferred tax assets	7,240	6,216
Valuation allowance for deferred tax assets	(7,156)	(6,223)
Deferred tax assets (liabilities), net of allowance	84	(7)

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

Net operating loss carryforwards of €1,889 thousand, €1,801 thousand, €1,910 thousand, €230 thousand, €739 thousand and €13,507 thousand as of December 31, 2006 are available at EDAP Technomed Inc., TMS S.A., EDAP S.A., Edap Technomed Italia S.R.L.,Edap Technomed Co Ltd Japan and EDAP TMS S.A., respectively. These net operating losses generate deferred tax assets of €6,874 thousand. Realization of these assets is contingent on future taxable earnings in the applicable tax jurisdictions. As of December 31, 2006, €6,486 thousand out of these €6,874 thousand net operating loss carry-forwards have no expiration date. The remaining tax loss carry-forwards expire in years 2007 through 2013. In accordance with SFAS No. 109, a valuation allowance is recorded as realization of those amounts are not considered probable.

Deferred taxes have not been provided on the undistributed earnings of domestic subsidiaries as these earnings, with the exception of the earnings of TMS S.A., which benefited from the tax exemption, can be distributed tax-free to EDAP TMS S.A. The tax exempted earnings of TMS S.A. would normally be taxable if distributed to EDAP TMS S.A. via dividends. However, no taxes will be due if the Company first incorporates these earnings into statutory capital and then makes a distribution via a statutory capital reduction (redemption). As the Company intends on implementing this tax planning opportunity in the event a distribution were to be made, no deferred taxes have been provided on these earnings.

In 2006 and 2005, the Company recorded a corporate income tax benefit of €0.1 million, principally reflecting income tax with respect to the results of various subsidiaries. In 2004, the Company recorded a corporate income tax benefit of €0.3 million, principally reflecting income tax with respect to the results of various subsidiaries and an exceptional exit tax in France of 2.5% (which was enacted in compensation for the phase-out of capital gains tax on participation shares). In 2004, the Company has booked a deferred tax liability amounting to €161 thousand related to this exit tax. In 2006 half of this amount has been paid, and the last installment will be paid in 2007, pursuant to the Amended Finance Law of 2004, dated December 30, 2004.

21-4 Effective tax rate

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

	2006	2005	2004
French statutory rate	33.8%	33.8%	34.3%
Research and development tax credit	1.4%	7.6%	
Income of foreign subsidiaries taxed at different tax rates	1.3%	1.5%	1.9%
Effect of net operating loss carryforwards and valuation Allowances	(27.6%)	(22.5%)	(31.4%)
Non deductible entertainment expenses	(1.4%)	(4.9%)	(2.6%)
Other	(9.1%)	(27.7%)	(34.1%)
Effective tax rate	(1.6%)	(12.2%)	(31.9%)

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

22—EARNINGS (LOSS) PER SHARE

A reconciliation of the numerators and denominators of the basic and diluted EPS calculations for the years ended December 31, 2006, 2005 and 2004 is as follows:

	For the year ended Dec. 31, 2006			For the year ended Dec. 31, 2005			For the year ended Dec. 31, 2004		
	Loss in euro (Numerator)	Shares (Denominator)	Per-Share Amount)	Loss in euro (Numerator)	Shares (Denominator)	Per-Share Amount	Loss in euro (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS									
Loss available to common Shareholders	(3,430,985)	8,817,007	(0.39)	(1,065,375)	7,782,731	(0.14)	(1,148,792)	7,781,731	(0.15)
Effect of dilutive securities:									
Stock options		740,526			590,843			292,479	
Diluted EPS									
Loss available to common shareholders, Including assumed Conversions	(3,430,985)	9,557,533	(0.39)	(1,065,375)	8,373,574	(0.14)	(1,148,792)	8,074,210	(0.15)

23—COMMITMENTS AND CONTINGENCIES

23-1 Commitments

The Company currently has commitments regarding its operating leases as described in Note 11- 2.

23-2 Litigation

To date, the Company is a party to two product liability actions in the United States by patients claiming to have been injured in the course of a Prostatron procedure. The Company has agreed to retain liability for these two cases following the sale of the Prostatron business in October 2000. However, in one of the two cases, the Company believes that it may be able to claim indemnification from Urologix. The Company believes that the patients' claims against the Company are without merit. While it is not possible to predict the outcome of legal actions brought against the Company, the Company believes that the liability resulting from the pending claims and suits would not have a material adverse effect on the results of its operations, cash flows, or financial position as of December 31, 2006, and for the year then ended.

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

24—FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosure of the estimated fair value of financial instruments was made in accordance with the requirements of SFAS No. 107 ‘‘Disclosure about fair value of financial instruments.’’ The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. The estimates of fair values of the Company’s financial instruments are compared below to the recorded amounts at December 31, 2006 and 2005.

	December 31,		December 31,	
	2006 Recorded Value	2006 Estimated Fair Value	2005 Recorded Value	2005 Estimated Fair Value
Assets:				
Cash and cash equivalents	9,894	9,894	8,317	8,317
Trade accounts and notes receivable, net (1)	10,142	10,142	8,769	8,769
Short term investment	1,031	1,031	-	-
Liabilities:				
Short-term borrowings	1,308	1,308	155	155
Trade accounts payable	3,987	3,987	3,532	3,532
Notes payable	731	731	773	773
Long-term debt	58	54	55	53

(1) Certain prior years amounts have been reclassified to conform to the current year’s presentation

The recorded amount of cash and cash equivalents, restricted short term investment, investments available for sale, trade accounts and notes receivable (drafts), short-term borrowings, and trade accounts and notes payable (drafts) are a reasonable estimate of their fair value due to the short-term maturities of these instruments.

Fair value of long-term debt is estimated based on borrowing rates currently available to the Company for loans with similar terms and maturities.

25—CONCENTRATION OF CREDIT RISK

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and cash equivalents and trade accounts and notes receivable from customers, primarily located in France, Japan and the United States. The Company maintains cash deposits with major banks. Management periodically assesses the financial condition of these institutions and believes that any possible 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 €0.7 million as of December 31, 2006 and 2005. Ultimate losses may vary from the current estimates, and any adjustments are reported in earnings in the periods in which they become known.

In 2006 and 2005, the Company did not generate significant revenue with a single customer.

26—FOREIGN CURRENCY TRANSACTIONS

The Company generates a significant percentage of its revenues, and of its operating expenses, in currencies other than euro. The Company's operating profitability could be materially adversely affected by large fluctuations in the rate of exchange between the euro and such other currencies. The Company engages in foreign exchange hedging activities when it deems necessary, but there can be no assurance that hedging activities will be offset by the impact of movements in exchange rates on the Company's results of operations. As of December 31, 2006, there were no outstanding hedging instruments

27—SEGMENT INFORMATION

In July of fiscal year 2002, the Company announced an organizational realignment that created two operating divisions within the Company. For reporting purposes, this organizational realignment created three reporting segments: the holding company, EDAP TMS S.A., the High Intensity Focused Ultrasound division and the Urological Devices and Services division. The following tables set forth the key income statement figures, by segment for fiscal years 2006, 2005 and 2004 and the key balance sheet figures, by segment, for fiscal years 2006 and 2005.

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.

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

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 except that interest income and expense, current and deferred income taxes, and goodwill are not allocated to individual segments. A reconciliation of segment operating profit or loss to consolidated net loss is as follows:

	2006	2005	2004
Segment operating loss	(3,094)	(1,323)	(830)
Interest income, net	153	135	71
Foreign Currency exchange (losses) gains, net	(430)	218	(38)
Other income, net	(5)	9	(74)
Income tax (expense) credit	(56)	(104)	(278)
Consolidated net loss	(3,431)	(1,065)	(1,149)

A summary of the Company's operations by business unit is presented below for years ending December 31, 2006, 2005 and 2004:

	HIFU Division	UDS Division	EDAP TMS (Corporate)	Consolidation	Total consolidated
2006					
External sales of medical devices	2,633	5,975			8,608
External sales of spares parts, Supplies & services	4,989	6,578			11,566
Internal segment revenues	12	3,001		(3,013)	
Total sales	7,633	15,554		(3,013)	20,174
Warrants granted					
Total net sales	7,633	15,554		(3,013)	20,174
External other revenues	66	25			91
Internal other revenues	17			(17)	-
Total revenues	7,715	15,579		(3,030)	20,265
Total COS	(3,607)	(11,069)		2,730	(11,946)
Gross margin	4,108	4,511		(300)	8,319
R&D	(1,231)	(1,212)			(2,442)
Selling expenses	(2,475)	(2,146)			(4,621)
G&A	(696)	(1,700)	(1,687)		(4,083)
Non recurring operating expenses			(267)		(267)
Total expenses	(4,402)	(5,057)	(1,954)		(11,413)
Operating income (loss)	(294)	(546)	(1954)	(300)	(3,094)
Total Assets	13,125	20,945	7,857	(9,454)	32,473
Capital expenditures	1,050	515			1,565
Long-lived assets	2,384	3,650	46		6,080
Goodwill	645	1,767			2,412

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

	HIFU Division	UDS Division	EDAP TMS (Corporate)	Consolidation	Total consolidated
2005					
External sales of medical devices	4,260	5,982			10,242
External sales of spares parts, Supplies & services	3,685	7,025			10,710
Internal segment revenues	3	3,185		(3,188)	
Total sales	7,948	16,192		(3,188)	20,952
Warrants granted	(118)	(117)			(235)
Total net sales	7,830	16,075		(3,188)	20,717
External other revenues	14	79			93
Internal other revenues	105	-		(105)	-
Total revenues	7,949	16,154		(3,293)	20,810
Total COS	(3,998)	(11,457)		3,142	(12,313)
Gross margin	3,951	4,697		(151)	8,497
R&D	(1,042)	(742)			(1,784)
Selling expenses	(1,983)	(1,775)			(3,758)
G&A	(791)	(1,937)	(1,550)		(4,278)
Total expenses	(3,816)	(4,454)	(1,550)		(9,820)
Operating income (loss)	135	243	(1,550)	(151)	(1,323)
Total Assets	9,177	22,163	5,620	(8,164)	28,796
Capital expenditures	696	645			1,341
Long-lived assets	2,172	3,787	59		6,018
Goodwill	645	1,767			2,412

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

	HIFU Division	UDS Division	EDAP TMS (Corporate)	Consolidation	Total consolidated
2004					
External sales of medical devices	3,733	8,189			11,922
External sales of spares parts, Supplies & services	2,915	7,291			10,206
Internal segment revenues	287	1,905		(2,192)	
Total sales	6,935	17,385		(2,192)	22,128
Warrants granted		(174)			(174)
Total net sales	6,935	17,211		(2,192)	21,954
Other revenues	34	174			208
Total revenues	6,969	17,385		(2,192)	22,162
Total COS	(3,749)	(12,119)		2,192	(13,676)
Gross margin	3,220	5,266			8,486
R&D	(817)	(706)			(1,523)
Selling expenses	(1,275)	(2,128)			(3,403)
G&A	(659)	(2,221)	(1,193)		(4,073)
Non recurring	(82)	(27)	(208)		(317)
Total expenses	(2,833)	(5,082)	(1,401)		(9,316)
Operating income (loss)	387	184	(1,401)		(830)
Total Assets	7,162	20,334	6,645	(6,256)	27,885
Capital expenditures	287	844	2		1,133
Long-lived assets	1,781	4,048	31		5,860
Goodwill	645	1,767			2,412

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

28—VALUATION ACCOUNTS

	Allowance for doubtful accounts	Slow-moving inventory
Restated balance as of January 1, 2004	526	1,717
Charges to costs and expenses	204	252
Deductions: write-off provided in prior periods	(25)	(1,265)
Restated balance as of December 31, 2004	705	704
Charges to costs and expenses	274	386
Deductions: write-off provided in prior periods	(316)	(216)
Restated balance as of December 31, 2005	663	874
Charges to costs and expenses	86	388
Deductions: write-off provided in prior periods	(68)	(334)
Restated balance as of December 31, 2006	681	928

29—SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Interest and income taxes paid are as follows:

	2006	2005	2004
Income taxes paid (refunds received)	204	(66)	(82)
Interest paid	22	7	19
Interest received	150	119	120

Non-cash transactions:	2006	2005	2004
Capital lease obligations incurred	1,132	859	998

30—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 the Company medical devices installed in Korea for an amount of €61 thousand, €136 thousand and €63 thousand, for 2006, 2005 and 2004 respectively.

Dae You is also acting as an agent to promote the Company's medical devices in South Korea, and receives commissions on sales.

Dae You also purchased medical devices from the Company and operates them in partnership with hospitals or clinics for an amount of €588 thousand, €396 thousand and €401 thousand in 2006, 2005 and 2004 respectively.

As of December, 31 2006, receivables amounted to €73 thousand and payables to €24 thousand. As of December 31, 2005, receivables amounted to €148 thousand and payables to €83 thousand.

The Company purchases certain technological elements to Siemens AG. Total purchases amounted to €444 thousand in 2006, €547 thousand in 2005 and €405 thousand. As of December 31, 2006, payables due to Siemens AG amounted to €18 thousand and as of December 31, 2005, payables due to Siemens AG amounted to €46 thousand.

31—SUBSEQUENT EVENTS

Following the announcement by HealthTronics of its intention not to pursue Ablatherm FDA approval. We are negotiating a Termination Agreement with HealthTronics, which we expect to be signed in the coming weeks.

EXHIBIT 1.1. - BYLAWS

EDAP TMS
Société anonyme au Capital de 1.212.184,61 Euros
Siège Social Parc d'activité La Poudrette Lamartine
4, rue du Dauphiné
69120 Vaulx-en-Velin - France
R.C.S. Lyon B 316 488 204

STATUTS

Portant modifications consécutives à
l'augmentation de capital réalisée suite
au Conseil d'Administration du 27 juillet 2006

TITRE I

FORMATION - OBJET - DENOMINATION SOCIALE

ARTICLE 1 - FORME DE LA SOCIETE

Il existe, entre les propriétaires des actions ci-après créées, et de celles qui pourront l'être ultérieurement, une société anonyme qui est régie par les lois en vigueur et par les présents statuts.

ARTICLE 2 - OBJET

La Société a pour objet :

- La prise de participations financières dans tous groupements, Sociétés ou entreprises, français ou étrangers, créés ou à créer, et ce par tous moyens, notamment par voie d'apports, de souscription ou d'achat d'actions, de parts sociales ou de parts bénéficiaires, de fusion, de sociétés en participation, de groupement, d'alliance ou de commandite ;

- La gestion de ces participations financières ;

- La direction, la gestion, le contrôle et la coordination de ces filiales et participations ;

- Toutes prestations de services administratifs, financiers, techniques ou autres ;

- Et plus généralement, la réalisation de toutes opérations financières, commerciales, industrielles, civiles, mobilières ou immobilières, pouvant se rapporter directement ou indirectement, en totalité ou en partie à l'objet social ou à tous autres objets similaires ou connexes pouvant en favoriser l'extension et le développement.

ARTICLE 3 - DENOMINATION SOCIALE

La dénomination sociale de la Société est :

EDAP TMS

ARTICLE 4 - SIEGE SOCIAL

Le siège social est fixé : Parc d'activité La Poudrette Lamartine - 4, rue du Dauphiné - 69120 Vaulx-en-Velin - France.

Il pourra être transféré en tout endroit du département ou d'un département limitrophe, par simple décision du Conseil d'administration sous réserve de ratification par la plus prochaine Assemblée Générale Ordinaire et, partout ailleurs, en vertu d'une délibération de l'Assemblée Générale Extraordinaire.

Des sièges administratifs, succursales, bureaux et agences pourront être créés en tous lieux par le Conseil d'administration, sans qu'il en résulte une dérogation à l'attribution de juridiction établie par les présents statuts.

ARTICLE 5 - DUREE

La durée de la Société est de soixante (60) années, à compter de la date de l'immatriculation de la Société au Registre du Commerce et des Sociétés, sauf en cas de dissolution anticipée ou de prorogation prévue aux présents statuts.

TITRE II

CAPITAL SOCIAL

ARTICLE 6 - CAPITAL SOCIAL

Le capital social est fixé à la somme de 1.212.184,61 Euros, divisé en 9.324.497 actions, d'une valeur nominale de 0,13 Euro chacune, intégralement libérées.

ARTICLE 7 - AUGMENTATION DU CAPITAL SOCIAL

Le capital social peut être augmenté en une ou plusieurs fois, par la création d'actions nouvelles, en représentation d'apports en nature ou en espèces, par la transformation en actions de réserves disponibles de la Société, ou par tout autre moyen en vertu d'une délibération de l'Assemblée Générale Extraordinaire. Cette Assemblée fixe les conditions de l'émission des nouvelles actions dans le cadre des dispositions légales en vigueur, ou délègue ses pouvoirs à cet effet au Conseil d'administration. Il peut être créé en représentation des augmentations de capital, soit des actions de même type que celles d'origine, soit des actions de tout autre type, pouvant notamment dans les conditions prévues par la loi, conférer un droit de priorité ou un avantage quelconque sur les autres actions. L e Conseil d'administration a tout pouvoir pour traiter, le cas échéant avec toute banque ou tout syndicat financier pour faciliter ou garantir les émissions d'actions ci-dessus visées, en se conformant à toute disposition légale, notamment en ce qui concerne le droit préférentiel de souscription au profit des actionnaires anciens.

Aucune augmentation de capital en numéraire ne peut toutefois être réalisée, si le capital ancien n'est pas au préalable intégralement libéré. Les augmentations de capital doivent être réalisées dans un délai de cinq ans à compter de l'Assemblée Générale qui les a décidées ou autorisées.

Si l'augmentation du capital a lieu par l'émission d'actions avec prime, cette prime, dont la totalité devra être intégralement versée lors de la souscription des actions ne sera pas considérée comme un bénéfice répartissable au même titre que les bénéfices d'exploitation ; elle constituera un versement supplémentaire en dehors et en sus du capital des actions et appartiendra exclusivement à tous les actionnaires sauf à recevoir l'affectation qui sera décidée par l'Assemblée Générale Ordinaire ou Extraordinaire.

En cas d'augmentation faite par l'émission d'actions libérables en numéraire, et sauf décision contraire de l'Assemblée Générale Extraordinaire, les propriétaires des actions antérieurement créées ayant effectué les versements appelés, auront en proportion du montant de ces actions, un droit de préférence sur la souscription des actions nouvelles, lequel droit s'exercera de la manière et dans le délai déterminé par le Conseil d'administration en conformité avec la Loi, et sera négociable dans les mêmes conditions que les actions pendant la durée de la souscription.

Ceux des actionnaires, qui en raison du nombre de leurs titres, ne pourraient obtenir une action nouvelle ou un nombre entier d'actions nouvelles, auront la faculté de se réunir pour exercer leur droit, mais sans qu'il puisse jamais en résulter une souscription indivise.

ARTICLE 8 - REDUCTION DE CAPITAL

L'Assemblée Générale Extraordinaire peut aussi décider la réduction du capital social, pour quelque cause et de quelque manière que ce soit, notamment au moyen d'un remboursement aux actionnaires d'un rachat d'actions de la Société, ou d'un échange des anciens titres d'actions contre de nouveaux titres, pour un nombre équivalent ou moindre ayant ou non le même montant nominal et, s'il y a lieu, avec l'obligation de cession ou d'achat d'actions anciennes pour permettre l'échange, ou encore avec le paiement d'une soulte.

L'Assemblée Générale peut également déléguer au Conseil d'administration tous pouvoirs à l'effet de réaliser la réduction du capital.

Le projet de réduction du capital est communiqué aux Commissaires aux Comptes, quarante cinq jours au moins avant la réunion de l'Assemblée. L'Assemblée statue sur le rapport des Commissaires qui font connaître leur appréciation sur les causes et conditions de l'opération.

Lorsque la réduction du capital n'est pas motivée par des pertes, les créanciers peuvent, dans le délai de trente jours à compter de la date de dépôt au Greffe du Tribunal de Commerce, du procès-verbal de délibération de l'Assemblée Générale qui a décidé ou autorisé la réduction, former opposition à la réduction. L'opposition est portée devant le Tribunal de Commerce.

TITRE III

ACTIONS

ARTICLE 9 - LIBERATION DES ACTIONS

Lors des augmentations de capital, le montant des actions à souscrire en numéraire doit être libéré du quart au moins au moment de la souscription; le surplus des versements sera effectué dans un délai maximum de cinq ans, à compter du jour où l'augmentation de capital sera devenue définitive, en une ou plusieurs fois, aux époques et dans les proportions qui seront déterminées par le Conseil d'administration. Les appels de fonds seront portés à la connaissance des actionnaires quinze jours au moins avant l'époque fixée pour chaque versement par lettre recommandée.

Le montant des actions de numéraire faisant partie des augmentations de capital pourra être libéré en tout ou partie par voie de compensation avec une dette certaine, liquide et exigible de la Société.

Le Conseil d'administration pourra autoriser à toute époque les actionnaires à se libérer par anticipation du montant non encore appelé de leurs actions.

A défaut pour les actionnaires d'effectuer les versements aux époques déterminées, l'intérêt du montant de ces versements courra de plein droit, pour chaque jour de retard, à raison de 12 % l'an à compter de la date d'exigibilité fixée dans la lettre recommandée prévue ci-dessus, et sans qu'il soit besoin d'une demande en justice ou d'une mise en demeure.

Si dans le délai fixé lors de l'appel de fonds, certaines actions n'ont pas été libérées des versements exigibles, la Société peut un mois après une mise en demeure spéciale et individuelle notifiée à l'actionnaire défaillant, par lettre recommandée ou par acte extra-judiciaire, proposer aux autres actionnaires les actions à libérer par lettre recommandée adressée à chacun d'eux.

Pour mettre en oeuvre ce droit de préemption, le Conseil d'administration devra dès après l'expiration du délai fixé lors de 1'appel de fonds, offrir aux actionnaires les actions à libérer par lettre recommandée adressée à chacun d'eux.

Si plusieurs actionnaires se portent acquéreurs, les actions seront réparties entre eux proportionnellement à leurs droits dans la Société.

Si une telle répartition proportionnelle n'est pas possible, les actions résiduelles sont attribuées par voie de tirage au sort.

Si dans un délai de un mois après que les actionnaires aient été avertis, certaines actions demeurent non libérées, la Société pourra procéder à leur mise en vente dans les conditions prévues dans l'article L. 228-27 du Code de commerce, par le décret du 23 mars 1967, pris pour son application.

La vente des actions est effectuée aux enchères publiques par un agent de change ou par un notaire. A cet effet, la Société publie dans un journal d'annonces légales du département du siège social, trente jours au moins après la mise en demeure prévue à l'alinéa précédent, un avis concernant la vente des actions. Elle avise le débiteur, et le cas échéant, ses co-débiteurs, de la mise en vente par lettre recommandée contenant l'indication de la date et du numéro du journal dans lequel la publication a été effectuée. Il ne peut être procédé à la mise en vente des actions moins de quinze jours après l'envoi de la lettre recommandée.

Le produit net de la vente revient à la Société à due concurrence et s'impute sur ce qui est dû en principal et intérêts par l'actionnaire défaillant et ensuite sur le remboursement des frais exposés par la Société pour parvenir à la vente. L'actionnaire défaillant reste débiteur ou profite de la différence.

A l'expiration du délai prévu au cinquième alinéa ci-dessus, les actions non libérées des versements exigibles cessent de donner droit à l'admission et au vote dans les Assemblées d'actionnaires et sont déduites pour le calcul du quorum. Le droit aux dividendes et le droit préférentiel de souscription sont suspendus. Si l'actionnaire se libère des sommes dues en principal et intérêts, il peut demander le versement des dividendes non prescrits, mais il ne peut exercer une action du chef du droit préférentiel de souscription à une augmentation de capital après expiration du délai fixé pour l'exercice de ce droit.

ARTICLE 10 - FORME ET CONDITIONS DE VALIDITE DES TITRES

Les actions émises par la Société revêtent obligatoirement la forme nominative et sont matérialisées par une inscription en compte par la Société.

Les comptes d’actions sont tenus dans les conditions et selon les modalités prévues par la loi, par la Société ou tout autre mandataire dont le nom ou la dénomination et l'adresse seront publiés au Bulletin des Annonces Légales Obligatoires.

Les comptes d'actions mentionnent :

- les éléments d'identification des personnes physiques ou morales au nom desquels ils ont été ouverts et, le cas échéant, la nature juridique de leurs droits ou les incapacités dont elles sont affectées

- la dénomination, la catégorie, le nombre et, le cas échéant, la valeur nominale des actions inscrites,

- les restrictions dont ces actions peuvent être frappées (nantissement, séquestre, etc .)

Lorsque les actions ne sont pas intégralement libérées à la souscription, les versements sur ces actions sont inscrits en compte et constatés par une attestation.

Chaque action donne droit, dans la propriété de l'actif social à une part proportionnelle au nombre des actions émises. Elle donne droit, en outre, à une part dans les bénéfices, ainsi qu’il est stipulé sous l'article 27 ci-après.

Les actionnaires ne sont responsables que jusqu'à concurrence du montant des actions qu'il possèdent, et, au-delà, tout appel de fonds est interdit. Ils ne peuvent être soumis à aucune restitution d'intérêts ou dividendes régulièrement perçus.

ARTICLE 11 - TRANSMISSION DES ACTIONS

Les actions sont librement négociables dans les conditions fixées par la loi. En cas d'augmentation de capital, les actions sont négociables à compter de la réalisation de celle-ci.

Les actions demeurent négociables après la dissolution de la Société et jusqu'à la clôture de la liquidation.

ARTICLE 12 - INDIVISIBILITE DES ACTIONS - SCELLES

Les actions sont indivisibles à l'égard de la Société. Les copropriétaires indivis d'une action sont tenus à se faire représenter auprès de la Société par une seule personne nommée d'accord entre eux.

Chaque fois qu'il sera nécessaire de posséder plusieurs actions anciennes pour exercer un droit quelconque, et notamment pour exercer le droit de préférence prévu ci-dessus ou encore en cas d'échange ou d'attribution de titre provenant d'une opération telle que : réduction du capital, augmentation du capital par incorporation de réserves, fusion, donnant droit à un titre nouveau contre remise de plusieurs actions anciennes, les titres isolés ou en nombre inférieur à celui requis ne donneront aucun droit à leur porteur contre la Société, les actionnaires ayant à faire leur affaire personnelle du groupement du nombre d'actions nécessaires.

Les héritiers, représentants, ayants-droit ou créanciers d'un actionnaire ne peuvent sous aucun prétexte que ce soit, requérir l'apposition des scellés sur les biens et papiers de la Société, en demander le partage ou la licitation, ni s'immiscer en aucune manière dans son administration; ils doivent, pour l'exercice de leurs droits, s'en rapporter aux inventaires sociaux et aux décisions de 1'Assemblée Générale.

Toutes les actions qui composent ou composeront le capital social seront toujours assimilées les unes aux autres, en ce qui concerne les charges fiscales. En conséquence, tous impôts et taxes qui, pour quelque cause que ce soit, pourraient - à raison de tout remboursement du capital de ces actions, ou plus généralement, de toute distribution à leur profit - , devenir exigibles pour certaines d'entre elles seulement, soit au cours de l'existence de la Société, soit à la liquidation, seront répartis entre toutes les actions composant le capital lors de ce ou de ces remboursements ou distributions, de façon que toutes les actions actuelles ou futures confèrent à leurs propriétaires, - tout en tenant compte éventuellement du montant nominal et non amorti des actions et des droits des actions de catégories différentes les mêmes avantages effe ctifs leur donnant droit à recevoir la même somme nette.

TITRE IV

ADMINISTRATION DE LA SOCIÉTÉ

ARTICLE 13 - CONSEIL D'ADMINISTRATION

La Société est administrée par un conseil composé de personnes physiques ou morales dont le nombre est fixé par l'assemblée générale ordinaire dans les limites de la loi.

Toute personne morale doit, lors de sa nomination, désigner une personne physique en qualité de représentant permanent au Conseil d'administration. La durée du mandat du représentant permanent est la même que celle de l'administrateur personne morale qu'il représente. Lorsque la personne morale révoque son représentant permanent, elle doit aussitôt pourvoir à son remplacement. Les mêmes dispositions s'appliquent en cas de décès ou démission du représentant permanent.

Pendant la durée de son mandat chaque administrateur doit être propriétaire d'au moins une action de la Société. Aucun nombre minimal d'actions n'est cependant requis lorsque l'administrateur est un actionnaire salarié.

Si, au jour de sa nomination, un administrateur n'est pas propriétaire du nombre d'actions requis ou si, en cours de mandat, il cesse d'en être propriétaire, il est d'office réputé démissionnaire s'il n'a pas régularisé sa situation dans le délai de trois mois.

La durée des fonctions des administrateurs est de six années, l'année étant la période qui sépare deux Assemblées Générales Ordinaires annuelles consécutives. Le mandat d'un administrateur prend fin à l'issue de la réunion de l'Assemblée Générale Ordinaire des actionnaires ayant statué sur les comptes de l'exercice écoulé et tenue dans l'année au cours de laquelle expire le mandat dudit administrateur.

Les administrateurs sont toujours rééligibles ; ils peuvent être révoqués à tout moment par décision de l'Assemblée Générale des actionnaires.

Une même personne physique ne peut exercer plus de cinq mandats d'administrateur ou de membre du Conseil de surveillance de sociétés anonymes ayant leur siège social sur le territoire français, les mandats exercés au sein des sociétés contrôlées – au sens de l'article L. 233-16 du Code de commerce – par la Société, n'étant pas pris en compte pour le calcul de ce plafond.

En cas de vacance par décès ou par démission d'un ou plusieurs sièges d'administrateurs, le Conseil d'administration peut, entre deux Assemblées Générales, procéder à des nominations à titre provisoire.

Les nominations effectuées par le conseil, en vertu de l'alinéa ci-dessus, sont soumises à la ratification de la plus prochaine Assemblée Générale Ordinaire.

A défaut de ratification, les délibérations prises et les actes accomplis antérieurement par le conseil n'en demeurent pas moins valables.

Lorsque le nombre des administrateurs est devenu inférieur au minimum légal, les administrateurs restants doivent convoquer immédiatement l'Assemblée Générale Ordinaire, en vue de compléter l'effectif du conseil.

L'administrateur nommé en remplacement d'un autre administrateur dont le mandat n'est pas expiré, ne demeure en fonction que pendant la durée du mandat de son prédécesseur restant à courir.

Un salarié de la Société peut être nommé administrateur. Son contrat de travail doit toutefois correspondre à un emploi effectif. Il ne perd pas, dans ce cas, le bénéfice de son contrat de travail.

Le nombre des administrateurs qui sont liés à la Société par un contrat de travail ne peut excéder le tiers des administrateurs en fonction, sans toutefois pouvoir excéder le nombre de cinq.

Les administrateurs ne peuvent être âgés de plus de 75 ans. Lorsque cette limite vient à être dépassée en cours de mandat, l'administrateur le plus âgé est d'office réputé démissionnaire à l'issue de l'assemblée générale des actionnaires la plus proche.

ARTICLE 14 - RÉUNION DU CONSEIL D'ADMINISTRATION

14.1. Le Conseil d'administration se réunit aussi souvent que l'intérêt de la Société l'exige.

14.2. Les administrateurs sont convoqués aux séances du conseil par le Président. La convocation peut être faite par tous moyens, par écrit ou oralement.

De plus, les administrateurs représentant au moins un tiers des membres du conseil ou le Directeur général peuvent valablement demander au Président de convoquer le conseil si ce dernier ne s'est pas réuni depuis plus de deux mois. En ce cas, ils doivent indiquer l'ordre du jour de la séance.

Lorsqu'il a été constitué un Comité d'entreprise, les représentants de ce comité, désignés conformément aux dispositions du Code du Travail, devront être convoqués à toutes les réunions du Conseil d'administration.

Les réunions du conseil ont lieu soit au siège social soit en tout autre endroit en France ou hors de France.

14.3. Pour la validité des délibérations du conseil, le nombre des membres présents doit être au moins égal à la moitié des membres.

Dans les limites prévues par l'article L. 225-37, alinéa 3 du Code de commerce et sous réserve de la mise en place d'un règlement intérieur, le Conseil d'administration pourra décider que pour le calcul du quorum et de la majorité des administrateurs, il sera tenu compte de la participation d'un ou de plusieurs administrateurs au Conseil d'administration par des moyens de visioconférence et ce, dans le respect des dispositions réglementaires.

Il est précisé que toute décision d'attribution d'options de souscription ou d'achat d'actions à un administrateur titulaire d'un contrat de travail, au Président ou au Directeur Général de la Société, si ce dernier est administrateur, dans le cadre d'une autorisation consentie par l'assemblée générale extraordinaire conformément aux dispositions des articles L. 225-177 et suivants du Code de commerce, sera prise à la majorité des voix des administrateurs présents ou représentés, l'administrateur intéressé, ainsi que tout autre administrateur susceptible de se voir consentir des options de souscription ou d'achat d'actions, ne pouvant prendre part au vote.

Les décisions du Conseil d'administration sont prises à la majorité des voix ; en cas de partage des voix, celle du Président est prépondérante.

14.4. Tout administrateur peut donner, même par lettre, télégramme, télex ou télécopie, pouvoir à un autre administrateur de le représenter à une séance du conseil, mais chaque administrateur ne peut disposer au cours d'une séance que d'une seule procuration.

14.5. Les copies ou extraits des délibérations du Conseil d'administration sont valablement certifiés par le Président du Conseil d'administration, le Directeur général, l'administrateur délégué temporairement dans les fonctions de Président ou un fondé de pouvoirs habilité à cet effet.

ARTICLE 15 - POUVOIRS DU CONSEIL D'ADMINISTRATION

Le Conseil d'administration. détermine les orientations de l'activité de la Société et veille à leur mise en œuvre. Sous réserve des pouvoirs expressément attribués aux Assemblées d'actionnaires et dans la limite de l'objet social, il se saisit de toute question intéressant la bonne marche de la Société et règle par ses délibérations les affaires qui la concernent.

ARTICLE 16 - PRÉSIDENCE DU CONSEIL

Le Conseil d'administration élit parmi ses membres un Président qui doit être une personne physique. Il détermine la durée de ses fonctions, qui ne peut excéder celle de son mandat d'administrateur, et peut le révoquer à tout moment. Le conseil fixe sa rémunération.

Le Président représente le Conseil d'administration dont il organise et dirige les travaux. Ces derniers font l'objet d'un compte rendu par ce même Président à l'Assemblée Générale. Le Président veille au bon fonctionnement des organes de la Société et s'assure notamment de ce que les administrateurs sont en mesure de remplir leur mission.

Conformément aux dispositions de l'article 706-43 du Code de procédure pénale, le Président peut valablement déléguer à toute personne de son choix le pouvoir de représenter la Société dans le cadre des poursuites pénales qui pourraient être engagées à l'encontre de celle-ci.

Le Président du conseil ne peut être âgé de plus de 75 ans. Si le Président atteint cette limite d'âge au cours de son mandat de Président, il est réputé démissionnaire d'office. Son mandat se prolonge cependant jusqu'à la réunion la plus proche du Conseil d'administration au cours de laquelle son successeur sera nommé. Sous réserve de cette disposition, le Président du conseil est toujours rééligible.

ARTICLE 16 bis - DIRECTION GÉNÉRALE

La direction générale est assumée, sous sa responsabilité, soit par le Président du Conseil d'administration, soit par une autre personne physique nommée par le Conseil d'administration et portant le titre de Directeur général.

Le choix entre les deux modalités d'exercice revient au Conseil d'administration et est opéré dans les conditions prévues par les présents statuts.

Les actionnaires et les tiers sont informés de ce choix dans des conditions définies par le décret no 2002-803 du 3 mai 2002.

Le Directeur général est investi des pouvoirs les plus étendus pour agir en toute circonstance au nom de la Société. il exerce ses pouvoirs dans la limite de l'objet social et sous réserve de ceux que la loi attribue expressément aux assemblées d'actionnaires et au Conseil d'administration.

Il représente la Société dans ses rapports avec les tiers. La Société est engagée même par les actes du Directeur général qui ne reflètent pas l'objet social, à moins qu'elle ne prouve que le tiers savait que l'acte dépassait cet objet ou qu'il ne pouvait l'ignorer compte tenu des circonstances, étant exclu que la seule publication des statuts suffise à constituer cette preuve.

La rémunération du Directeur général est déterminée par le Conseil d'administration. Il peut être révoqué à tout moment par le Conseil d'administration. Si la révocation est décidée sans juste motif, elle peut donner lieu à dommages et intérêts, sauf lorsque le Directeur général assume les fonctions de Président du conseil d'administration.

Le Directeur général ne pourra exercer aucun autre mandat de directeur général ou de membre du Directoire dans des sociétés anonymes ayant leur siège sur le territoire français, qu'à la double condition que (i) l'autre mandat soit exercé dans une société contrôlée – au sens de l'article L. 233-16 du Code de commerce – par la Société, et (ii) que les titres de la Société contrôlée ne soient pas admis aux négociations sur un marché réglementé.

Le Directeur général ne peut être âgé de plus de 70 ans. Lorsque le Directeur général atteint cette limite d'âge, il est réputé démissionnaire d'office. Son mandat se prolonge cependant jusqu'à la réunion la plus prochaine du Conseil d'administration au cours de laquelle le nouveau Directeur général sera nommé.

ARTICLE 17 - DIRECTEUR GÉNÉRAL DÉLÉGUÉ

Sur la proposition du Directeur général, le Conseil d'administration donne mandat à une ou plusieurs personne(s) physique(s) d'assister le Directeur général en qualité de Directeur général délégué.

Le Directeur général délégué est révocable à tout moment par le Conseil d'administration sur proposition du Directeur général.

En accord avec le Directeur général, le Conseil détermine l'étendue et la durée des pouvoirs délégués au Directeur général délégué. Le Conseil fixe la rémunération du Directeur général délégué.

A l'égard des tiers, le Directeur général délégué dispose des mêmes pouvoirs que le Directeur général ; il a notamment le pouvoir d'ester en justice.

Un Directeur général délégué ne peut être âgé de plus de 70 ans. Lorsqu'un Directeur général délégué atteint cette limite d'âge, il est réputé démissionnaire d'office. Son mandat se prolonge cependant jusqu'à la réunion la plus prochaine du Conseil d'administration au cours de laquelle le nouveau directeur général délégué sera nommé.

En tout état de cause, le nombre maximum de Directeurs généraux délégués ne peut excéder cinq.

ARTICLE 18 - CONVENTIONS SOUMISES A AUTORISATION

18.1. Les cautions, avals et garanties, donnés par la Société doivent être autorisées par le Conseil d'administration dans les conditions prévues par la loi.

18.2. Toute convention intervenant – soit directement, soit par personne interposée - entre la Société et l'un de ses administrateurs, son Directeur général, l'un de ces Directeurs généraux délégués, l'un de ses actionnaires disposant d'une fraction de droit de vote supérieure à 5% ou – s'il s'agit d'une société actionnaire – la société la contrôlant au sens de l'article L. 233-3 du Code de commerce, doit être soumise à l'autorisation préalable du Conseil d'administration. Il en est de même des conventions auxquelles ces personnes sont indirectement intéressées.

Toutefois, une telle autorisation préalable n'est pas requise dans le cas d'une convention qui – bien qu'intervenant entre des personnes sus-mentionnées – porte sur des opérations courantes et a été conclue à des conditions normales. Une telle convention doit néanmoins être communiquée par l'intéressé au Président du Conseil d'administration. En outre, les listes et objets de telles conventions seront communiqués par le Président aux membres du Conseil d'administration et aux Commissaires aux Comptes.

Il en est de même pour les conventions entre la Société et une autre entreprise si le Directeur général ou l'un des Directeurs généraux délégués ou l'un des administrateurs est propriétaire, associé indéfiniment responsable, gérant, administrateur, Directeur général, membre du Directoire ou du Conseil de surveillance ou de façon générale dirigeant de ladite entreprise.

L'autorisation préalable du Conseil d'administration sera requise dans les conditions prévues par la loi. Il est à cet égard précisé que l'administrateur concerné ne sera pas pris en compte pour le calcul du quorum et que son vote ne sera pas pris en compte pour le calcul de la majorité.

ARTICLE 19 - CONVENTIONS INTERDITES

Il est interdit aux administrateurs autres que les personnes morales, de contracter, sous quelque forme que ce soit, des emprunts auprès de la Société, de se faire consentir par elle un découvert en compte-courant ou autrement, et de faire cautionner ou avaliser par elle leurs engagements envers les tiers.

La même interdiction s'applique aux Directeurs généraux, aux Directeurs généraux délégués et aux représentants permanents des personnes morales administrateurs. Elle s'applique également aux conjoints, ascendants et descendants des personnes visées au présent article, ainsi qu'à toute personne interposée.

TITRE V

COMMISSAIRES AUX COMPTES

ARTICLE 20 - COMMISSAIRES AUX COMPTES

L'Assemblée Générale Ordinaire des actionnaires désigne pour la durée dans les conditions et avec la mission fixée par la loi, un ou deux Commissaires aux Comptes ainsi que des Commissaires aux Comptes suppléants.

Les Commissaires aux Comptes sont nommés pour six exercices. Leur mandat prend fin avec l'Assemblée Générale qui statue sur les comptes du sixième exercice.

Le Commissaire nommé en remplacement d'un autre ne demeure en fonction que jusqu'à l'expiration du mandat de son prédécesseur.

Les Commissaires sont indéfiniment rééligibles.

Un ou plusieurs actionnaires représentant au moins le vingtième du capital social peuvent demander en justice la récusation d'un ou plusieurs Commissaires aux Comptes nommés par l'Assemblée et la désignation d'un ou plusieurs autres Commissaires qui exerceront leurs fonctions aux lieu et place du ou des Commissaires récusés. A peine d'irrecevabilité de la demande, celle-ci doit être portée devant le Président du Tribunal de Commerce statuant en référé dans un délai de trente jours à compter de la nomination contestée.

Les Commissaires aux Comptes doivent être convoqués à la réunion du Conseil d'administration au cours de laquelle sont arrêtés les comptes de l'exercice écoulé, ainsi qu'à toutes les Assemblées d'actionnaires.

ARTICLE 21 - EXPERTISE

Un ou plusieurs actionnaires représentant au moins le vingtième du capital social peuvent demander au Président du Tribunal de Commerce statuant en référé, la désignation d'un expert chargé de présenter un rapport sur une ou plusieurs opérations de gestion.

Le rapport de l'expert, éventuellement nommé doit être adressé aux demandeurs, au Conseil d'administration, au Ministère Public, au Comité d'entreprise ainsi qu'à la COB : il doit également être annexé au rapport du ou des Commissaires aux Comptes établi en vue de la prochaine Assemblée Générale et recevoir la même publicité.

TITRE- VI

ASSEMBLEES GENERALES

ARTICLE 22 - REGLES GENERALES

1) L'Assemblée Générale Ordinaire annuelle est obligatoirement réunie dans les six mois qui suivent la clôture de chaque exercice, sous réserve de la prolongation de ce délai par décision de justice.

2) Des Assemblées Générales Extraordinaires ou des Assemblées Générales Ordinaires convoquées extraordinairement peuvent, en outre, être réunies sur convocation, soit du Conseil d'administration, soit des Commissaires aux Comptes, soit encore d'un mandataire désigné en justice, en cas d'urgence à la demande de tout intéressé ou du Comité d'entreprise, ou d'un ou plusieurs actionnaires réunissant au moins le vingtième du capital social.

3) Les Assemblées Générales sont réunies au siège social ou en tout autre lieu figurant sur la convocation, même en dehors du département du siège social.

En cas d'urgence, le Comité d'entreprise peut demander en justice la désignation d'un mandataire chargé de convoquer l'assemblée générale des actionnaires.

Il peut également requérir l'inscription de projets de résolutions à l'ordre du jour des assemblées.

Deux membres du Comité d'entreprise désignés par ce dernier, l'un faisant partie de la catégorie des cadres techniciens et agents de maîtrise et l'autre appartenant à la catégorie des employés et ouvriers peuvent assister aux assemblées générales. Ils doivent, à leur demande, être entendus lors de toutes les délibérations requérant l'unanimité des associés.

4) Les convocations des Assemblées Générales sont faites quinze jours au moins à l'avance par lettre simple ou recommandée adressée à chaque actionnaire.

Au cas où l'Assemblée Générale n'aurait pu délibérer valablement faute de quorum requis, une deuxième Assemblée est convoquée dans les mêmes formes que la première et l'avis de convocation rappelle la date de celle-ci. Le délai de convocation est toutefois ramené à six jours.

5) L'avis de convocation indique la dénomination sociale, éventuellement suivie de son sigle, la forme de la Société, le montant du capital social, l'adresse du siège social, les numéros d'immatriculation de la Société au Registre du Commerce et à l'Institut National de la Statistique et des Etudes Economiques, les jours, heure et lieu de l'Assemblée, ainsi que sa nature, extraordinaire, ordinaire ou spéciale, et son ordre du jour.

Sous réserve des questions diverses qui ne doivent présenter qu'une minime importance, les questions inscrites à l'ordre du jour sont libellées de telle sorte que leur contenu et leur portée apparaissent clairement, sans qu'il y ait lieu de se reporter à d'autres documents.

Un ou plusieurs actionnaires peuvent, dans les conditions prévues par les articles 128 à 131 du décret 67-236 du 23 mars 1967, requérir l'inscription à l'ordre du jour de projets de résolutions ne concernant pas la présentation de candidats au Conseil d'administration.

L'Assemblée ne peut délibérer sur une question qui n'est pas inscrite à son ordre du jour, néanmoins, elle peut en toutes circonstances, révoquer un ou plusieurs membres du Conseil d'administration, et procéder à leur remplacement.

L'ordre du jour de l'Assemblée ne peut être modifié sur deuxième convocation.

6) L'Assemblée Générale se compose de tous les actionnaires quel que soit le nombre de leurs actions, pourvu quelles aient été libérées des versements exigibles.

7) Un actionnaire ne peut se faire représenter que par un autre actionnaire ou par son conjoint même si ce dernier n'est pas actionnaire.

Le mandat est donné pour une seule Assemblée, il peut cependant être donné pour deux Assemblées, l'une ordinaire, l'autre extraordinaire, tenues le même jour, ou dans un délai de sept jours.

Le mandat donné pour une Assemblée vaut pour les Assemblées successives convoquées avec le même ordre du jour.

A toute formule de procuration adressée aux actionnaires doivent être joints les documents suivants :

- l'ordre du jour de l'Assemblée,
- le texte des projets de résolutions présentés par le Conseil d'administration et le cas échéant par des actionnaires ou le Comité d'entreprise,

- un exposé sommaire de la situation de la Société pendant l'exercice écoulé, accompagné d'un tableau faisant apparaître les résultats de la Société au cours de chacun des cinq derniers exercices ou de chacun des exercices clos depuis la constitution de la Société si leur nombre est inférieur à cinq,

- une formule de demande d'envoi des documents et renseignements visés à l'article 135 du décret précité, informant l'actionnaire qu'il peut obtenir sur demande unique de sa part, l'envoi systématique des documents et renseignements précités à l'occasion de chacune des Assemblées d'actionnaires ultérieures.

La formule de procuration doit informer l'actionnaire de manière très apparente qu'à défaut d'indication de mandataire, il sera émis en son nom un vote favorable à l'adoption des projets de résolution présentés ou agréés par le Conseil d'Administration. Pour émettre tout autre vote, l'actionnaire doit faire choix d'un mandataire qui accepte de voter dans le sens indiqué par son mandat.

La procuration doit être signée par l'actionnaire représenté et indiquer ses nom, prénom usuel et domicile, le nombre d'actions dont il est titulaire et le nombre de voix attachées à ses actions.

Le mandataire désigné nommément sur la procuration n'a pas la faculté de se substituer une autre personne.

8) L'Assemblée est présidée par le Président du Conseil d'administration ou, en son absence, par un administrateur spécialement délégué à cet effet par le conseil. A défaut, l'assemblée élit elle-même son Président.

Les fonctions de scrutateurs sont remplies par les deux membres de l'Assemblée disposant du plus grand nombre de voix acceptant cette fonction.

Le Bureau désigne le secrétaire qui peut être choisi en dehors des actionnaires.

9) Il est tenu une feuille de présence contenant :

- les nom, prénom usuel et domicile de chaque actionnaire, présent ou représenté, le nombre d'actions dont il est titulaire et le nombre de voix attachées à ses actions.

- les nom, prénom usuel et domicile de chaque mandataire, le nombre d'actions de ses mandats, ainsi que le nombre de voix attachées à ces actions.

Les mentions concernant les actionnaires représentés peuvent ne pas figurer sur la feuille de présence à la condition que les pouvoirs soient annexés à celle-ci et que leur nombre y soit indiqué.

La feuille de présence, dûment signée par les actionnaires présents ou représentés, est certifiée exacte par le bureau.

10) Le scrutin secret a lieu lorsqu'il est réclamé par le Bureau ou par des membres de l'Assemblée représentant plus de la moitié du capital représenté à cette Assemblée.

11) Dans toutes les Assemblées, le quorum est calculé sur l'ensemble des actions composant le capital social, déduction faite de celles qui sont privées du droit de vote en vertu de dispositions législatives ou réglementaires.

12) Chaque membre de l'Assemblée a autant de voix qu'il possède et représente d'actions, tant en son nom personnel que comme mandataire, sans limitation. Toutefois, aux Assemblées destinées à vérifier les apports en nature ou des avantages particuliers, chaque actionnaire ne peut disposer de plus de dix voix.

En cas d'usufruit, le droit de vote attaché à l'action appartient à l'usufruitier dans les Assemblées Générales Ordinaires et au nu-propriétaire dans les Assemblées Générales Extraordinaires ou spéciales.

Les propriétaires indivis d'actions doivent être représentés par un seul d'entre eux ou par un mandataire unique.

Enfin, le droit de vote est exercé par le propriétaire des titres remis en gage.

13) Les délibérations des Assemblées Générales sont constatées par des procès-verbaux contenant les mentions requises établies sur un registre spécial tenu au siège social dans les conditions prévues ci-dessus et signés par les membres du Bureau.

Les copies ou extraits des procès-verbaux de l'assemblée sont valablement certifiés par le Président du conseil d'administration, par un administrateur exerçant les fonctions de Directeur général ou par le secrétaire de l'assemblée. En cas de liquidation, ils sont valablement certifiés par un liquidateur.

14) Les actionnaires exercent leur droit de communication et de copie dans les conditions prévues par la loi.

15) Les votes des actionnaires participant à l'assemblée par visioconférence ou par des moyens de télécommunication permettant leur identification dans le respect des dispositions réglementaires, sera pris en compte pour le calcul du quorum et de la majorité de ladite assemblée

ARTICLE 23 - ASSEMBLEES GENERALES EXTRAORDINAIRES

L'Assemblée Générale Extraordinaire est seule habilitée à modifier les statuts dans toutes leurs dispositions; toute clause contraire est réputée non écrite. Elle ne peut, toutefois, augmenter les engagements des actionnaires, sous réserve des opérations résultant d'un regroupement d'actions régulièrement effectué.

Elle ne délibère valablement que si les actionnaires présents ou représentés possèdent au moins sur première convocation la moitié et sur deuxième convocation le quart des actions ayant le droit de vote. A défaut de ce dernier quorum, la deuxième Assemblée peut être prorogée à une date postérieure de deux mois au plus à celle à laquelle elle avait été convoquée.

Elle statue à la majorité des deux tiers des voix dont disposent les actionnaires présents ou représentés y compris les votes par correspondance.

ARTICLE 24 - ASSEMBLES GENERALES ORDINAIRES

L'Assemblée Générale Ordinaire prend toutes les décisions autres que celles qui sont de la compétence de l'Assemblée Générale Extraordinaire.

Elle ne délibère valablement sur première convocation que si les actionnaires présents au représentés possèdent au moins le quart des actions ayant le droit au vote. Sur deuxième convocation, aucun quorum n'est requis. Elle statue à la majorité des voix dont disposent les actionnaires présents ou représentés y compris les votes par correspondance.

TITRE VII

INVENTAIRES - BENEFICES - RESERVES

ARTICLES 25 - EXERCICE SOCIAL

Chaque exercice social a une durée de douze mois, il commence le premier janvier et expire le 31 décembre suivant.

ARTICLE 26 - INVENTAIRE - COMPTES

Il est tenu une comptabilité régulière des opérations sociales, conformément à la loi.

A la clôture de chaque exercice, le Conseil d'administration dresse l'inventaire ainsi que les comptes annuels.

Il établit un rapport de gestion sur la situation de la Société durant l'exercice écoulé, son évolution prévisible, les événements importants survenus entre la date de la clôture de l'exercice et la date à laquelle le rapport de gestion est établi et ses activités en matière de recherche et de développement.

Tous ces documents sont mis à la disposition des Commissaires aux Comptes dans les conditions et délais légaux.

ARTICLE 27 - FIXATION - AFFECTATION ET REPARTITION DES BENEFICES

Sur le bénéfice de chaque exercice diminué, le cas échéant, des pertes antérieures, il est d'abord prélevé cinq pour cent pour constituer le fonds de réserve légale ; ce prélèvement cesse d'être obligatoire lorsque ledit fonds atteint le dixième du capital social ; il reprend son cours lorsque, pour une cause quelconque la réserve légale est descendue au-dessous de ce pourcentage.

L'Assemblée Générale peut prélever toutes sommes en vue de les affecter à la dotation de tous fonds de réserves facultatives, ordinaires ou extraordinaires, ou de reporter à nouveau.

Le bénéfice distribuable est constitué par le bénéfice de l'exercice, diminué des pertes antérieures et des sommes à porter en réserve en application de la loi ou des statuts, et augmenté du report bénéficiaire.

Après approbation des comptes et constatation des sommes distribuables, l'Assemblée Générale détermine la part attribuée aux actionnaires sous forme de dividende. L'Assemblée Générale peut, en outre, décider la mise en distribution de sommes prélevées sur les réserves dont elle a la disposition, soit pour fournir ou compléter un dividende, soit à titre de distribution exceptionnelle, en ce cas, la décision indique expressément les postes de réserves sur lesquels les prélèvements sont effectués. Toutefois, les dividendes sont prélevés par priorité sur le bénéfice distribuable de l'exercice.

ARTICLE 28 - PAIEMENT DES DIVIDENDES

Les modalités de paiement des dividendes votées par l'Assemblée Générale sont fixées par elle ou à défaut par le Conseil d'administration. Toutefois la mise en paiement doit avoir lieu dans le délai maximal de neuf mois après la clôture de l'exercice, sauf prolongation de ce délai par décision de justice.

Les dividendes non réclamés dans les cinq ans de leur exigibilité sont prescrits conformément à la loi.

TITRE VIII

PROROGATION - DISSOLUTION - LIQUIDATION

ARTICLE 29 - PROROGATION

Un an au moins avant la date d’expiration de la Société, le Conseil d'administration doit convoquer une Assemblée Générale Extraordinaire des actionnaires à l'effet de statuer sur la prorogation de la Société, laquelle prorogation ne peut excéder 99 années.

A défaut, tout actionnaire pourra, quinze jours après une mise en demeure adressée au Président du Conseil d'administration, par lettre recommandée avec demande d'avis de réception et demeurée infructueuse, demander en justice la désignation d'un mandataire chargé de convoquer l'Assemblée.

ARTICLE 30 - DISSOLUTION

L'assemblée générale extraordinaire peut, à toute époque, prononcer la dissolution anticipée de la Société.

Si du fait des pertes constatées dans les documents comptables, les capitaux propres de la Société deviennent inférieurs à la moitié du capital social, le Conseil d'administration doit, dans les quatre mois de l'approbation des comptes ayant fait apparaître cette perte, convoquer l'Assemblée Générale Extraordinaire à l'effet de décider s'il y a lieu à dissolution anticipée de la Société.

Si la dissolution n'est pas prononcée, le capital doit au plus tard à la clôture du deuxième exercice suivant celui au cours duquel la constatation des pertes est intervenue, et sous réserve des dispositions légales relatives au capital minimum des sociétés anonymes, être réduit d'un montant au moins égal à celui des pertes qui n'ont pu être imputées sur les réserves, si dans ce délai les capitaux propres n'ont pas été reconstitués à concurrence d'une valeur au moins égale à la moitié du capital social.

A défaut de réunion de l'assemblée générale, comme dans le cas où cette assemblée n'a pu délibérer valablement, tout intéressé peut demander en justice la dissolution de la société.

La Société est en liquidation dès l'instant de sa dissolution pour quelque cause que ce soit. Sa personnalité morale subsiste pour les besoins de cette liquidation jusqu'à la clôture de celle-ci.

Pendant toute la durée de la liquidation, l'assemblée générale conserve les mêmes pouvoirs qu'au cours de l'existence de la société.

Les actions demeurent négociables jusqu'à la clôture de la liquidation.

La dissolution de la Société ne produit ses effets à l'égard des tiers qu'à compter de la date à laquelle elle est publiée au Registre du Commerce et des Sociétés.

ARTICLE 31 - LIQUIDATION

La liquidation de la Société sera effectuée dans les conditions prévues par les articles L. 237-1 à L. 237-31 du Code de commerce et par les dispositions du décret n° 67236 du 23 mars 1967.

Après l'extinction du passif, il sera procédé au remboursement du capital nominal des actions. Le boni de liquidation est réparti entre les actionnaires au prorata de leurs droits respectifs.

TITRE IX

CONTESTATION - ELECTION DE DOMICILE

ARTICLE 32 - CONTESTATIONS

Toutes les contestations qui peuvent s'élever pendant le cours de la Société ou de sa liquidation, soit entre les actionnaires et la Société, soit entre les actionnaires eux-mêmes, au sujet des affaires sociales, sont soumises à la juridiction des Tribunaux compétents du lieu du siège social.

EDAP TMS

A stock company (société anonyme)
with a capital of Euros 1,212,184.61
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 regarding the
increase in capital in July 2006

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 decide as provided for in these bylaws.

TITLE II

REGISTERED CAPITAL

ARTICLE 6 - REGISTERED CAPITAL

The registered capital is fixed at the amount of one million two hundred and twelve thousand one hundred eighty-four Euros and sixty one cents (Euros 1,212,184.61) divided into nine million three hundred and twenty-four thousand four hundred and ninety seven (9,324,497) 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 hereabove 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 hereabove 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 to 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 tenurehas not expired remains in office only for the remaining duration of the tenureof 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 loose 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 seventy-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 organisation 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 seventy-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 reeligible.

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 hereabove, 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 hereabove 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' General Meeting validly deliberates if the attending or represented shareholders hold at least on the first notice of convening half and on the second notice of convening a fourth of the shares giving the right to vote. Failing this last quorum, the second meeting may be postponed on another date at the utmost two months later than the date of the initial calling up.

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' General Meeting only deliberates validly on a first notice of convening if the attending or represented shareholders own at least the fourth of the voting rights. Upon the second notice of convening no quorum is required. 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 constitute 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 hereabove.

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 sectuions 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

LIST OF EDAP TMS S.A. SUBSIDIARIES
(as of March 16, 2007)

Name of Subsidiary	Juridiction of Incorporation
Technomed Medical Systems S.A.	France
EDAP S.A.	France
EDAP Technomed S.r.l.	Italy
EDAP Technomed, Inc.	United States
EDAP Technomed Co. Ltd.	Japan
EDAP Technomed Sdn Bhd	Malaysia
EDAP GmbH	Germany

EXHIBIT 12.1

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

I, Hugues de Bantel, Chief Executive Officer of EDAP TMS S.A., 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)) for the Company and we 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) 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

   c) 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: March 30, 2007

/s/ HUGUES DE BANTEL
Title: Chief Executive Officer

EXHIBIT 12.2

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

I, Eric Soyer, Chief Financial Officer of EDAP TMS S.A., 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)) for the Company and we 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) 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

   c) 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: March 30, 2007

/s/ ERIC SOYER
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, 2006 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 Form 20-F fairly presents, in all material respects, the financial condition and results of operations of the company.

Dated: March 30, 2007

/s/ HUGUES DE BANTEL
Hugues de Bantel
Chief Executive Officer

Dated: March 30, 2007

/s/ ERIC SOYER
Eric Soyer
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 consent to the incorporation by reference into the Registration Statement (Form F-3, No. 333-136811) of EDAP TMS S.A. (the "Company") of our report dated March 30, 2007, with respect to the consolidated financial statements of the Company and its subsidiaries included in the Annual Report (Form 20-F) for the year ended December 31, 2006.

ERNST &YOUNG Audit

/s/ LAURENT CHAPOULAUD

Represented by
Laurent Chapoulaud

Lyon, France
March 30, 2007