

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, 2007

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:

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

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

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

Outstanding shares of each of the issuer's classes of capital or common stock as of December 31, 2007: **9,200,757 Ordinary Shares**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes 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 basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP  International Financial Reporting Standards as issued by the International Accounting Standards Board \_\_\_ Other \_\_\_

If "Other" has been checked in response to the previous question indicate by check mark which financial statement item the registrant has elected to follow. Item 17 \_\_\_ Item 18 \_\_\_

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

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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 = €0.6848, 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, 2007. See Item 3, “Key Information—Exchange Rates” for information regarding certain currency exchange rates and Item 11, “Quantitative and Qualitative Disclosures about Market Risk” for a discussion of the effects of fluctuations in currency exchange rates on the Company.

The following are registered trademarks of the Company in the United States: EDAP TMS, EDAP, Technomed, Ablatherm, Ablasonic, Ablapak, Praktis, Pulsolith, Sonolith 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 suppliers;
- any event or other occurrence that would interrupt operations at our primary production facility;
- reliance on patents, licenses and key proprietary technologies;
- product liability risk;
- risk of exchange rate fluctuations, particularly between the euro and the U.S. dollar and between the euro and the Japanese yen;
- fluctuations in results of operations due to the cyclical nature of demand for medical devices;
- risks associated with the October 2007 private placement;
- risks relating to ownership of our securities; and
- changes in the fair value of the debentures and warrants issued in the October 2007 private placement.

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 selected balance sheet data as of December 31, 2005, 2006 and 2007 and the selected income statement data for the years ended December 31, 2005, 2006 and 2007 set forth below have been derived from our Consolidated Financial Statements included in this annual report. The selected balance sheet data as of December 31, 2003 and 2004 and the selected income statement data for the year ended December 31, 2003 and 2004 have been derived from our audited consolidated financial statements as of and for the years ended December 31, 2003 and 2004. These financial statements, together with our Consolidated Financial Statements have been prepared in accordance with U.S. GAAP. To date, we have not been required, and presently are not required under French law, to prepare consolidated financial statements under French GAAP or IFRS, nor have we done so.

|   | Year Ended and at December 31, |           |           |           |           |
|---|--------------------------------|-----------|-----------|-----------|-----------|
|   | 2003                           | 2004      | 2005      | 2006      | 2007      |
| In thousands of euro, except per share data in euro |                                |           |           |           |           |
| <b>INCOME STATEMENT DATA</b>                        |                                |           |           |           |           |
| Total revenues                                      | 18,473                         | 22,163    | 20,810    | 20,265    | 22,327    |
| Total net sales                                     | 18,030                         | 21,955    | 20,717    | 20,174    | 22,213    |
| Gross profit  | 5,379                          | 8,487     | 8,497     | 8,319     | 9,179     |
| Operating expenses                                  | (13,500)                       | (9,317)   | (9,820)   | (11,413)  | (13,268)  |
| Loss from operations                                | (8,121)                        | (830)     | (1,323)   | (3,094)   | (4,089)   |
| Income (loss) before income taxes                   | (9,090)                        | (871)     | (961)     | (3,375)   | (5,571)   |
| Income tax (expense) benefit                        | 114                            | (278)     | (104)     | (56)      | 140       |
| Net income (loss)                                   | (8,976)                        | (1,149)   | (1,065)   | (3,431)   | (5,430)   |
| Basic and diluted earnings (loss) per share         | (1.15)                         | (0.15)    | (0.14)    | (0.39)    | (0.59)    |
| Dividends per share <sup>(1)</sup>                  | —                              | —         | —         | —         | —         |
| Weighted average shares                             |                                |           |           |           |           |
| outstanding used in basic and diluted calculation   | 7,781,731                      | 7,781,731 | 7,782,731 | 8,817,007 | 9,200,757 |
| <b>BALANCE SHEET DATA</b>                           |                                |           |           |           |           |
| Total current assets                                | 25,870                         | 22,041    | 22,777    | 26,393    | 36,124    |
| Property and equipment, net                         | 2,903                          | 2,807     | 3,130     | 3,211     | 4,179     |
| Total current liabilities                           | 11,074                         | 8,272     | 9,874     | 10,926    | 12,884    |
| Total assets  | 31,910                         | 27,901    | 28,796    | 32,473    | 45,003    |
| Long-term debt, less current portion                | 7                              | -         | 55        | 58        | 15,174    |
| Total shareholders' equity                          | 18,961                         | 17,964    | 17,372    | 19,300    | 14,499    |

(1) No dividends were paid with respect to fiscal years 2003 through 2006 and subject to approval of the annual shareholders' meeting to be held in June 2008, the Company does not anticipate paying any dividend with respect to fiscal year 2007. 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 Depository of dividends, if any, paid on the Shares in the form of ADSs. Moreover, such fluctuations may affect the dollar price of our ADSs on NASDAQ.

The following table sets forth, for each of the years indicated, the high, low, average and year-end Noon Buying Rates expressed in euro per \$1.00.

| Year ended December 31, | High | Low  | Average <sup>(1)</sup> | End of Year |
|-------------------------|------|------|------------------------|-------------|
|                         | €    | €    | €                      | €           |
| 2003                    | 1.12 | 0.79 | 0.88                   | 0.79        |
| 2004                    | 0.85 | 0.73 | 0.80                   | 0.74        |
| 2005                    | 0.86 | 0.74 | 0.81                   | 0.84        |
| 2006                    | 0.84 | 0.75 | 0.79                   | 0.76        |
| 2007                    | 0.78 | 0.67 | 0.73                   | 0.68        |

(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 |
|-------------------------------|--------------|------|------|---------|
|                               | €            | €    | €    | €       |
| <i>2007</i>                   |              |      |      |         |
| September                     | 0.70         | 0.73 | 0.70 | 0.72    |
| October                       | 0.69         | 0.71 | 0.69 | 0.70    |
| November                      | 0.68         | 0.69 | 0.67 | 0.68    |
| December                      | 0.68         | 0.70 | 0.68 | 0.69    |
| <i>2008</i>                   |              |      |      |         |
| January                       | 0.67         | 0.69 | 0.67 | 0.68    |
| February                      | 0.66         | 0.69 | 0.66 | 0.68    |
| March, through March 16, 2008 | 0.64         | 0.66 | 0.64 | 0.65    |

On March 17, 2008, the Noon Buying Rate was U.S.\$1.00 = €0.6343

## RISK FACTORS

In addition to the other information contained in this annual report, the following risk factors should be carefully considered in evaluating us and our business. These statements are intended to highlight the material risk factors that may affect our business results.

### Risks Relating to Our Business

#### ***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, Canada and other countries. However, the Ablatherm is not approved for commercial distribution in the United States. 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. After redesigning the clinical protocol, we resumed and plan to complete the clinical trials necessary to obtain FDA approval of the Ablatherm now that we have completed the October 2007 private placement, which resulted in net proceeds of approximately \$17.4 million. While we expect these funds to be sufficient to enable us to fund the clinical trials in their entirety, we cannot guarantee that the proceeds will in fact be enough to do so. 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 “—Our clinical trials for products using HIFU technology may not be successful” and Item 4, “Information on the Company—High Intensity Focused Ultrasound (“HIFU”) 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 pursue clinical 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 investors 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 full public reimbursement in Germany and Italy and partial reimbursement from private insurers in 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 2007, 2006 and 2005, 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 2007, 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, and, in 2007, due to the sponsoring of the pre-market approval (“PMA”) trials for the FDA’s approval of our Ablatherm-HIFU solution for the treatment of prostate cancer in the United States. 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, and by the implementation of our US clinical trials to seek the FDA’s approval. 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. In October 2007, we raised a \$20 million convertible debt via a Private Investment in Public Equity, aimed at financing our pre-market approval trial process to seek the FDA’s approval on our Ablatherm-HIFU solution for the treatment of prostate cancer in the United States (our Ablatherm device, considered as a Class III device by the FDA, must receive pre-market approval by the FDA to ensure its safety and effectiveness). Our future cash flow will be affected by the increased expenses to fund the trials, while there is no assurance that our cash flow will in fact be enough to do so or that clinical trials will be successful or that the FDA will grant approval to market our device even if the trials are successfully completed.

***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, we had positive operating income in both of our operating divisions (HIFU division and Urology Devices and Services (“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 research and development (“R&D”) and regulatory efforts in the UDS division to develop a new, high-range lithotripter. In 2007, we also had negative operating income in our UDS division, reflecting the R&D and regulatory efforts in the UDS division to develop a new, high-range lithotripter, and in connection with our FDA/PMA trials, reflecting the regulatory and clinical efforts to resume and conduct our Ablatherm-HIFU PMA trials. Total costs were equal to total revenues for our HIFU division in 2007, due to the increase in revenues and margin on HIFU equipment and RPP treatment sales. We cannot assure investors 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. On April 25, 2007, we signed an exclusive distribution agreement with China Medical Technologies ("Chinamed") to distribute their HIFU devices in the European Union and Russia once their devices are approved for use in those jurisdictions and on September 21, 2007, we signed a Consulting Agreement with them, pursuant to which we will assist them in obtaining market approvals in Europe for their HIFU products. 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 investors that we will be able to develop new products or enhance our current ones to compete successfully with new or existing technologies. Rapid technological development by competitors may result in our products becoming obsolete before we recover a significant portion of the research, development and commercialization expenses incurred with respect to those products.

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

***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 investors 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 investors that our current or future patents are or will be sufficient to provide meaningful protection or commercial advantage to us. Our patents or patent applications could be challenged, invalidated or circumvented in the future. The failure to maintain or obtain necessary patents, licenses or other intellectual property rights from third parties on acceptable terms or the invalidation or cancellation of material patents could have a material adverse effect on our business, financial condition or results of operations. Litigation may be necessary to enforce patents issued to us or to determine the enforceability, scope and validity of the proprietary rights of others. Our competitors, many of which have substantial resources and have made substantial investments in competing technologies, may apply for and obtain patents that will interfere with our ability to make, use or sell certain products 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 one product liability action in the United States by a patient 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 this action. This product liability claim, 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 2007, approximately 77% of our total operating expenses were denominated in euro, while approximately 29% 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, 2007, we had no outstanding hedging instruments. In addition, since any dividends that we may declare will be denominated in euro, exchange rate fluctuations will affect the U.S. dollar equivalent of any dividends received by holders of ADSs.

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

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

## Risks Relating to the October 2007 Private Placement

*If we fail to register the resale of our securities by the applicable deadlines and maintain such registration, we will be subject to substantial penalties.*

Under the terms of the registration rights agreement we entered into in connection with the October 2007 private placement, we agreed to secure the registration of a portion of the securities deliverable upon conversion of the debentures and in payment of interest under the debentures by certain dates. In addition, we agreed to secure the registration of the remaining securities deliverable on conversion of the debentures and all of the securities deliverable upon exercise of the warrants by certain dates. If we fail to achieve effectiveness by the required dates, or maintain the effectiveness of the registration statements required under this registration rights agreement, we are subject to significant penalties, including payment of liquidated damages. Because of the SEC's recent interpretation of Rule 415 under the U.S. Securities Act, as amended (the "Securities Act"), we cannot guarantee we will successfully secure effectiveness of the registration statements or, if it is secured, that we will be able to maintain such effectiveness. Failure to meet these obligations will cause us to incur substantial penalties in the form of liquidated damages and could, given the passage of time, lead to an event of default under the debentures. Payment of liquidated damages or mandatory default amount will have a material adverse effect on our financial condition and results of operation and our ability to continue as a going concern.

*If we are required for any reason to repay our outstanding debentures, we would be required to deplete our working capital or raise additional funds. Our failure to repay the debentures, if required, could result in legal action against us, which could require the sale of substantial assets.*

The debentures are due and payable on October 30, 2012, unless sooner converted into ordinary shares. Any event of default could require the early repayment of the debentures at the mandatory default amount, including all other amounts of interest, costs, expenses and liquidated damages due in respect of the defaulted debentures. We expect that the full amount of the debentures will be converted into ordinary shares in accordance with the terms of the debentures. If, prior to the maturity date, we are required to repay the debentures in full, we would be required to use our working capital and raise additional funds. If we were unable to repay the debentures when required, the holders could commence legal action against us to recover the amounts due. Any such action would have a material adverse effect on our financial condition and results of operations.

*The issuance of shares upon conversion of the debentures and exercise of outstanding warrants will cause immediate and substantial dilution to our existing shareholders.*

The issuance of ordinary shares upon conversion of the debentures and exercise of the warrants will result in substantial dilution to the interests of other shareholders since the selling shareholders may ultimately convert and sell the full amount issuable on conversion. Based on the conversion price of the debentures and the exercise price of the warrants at the closing of the October 2007 private placement, up to 4,913,102, including 188,965 shares issuable to our placement agent of our ordinary shares are issuable upon conversion and exercise, representing approximately 53% of our issued and outstanding share capital. In addition, interest on the debentures is payable, under certain circumstances, in ordinary shares, under a formula which is tied to the trading price of our ADRs, and under which there is no upper limit of shares that may be required to be issued under our election to pay interest in ordinary shares. Although no single selling shareholder may convert its debentures and/or exercise its warrants if such conversion or exercise would cause it to own more than 4.99% of our outstanding ordinary, this restriction does not prevent each selling shareholder from converting and/or exercising a portion of its holdings, selling those Securities and then converting the rest of its holdings. In this way, each selling shareholder could sell more than this limit while never holding more than this limit.

*We may not be authorized to issue enough ordinary shares or be able to fulfill the conditions precedent to pay interest on the debentures in the form of ordinary shares, and if we fail to do so after we have notified the debenture holders of our intention to do so, an event of default under the debentures could occur.*

As noted above, interest on the debentures is payable, under certain circumstances, in ordinary shares, under a formula which is tied to the trading price of our ADRs. In order to pay interest in this manner, we need to notify our debenture holders at least 21 trading days prior to the relevant interest payment date and fulfill certain conditions during that notice period, up to and including the date interest is paid. Any such notice is irrevocable. Interest paid in ordinary shares is paid at the "interest conversion rate", which is based on the trading price of our ADRs during the notice period, after our irrevocable notice has been given. In the event our share price were to fall during the notice period, we would have to deliver a higher number of shares than we may have originally planned at the time we gave the irrevocable notice. In the event the number of shares we are required to deliver exceeds the number of shares we are then authorized by our shareholders to issue, we may not be able to deliver all of the interest shares then due. Additionally, if, on the day we pay interest, we do not fulfill the relevant conditions, we are not permitted to pay interest in the form of ordinary shares. In the event we are not able to deliver shares for any reasons, we will be subject to late fees and our debenture holders may decline to receive interest paid in cash. In the event they do not accept payment in cash, we would not be able to make a complete interest payment or any interest payment at all, which will result in an event of default under the debentures. An event of default with respect to the debentures would have a material adverse effect on our financial conditions and results of operations.

***Our increased leverage as a result of the sale of the debentures and warrants in the October 2007 private placement may harm our financial condition and results of operations.***

Our total consolidated long-term financial debt as of December 31, 2007 was €15.2 million (approximately \$22.2 million) and represented approximately 34% of our total capitalization, including the current portion of indebtedness of approximately €0.058 million (approximately \$0.085 million), as of that date. Our level of indebtedness could have important consequences on our future operations, including:

- Reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes, and limiting our ability to obtain additional financing for these purposes; and
- Limiting our flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business, the industry in which we operate and the general economy.

***Provisions in the debentures could discourage an acquisition of us or an investment in us by a third party, even if the acquisition or investment would be favourable to investors.***

The debentures prohibit us from engaging in certain transactions, each known as a “fundamental transaction”, including any merger, the sale of all of our assets or a tender offer under which our shareholders are permitted to exchange their shares for cash, securities or property, unless the successor entity agrees to comply with the requirement to provide our debenture holders, upon conversion, with the same property provided to our existing shareholders under the terms of the fundamental transaction. In addition, if we are party to a “fundamental transaction” or “change of control” (as defined in the debenture) or agree to dispose of in excess of 40% of our assets, the holders have the right to require us to redeem the debentures at their election shortly after they are notified of such a change. Any redemption under these circumstances will be at a premium equal to the higher of 130% of the then-outstanding principal amount of the debenture or the outstanding principal amount of the debenture, plus all accrued and unpaid interest, divided by the conversion price then in effect, multiplied by the VWAP (as defined in the debenture) then in effect.

In addition, under the terms of the securities purchase agreement we entered into in the October 2007 private placement, for so long as the debentures are outstanding, we are required to offer the investors who purchased debentures and warrants in the October 2007 private placement the right to participate in certain types of financings we arrange in the future, up to 50% of the value of such financing. We must provide this opportunity unless the offering is an underwritten public offering or an “exempt issuance”. Securities issued to our employees under plans, subject to certain volume limits, will be an exempt issuance, as will securities issued pursuant to strategic transactions with persons who are engaged in a business synergistic with ours. However, securities issued to persons who are not engaged in a synergistic business, such as a financial investor, are not exempt issuances.

The restrictions on the types of transactions we can engage in and the participation rights we may have to offer in future financings may operate to discourage third parties from engaging in these transactions with us, even if those transactions would be beneficial to us and our shareholders.

***Changes in the fair value of the debentures and warrants issued in the October 2007 private placement at each balance sheet date could have a significant impact on our financial condition and results of operations.***

We use various market parameters to evaluate the fair value of the convertible debentures and warrants issued in the October 2007 private placement at each balance sheet date which could have a significant impact on our financial condition and results of operation as a result of changes in these market parameters. The following market parameters are most likely to change at each balance sheet date and the following paragraphs describe how hypothetical increases or decreases in those market parameters would have affected the fair value of the debentures and warrants as of December 31, 2007:

- stock volatility: as of December 31, 2007 and every other market parameter being equal, an increase in the stock volatility of 5 percentage points would have resulted in an increase of 4% in the fair value of the convertible debenture and warrants, and a decrease in the stock volatility of 5 percentage points would have resulted in a decrease of 4% in the fair value of the convertible debentures and warrants.
- the stock value: as of December 31, 2007 and every other market parameter being equal, an increase in the stock value of 10% would have resulted in an increase of 5% in the fair value of the convertible debenture and warrants, and a decrease in the stock value of 10% would have resulted in a decrease of 8% in the fair value of the convertible debentures and warrants.
- the risk free interest rate: as of December 31, 2007 and every other market parameter being equal, an increase in the risk free interest rate of 1 percentage point would have resulted in a decrease of 1% in the fair value, of the convertible debentures and warrants, and a decrease in the risk free interest rate of 1 percentage point would have resulted in an increase of 1% in the fair value of the convertible debentures and warrants.
- combined sensitivity to market parameters: as of December 31, 2007, a 5 percentage point increase in stock volatility together with a 10% increase in the stock value and a 1 percentage point decrease in the risk free interest rate would have resulted in an increase of 10% in the fair value of the debentures and warrants; conversely, a 5 percentage point decrease in the stock volatility together with a 10% decrease in the stock value and a 1 percentage point increase in the risk free interest rate would have resulted in a decrease of 10% in the fair value of the debentures and warrants.

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

***Our securities may be affected by volume fluctuations, and may fluctuate significantly in price.***

Our ADSs are currently traded on the NASDAQ Global Market. The average daily trading volume of our ADSs in December 2007 was 21,118, the high and low bid price of our ADSs for the last two financial years ended on December 31, 2007 and December 31, 2006, was \$ 9.40 and \$21.64, and \$ 4.25 and \$5.68, respectively, and the high and low bid price of our ADSs during 2007 was \$9.40 and \$4.37, respectively. Our ADSs have experienced, and are likely to experience in the future, significant price and volume fluctuations, which could adversely affect the market price of our ADSs without regard to our operating performance. The price of our Securities, and our ADSs in particular, may fluctuate as a result of a variety of factors beyond our control, including changes in our business, operations and prospects, regulatory considerations, results of clinical trials of our products or those of our competitors, developments in patents and other proprietary rights, and general market and economic conditions.

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

The extraordinary general meeting of our shareholders held on May 22, 2007 delegated to our Board of Directors the authority to issue up to 6,000,000 additional shares, either in the form of shares or through the issuance of securities exercisable for or convertible into our shares. We used this authorization to issue the debentures and warrants in the October 2007 private placement. These securities were issued without preferential subscription rights. In addition, 600,000 of the shares authorized at the May 22, 2007 shareholders' meeting were allowed to be granted to certain of our employees through the issuance of subscription options. On October 29, 2007, 504,088 options to subscribe to 504,088 new shares were granted to certain employees. Finally, 18,840 new ordinary shares may be granted to certain of our employees if they achieve certain performance goals during 2008 pursuant to the Shareholders' authorization dated February 17, 2005. The issuance of additional ordinary shares, including any additional ordinary shares issuable pursuant to the exercise of preferential subscription rights that may not be available to all of our shareholders, would reduce the proportionate ownership and voting power of then-existing shareholders.

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

As a foreign private issuer, we are not required to comply with the notice and disclosure requirements under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), relating to the solicitation of proxies for shareholder meetings. Although we are subject to the periodic reporting requirements of the Exchange Act, the periodic disclosure required of non-U.S. issuers under the Exchange Act is more limited than the periodic disclosure required of U.S. issuers. Therefore, there may be less publicly available information about us than is regularly published by or about other public companies in the United States.

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

We have not paid any dividend on our shares since 1994, and do not anticipate paying any dividends for the foreseeable future. In particular, in connection with the October 2007 private placement, we agreed not to pay cash dividends on any of our equity securities. Thereafter, declaration of dividends on our shares will depend upon, among other things, future earnings, if any, the operating and financial condition of our business, our capital requirements, general business conditions and such other factors as our Board of Directors deems relevant. See Item 8, "Financial Information—Dividends and Dividend Policy".

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

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

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

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

Holders of ADSs do not have the same rights as shareholders and accordingly, cannot exercise rights of shareholders against us. The Bank of New York, as depositary (the "Depositary"), is the registered shareholder of the deposited shares underlying the ADSs, and therefore holders of ADSs will generally have to exercise the rights attached to those shares through the Depositary. We will use reasonable efforts to request that the Depositary notify the holders of ADSs of upcoming votes and ask for voting instructions from them. If a holder fails to return a voting instruction card to the Depositary by the date established by it for receipt of such voting instructions, or if the Depositary receives an improperly completed or blank voting instruction card, or if the voting instructions included in the voting instruction card are illegible or unclear, then such holder will be deemed to have instructed the Depositary to vote its shares and the Depositary shall vote such shares in favour of any resolution proposed or approved by our Board of Directors and against any resolution not so proposed or approved.



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

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

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

#### Item 4. Information on the Company

We develop and market the Ablatherm<sup>®</sup>, an advanced 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 for localized prostate cancer 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 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 (the “Distribution Agreement”), with a subsidiary of HealthTronics Surgical Services, Inc. (“HealthTronics”), under which HealthTronics agreed to distribute our lithotripters in the United States. Under the Distribution Agreement, 1,000,000 warrants were allocated to HealthTronics, which were to be exercised upon the completion of certain milestones linked to the grant of the Ablatherm pre-market approval and certain minimum sales of lithotripters in the United States. On December 29, 2005, we amended the Distribution Agreement after HealthTronics decided to focus all of its efforts on implementing Ablatherm clinical trials in the United States to gain FDA approval and to cease pursuing distribution of our lithotripters in the United States. In connection with this amendment, 200,000 warrants that had been issued to HealthTronics were cancelled since their exercise was directly linked to future purchases of our lithotripters.

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 were and are being used 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.

On April 3, 2007, we executed a Termination Agreement whereby HealthTronics agreed to transfer the Ablatherm FDA study to us. Under the Termination Agreement, HealthTronics exercised 200,000 warrants which had been granted under the Distribution Agreement to acquire 200,000 of our ordinary shares for an aggregate exercise price of \$300,000. The 600,000 remaining warrants granted under the Distribution Agreement were cancelled. We also agreed to file a registration statement under the Securities Act of 1933 to enable HealthTronics to resell its shares in transactions that are registered under the Securities Act. Under the Termination Agreement, HealthTronics agreed to pay us \$600,000 after the resale registration statement was effective for 60 days and to transfer to us one Ablatherm device and six lithotripters HealthTronics had previously acquired and to return to us two Ablatherm devices we owned.

On April 3, 2007, we executed an Agreement and Release whereby HealthTronics agreed to transfer the Ablatherm FDA study to us. The Agreement and Release was amended on July 9, 2007. Under the Agreement and Release, as amended, HealthTronics exercised 200,000 warrants which had been granted under the Distribution Agreement to acquire 200,000 of our ordinary shares for an aggregate exercise price of \$300,000. The 600,000 remaining warrants granted under the Distribution Agreement were cancelled. Pursuant to a registration rights agreement, we also agreed to file a registration statement under the Securities Act to enable HealthTronics to resell its ordinary shares (in the form of ordinary shares or ADSs) in transactions that are registered under the Securities Act. Under the Agreement and Release, HealthTronics agreed to pay us \$600,000 within five days of the earlier of (a) 60 days after the effective date of the resale registration statement (such sixty-day period being subject to extension in certain circumstances) and (b) the date that HealthTronics had sold all of our ordinary shares. Further, under the terms of the Agreement and Release, HealthTronics agreed to use its reasonably best efforts to resell its ordinary shares in accordance with a registration statement. Finally, pursuant to the Agreement and Release, HealthTronics transferred to us one Ablatherm device and six lithotripters that HealthTronics had previously acquired and returned to us two Ablatherm devices we owned. We filed a resale registration statement on Form F-3 on July 16, 2007 reflecting the terms of the amended Agreement and Release. We were unable, however, to resolve a comment from the SEC staff on the Form F-3 registration statement relating to the availability of Form F-3 for the resale of the ordinary shares held by HealthTronics. As a result, with HealthTronics concurring, we elected to withdraw the resale registration statement by letter dated September 18, 2007. In an e-mail communication to us, HealthTronics has confirmed to us that they intend to honor their obligations under the Agreement and Release and specifically to pay us the \$600,000 amount within five days after they sell our ordinary shares. The timing of that payment, however, is unclear. The ordinary shares held by HealthTronics may now be sold without registration under Rule 144 under the Securities Act, provided that the requirements of the rule for resales by non-affiliates are satisfied. We are in continuing discussion with HealthTronics regarding these matters. Given the contingent nature of the \$600,000 settlement, the amount has not been reflected in our financial statements for the year ended December 31, 2007.

On October 31, 2007, we completed a private placement of \$20 million principal amount of 9% Senior Convertible Debentures due 2012. In addition, the purchasers of the convertible debentures and our placement agent (the "Placement Agent") received warrants to purchase our ordinary shares for an average exercise price of \$6.68 per share which expire in 2013. The October 2007 private placement resulted in net proceeds of approximately \$17.4 million. We agreed to use the proceeds of the private placement to finance costs associated with the regulatory approval for the commercialization of Ablatherm HIFU in the United States (including related clinical trials) and for general and administrative expenses.

In December 2007, to clarify and simplify our French organizational structure, we decided to merge the two operational French entities EDAP SA and Technomed Medical Systems SA into a single entity named EDAP TMS France S.A. (formerly Technomed Medical Systems SA), which is wholly owned by EDAP TMS SA. This reorganization will be effective from January 1, 2008, subject to approval by the shareholders of each of the French operational entities in late June 2008. Pending shareholder approval of the merger, EDAP SA will lease its HIFU business activities to EDAP TMS France. The merger will not change our business segments and we will continue to report on our two business activities as the HIFU division and UDS division, as described below.

In 2007, following the termination of the Distribution Agreement signed with HealthTronics, EDAP Technomed Inc, our Delaware subsidiary, regained the sponsorship of our Ablatherm IDE study and has pursued our clinical trials in the United States. Therefore, a portion of the proceeds resulting from our October 2007 private placement were transferred to EDAP Technomed Inc. to finance our US Ablatherm-HIFU clinical trials.

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. Mr. Lee Sanderson, CPA, 945 Concord Street, Framingham, MA 01701, USA, 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 divisions has allowed us to expand our market share by optimizing worldwide distribution capabilities, all of which is coordinated through our subsidiaries.

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

Our HIFU and UDS divisions operate in Europe, the Americas, Asia and the rest of the world. Total net sales for the HIFU division (in net contributions to Group total sales) were € 9.3 million, € 7.6 million, and € 7.8 million for 2007, 2006, and 2005, respectively (all in Europe and the rest of the world, outside Asia and the United States). Total revenues for the UDS division were € 12.9 million (including € 6.5 million in Asia and € 6.4 million in Europe and the rest of the world), € 12.6 million (€ 5.4 million in Asia and € 7.2 million in Europe and the rest of the world), and € 12.9 million (€ 6.8 million in Asia and € 6.1 million in Europe and the rest of the world), each for 2007, 2006, and 2005, 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 <sup>(1)</sup> |
|--------------------------|-------------------------------|---------------------------------|
| EDAP TMS France S.A.     | France                        | 100%                            |
| EDAP S.A. <sup>(2)</sup> | France                        | 100%                            |
| EDAP Technomed Inc.      | United States                 | 100%                            |
| EDAP Technomed Co. Ltd   | Japan                         | 100%                            |
| EDAP Technomed Sdn Bhd   | Malaysia                      | 100%                            |
| EDAP Technomed Srl       | Italy                         | 100%                            |
| EDAP GmbH                | Germany                       | 100%                            |

(1) Percentage of equity capital owned by EDAP TMS S.A. directly or indirectly through subsidiaries.

(2) Will legally cease to exist upon approval of merger into EDAP TMS France by its shareholders

## High Intensity Focused Ultrasound (“HIFU”) Division

The HIFU division is engaged in the development, manufacturing and marketing of medical devices based on HIFU technology for the minimally invasive treatment of urological and other clinical indications. The HIFU division had total revenues of €9.3 million during the fiscal year ended December 31, 2007.

### HIFU Division Business Overview

The HIFU division currently develops, manufactures and markets devices for the minimally invasive destruction of certain types of localized tumors using HIFU technology. HIFU technology uses a high-intensity convergent ultrasound beam generated by high power transducers to produce heat. HIFU technology is intended to allow the surgeon to destroy a well-defined area of diseased tissue without damaging surrounding tissue and organs, thereby eliminating the need for incisions, transfusions and general anesthesia and associated complications. The 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. The HIFU division had a fixed installed base of 58 Ablatherm machines worldwide (with an additional four used for clinical studies) and 176 trained clinical sites were using this technology as of December 31, 2007.

In addition to developing, manufacturing and marketing HIFU devices, the HIFU division also generates revenues from leasing equipment, as well as from the sale of disposables, spare parts and maintenance services. Our HIFU mobile treatment option provides access to the HIFU devices without requiring hospitals and clinics to make an up-front investment in the equipment. Instead, hospitals and clinics perform treatments using these devices and remunerate us on a 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 under this model, 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, manufacturing, marketing and distribution of minimally invasive medical devices for urological and other indications, using HIFU technology, while preserving patient quality of life. The HIFU division believes that minimally invasive treatments using HIFU could provide an alternative to current invasive therapies on the basis of reduced cost and reduced morbidity for a number of different indications. The key elements of the HIFU division's strategy to achieve that objective are:

- *Provide Minimally Invasive Solutions to Treat Prostate Cancer using HIFU.* Building upon our established position in the ESWL market, our HIFU division is striving to become the leading provider of our minimally invasive treatment option for prostate cancer. We believe that there is a large market opportunity with an increase in incidence linked to the aging male population, an increase in screening and recent campaigns to increase awareness. We also believe that HIFU could represent a credible alternative to surgery, external beam radiotherapy, brachytherapy and cryotherapy for the treatment of organ-confined prostate cancer without the cost, in-patient hospitalization and adverse side effects associated with those therapies. The HIFU division intends to achieve this through a direct sales network in key European countries and through selected distributors in other European countries and in Asia. The HIFU division has built a strong clinical credibility based on clinical articles published in peer-reviewed journals. We ensure effective patient and physician education through a focused communication program. In addition to that current operational basis, we are seeking FDA approval to enter the US market with our Ablatherm-HIFU device.
- *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 R&D projects in 2007 to develop HIFU applications beyond prostate cancer. The division is considering sustaining R&D spending in 2008 and future years to strengthen its technological leadership in HIFU and expand its application beyond urology.

#### **HIFU Products**

Currently, the only commercial product 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, South Africa, New Zealand, the Philippines, Mexico and Russia. Clinical trials are underway in the United States. 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 area has been treated, while controlling and imaging the treatment in real time due 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, 2007, the HIFU division's patent portfolio contained 61 patents consisting of 27 in the United States, 25 in the European Union and Japan and 9 in Israel and the rest of the world. They belong to 25 groups of patents covering key technologies related to therapeutic ultrasound principles, systems and associated software.

During 2007, three new patents were granted. One is dedicated to the design of the latest Ablatherm Integrated Imaging probe version. Another one covers the Ablapak disposable in the United States and the last one, in Canada, concerns a new transducer design for High Intensity Contact Ultrasound applications ("HICU").

Fifteen additional patents covering certain other aspects of our HIFU technology in the European Union (5), the United States (3), the Japan (6) and the rest of the world (1) are also under review. These patents relate to new transducer design for both HIFU and HICU technologies. Taking into consideration the Chinese research and industry involvement in therapeutic ultrasound applications and business, we currently intend to extend this patent portfolio to China.

Our ongoing research and development objectives are to maintain our leadership position in the treatment of prostate cancer and to extend the HIFU technology to new applications and minimally invasive systems. These research projects are conducted in cooperation with the French National Institute for Health and Medical Research ("INSERM") which give rise in some cases to the filing, followed by the grant of co-owned patents. We have entered into various license agreements with INSERM whereby we commit to pay a fixed amount of royalties to INSERM based on the net revenues generated from the sales of HIFU devices using co-owned patents. Under these agreements, which last for the life of each co-owned patents we have the exclusive right to the commercial use of the co-owned patents, including the right to out-license such commercial rights.

In August 2004, we licensed our HIFU technology for the specific treatment of the "cervicofacial" lesions, including the thyroid, to Theraclion, a French company created by our former Director of research and development. 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 at that time and this license agreement therefore allows Theraclion to pursue the development of HIFU for this application. We own no interest in Theraclion.

In 2007, a preliminary evaluation of the use of HIFU technology for ophthalmologic applications was performed. In July 2007, we entered into an agreement with a third party whereby we committed to use our best efforts to negotiate a license of our HIFU patents for its use in the treatment of glaucoma.

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

### ***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—Our future revenue growth and income depend, among other things, on the success of our 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 intended to discontinue Ablatherm FDA trials. On April 3, 2007, we executed a Termination Agreement whereby HealthTronics agreed to transfer the Ablatherm FDA study to us. See Item 4, "Information on the Company - History and Development of the Company."

On June 29, 2007, the FDA officially approved the transfer of the study to EDAP Technomed Inc. and the trials resumed as per the approved protocol. In October 2007, we completed a private placement raising net proceeds of \$17.4 million allowing us to finance and conduct the US trials for the expected period of time. See 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. Patients are still being enrolled.

In 2006, a clinical trial was launched to evaluate new Ablatherm treatment options allowing the treatment of larger prostates. This clinical study has been completed in 2007 and a new software improving the device specifications was released at the end of 2007.

In 2007, a new clinical trial using Ablatherm-HIFU and dedicated to the treatment of high risk patients was started in France. Patient enrolment is in progress.

The first clinical paper reporting long term results using Ablatherm HIFU was published in November 2007. The results of the study confirm the efficacy of HIFU in patients with localized prostate cancer.

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

Prostate cancer is currently the first or second most common form of cancer among men in many populations. In the United States, the American Cancer Society estimates the number of new prostate cancers diagnosed every year to be approximately 220,000, 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 US 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 the use of HIFU to other areas of treatment will require a significant investment in research and development, an investment which we will be undertake 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 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 Ablatherm-HIFU device competes with all current treatments for localized tumors, which include surgery, brachytherapy, radiotherapy, cryotherapy and hormone therapy. 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 cancerous tumors, but the Company is only marketing its HIFU products in China. On April 25, 2007, we signed an exclusive distribution agreement with Chinamed to distribute their HIFU devices in the European Union and Russia once their devices are approved for use in those jurisdictions and on September 21, 2007, we signed a Consulting Agreement with Chinamed, pursuant to which we will assist them in obtaining market approvals in Europe for their HIFU products for other applications than the treatment of prostate cancer.

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



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

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

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

The HIFU division's marketing efforts include the organization of informative and training programs for urologists, mainly in key European countries where HIFU awareness is growing, comprehensive media and web programs to educate patients on the availability of HIFU technology to treat localized prostate cancer and strong participation in focused dedicated urological events. Our dedicated web site [www.hifu-planet.com](http://www.hifu-planet.com) for patients and physicians is regularly visited.

### **Urology Devices and Services ("UDS") Division**

The UDS division is engaged in the development, marketing, manufacturing and servicing of medical devices for the minimally invasive diagnosis or treatment of urological disorders, mainly urinary stones, and other clinical indications. The UDS division made a net contribution to consolidated sales of €12.9 million during the fiscal year ended December 31, 2007.

#### **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 three models of lithotripters: the Sonolith Praktis, which is available for commercial distribution in the European Union, Japan, Canada and the United States, the Sonolith Vision, which is available for commercial distribution in the European Union, Japan and Canada and the Sonolith I-Sys, which is available in the European Union only. The newly designed fully integrated ESWL device: the Sonolith I-Sys is to gradually replace the Sonolith Vision when the Sonolith I-Sys is approved in the United States, Japan and Canada. The UDS division had an installed base of 474 ESWL lithotripters worldwide as of December 31, 2007.

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. Up to December 31, 2007, the UDS division, as an additional part of its contract manufacturing business, manufactured HIFU related devices and accessories, including disposables, on behalf of the HIFU division. As from January 1, 2008, the HIFU division integrated its own manufacturing as part of EDAP TMS France. The UDS division through our Japanese and Italian subsidiaries also derives marginal revenues from the distribution of Prostatron parts and related services under the distribution agreement entered into with Urologix in October 2000.

The UDS division, through our Japanese subsidiary signed an agreement with a Japanese company, Medi Trend KK to distribute the Muscle Trainer Device manufactured by Neotonus, a US company, in Japan. This device helps users to exercise all of the muscles of the pelvic floor region. The UDS division also 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. Until December 31, 2007, the UDS division manufactured the Ablatherm and the disposable Ablapack on behalf of the HIFU division. All the costs related to the manufacturing of these machines were supported by the UDS division, which invoiced the HIFU division at cost plus a margin and records the sales of the devices as revenues. As from January 1, 2008, all manufacturing costs are born by EDAP TMS France. 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, as well as 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. Our 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 our FDA-inspected and ISO 9001 (V:2000) and ISO 13485 (V:2003) certified facilities allow 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 I-Sys and the Sonolith Vision are 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.

| <b>Product</b>                        | <b>Procedure</b>                               | <b>Development Stage</b> | <b>Clinical and Regulatory Status</b>   |
|---------------------------------------|--|--------------------------|---|
| Sonolith Praktis compact lithotripter | Electroconductive treatment of urinary stones  | Commercial Production    | Approved for distribution:<br>European Union<br>Japan<br>United States<br>Canada<br>Russia<br>South Korea<br>Australia<br>New Zealand |
| Sonolith Vision                       | Electroconductive treatment of urinary stones  | Commercial Production    | Approved for distribution:<br>European Union<br>Japan<br>Canada<br>South Korea<br>Australia<br>New Zealand                            |
| Sonolith I-Sys                        | Electroconductive treatment of surinary stones | Commercial Production    | Approved for distribution:<br>European Union  |

The Sonolith Praktis, the Sonolith Vision and the Sonolith I-Sys 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 or I-Sys, which are more fully dedicated and integrated electroconductive lithotripters for larger hospitals.

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

As of December 31, 2007, the UDS division's patent portfolio contained 16 patents consisting of 5 in the United States, 8 in the European Union and Japan and 3 in Israel and the rest of the world. They belong to 9 groups of patents covering key technologies relating to ESWL systems and associated software capabilities.

During 2007, two additional patents covering a new shock wave generation technology were granted in the United States and, for the first time, in China. One US Patent related to obsolete X-ray imaging technology has been abandoned. 3 additional patents, 1 in Europe, 1 in Japan and 1 in Israel are also in the examination process. One patent is dedicated to the I-Sys lithotripter technology.

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.

As with the development of our HIFU technology, we cooperate with INSERM to develop our ESWL technology. This cooperation gave rise to co-owned patents in some cases. We have entered into various license agreements with INSERM whereby we commit to pay a fixed amount of royalties to INSERM based on the net revenues generated from the sales of ESWL devices using co-owned patents. Under these agreements, which last for the life of each co-owned patents we have the exclusive right to the commercial use of the co-owned patents, including the right to out-license such commercial rights.

#### ***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 Sonolith I-Sys is available in the European Union only. 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 our 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. 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 Services and Distribution***

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. We believe that the UDS division can successfully market its worldwide distribution platform to a wide range of medical equipment development companies, thus allowing for quick, easy and economically sound entry for these companies into markets covering most of the world.

#### **Manufacturing**

Our current operations consist of manufacturing medical products in our facility that is FDA-approved and certified under international standards ISO 9001 and ISO 13485. We believe that this facility can extend its outsourced services to provide device and disposable development and manufacturing services to a wide range of medical equipment development companies. Up until December 31, 2007, the HIFU division subcontracted the manufacturing of its HIFU devices and accessories, including disposables. From January 1, 2008, each division is manufacturing its own products through EDAP TMS France.

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

## Quality and Design Control

The manufacturing operations of EDAP TMS France must comply with the GMP regulations enacted by the FDA, which establish requirements for assuring quality by controlling components, processes and document tractability and retention, among other things. EDAP TMS France'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 EDAP TMS France's manufacturing facilities with international standards for quality assurance, design and manufacturing process control. EDAP TMS France also complies with the applicable requirements that will allow it to affix the CE Marking to certain of its products. Our manufacturing site also complies with Japanese and Canadian regulations, as well as with the US Quality System Regulation. 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, Sapporo 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 our medical devices and of the healthcare systems in these jurisdictions generally.

### *Healthcare Regulation in the United States*

We and our products are regulated in the United States by the FDA under a number of statutes including the Federal Food, Drug and Cosmetic Act (“FDC Act”). Pursuant to the FDC Act, the FDA regulates the preclinical and clinical testing, manufacturing, labeling, distribution, sale, marketing, advertising and promotion of medical devices in the United States. Medical devices are classified in the United States into one of three classes - Class I, II or III - on the basis of the controls reasonably necessary to ensure their safety and effectiveness. Class I devices are those whose safety and effectiveness can be ensured through general controls, such as 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 Investigational Device Exemption (“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 US 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 European Community approval "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 ("MHLW") under the license "Marketing Authorization Holder". Our Japanese subsidiary has obtained a general license as well as specific approvals to import our products that have been approved in Japan. The MHLW also administers various national health insurance programs to which each Japanese citizen is required to subscribe. These programs cover, among other things, the cost of medical devices used in operations. The MHLW establishes a price list of reimbursable prices applicable to certain medical devices under the national health insurance programs and until a new device is included in this list its costs are not covered by the programs. The LT02, the SONOLITH Praktis, the SONOLITH Vision 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, 2007, 2006 and 2005 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. We provide training and usually provide a one-year warranty upon installation. We recognize 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, the revenue is recognized on a linear basis over the contract period. For treatments in excess of minimum levels, the revenue is recognized when the treatment procedure has been completed. Revenues from devices leased to customers under operating leases are recognized on a straight-line basis.

Sales of spare parts and services:

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

### **Leases and Sales and leaseback transactions**

In accordance with SFAS 13, Accounting for Leases, we classify all leases at the inception date as either a capital lease or an operating lease. A lease is a capital lease if it meets any one of the following criteria; otherwise, it is an operating lease:

- Ownership is transferred to the lessee by the end of the lease term;
- The lease contains a bargain purchase option;
- The lease term is at least 75% of the property's estimated remaining economic life;
- The present value of the minimum lease payments at the beginning of the lease term is 90% or more of the fair value of the leased property to the lessor at the inception date.

We enter into sale and leaseback transactions from time to time. In accordance with SFAS 13 and EITF 93-8, any profit or loss on the sale is deferred and amortized prospectively over the term of the lease, in proportion to the leased asset if a capital lease, or in proportion to the related gross rental charged to expense over the lease term, if an operating lease.

### **Warrants**

In accordance with EITF 96-18, we accounted for the warrants issued to HealthTronics in 2004 and 2005 under the now terminated Distribution Agreement 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 vested warrants. 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.

As part of the October 2007 \$20 million issuance of the convertible debentures, we issued warrants to both the investors in the convertible debentures and to the bank that assisted us as placement agent (the "Placement Agent"). In accordance with EITF 00-19, the warrants issued to the investors in the convertible debentures (the "Investor Warrants") and the Placement Agent (the "Placement Agent Warrants") are classified as a liability because the Company may be required to settle them on a net cash basis upon the occurrence of certain events outside the control of the Company. We accounted for the Investor Warrants based on their fair value at inception date, with subsequent changes in fair value recorded as financial earnings (or loss) at each balance sheet date. We use a binomial pricing model to determine the fair value of the Investor Warrants: the binomial model was developed to capture the specific nature of this instrument, and in particular the possibility that the holder may exercise the call option at any time from the inception date. The application of the model to the warrants requires the use of subjective assumptions, including historical share price volatility, the expected life of the warrants, our risk-free interest rate, and the liquidity discount factor. A change in one or more of these assumptions could result in a material change to the estimated fair value of the Investor Warrants and the Placement Agent Warrants. See Item 3, "Key Information - Risk Factors - Changes in the fair value of the debentures and warrants issued in the October 2007 private placement of each balance sheet date could have a significant impact on our financial condition and results of operations", "- Convertible Debentures" below and Notes 14 and 20 to the Financial Statements.

#### ***Convertible Debentures***

On October 29, 2007, the Company raised \$20 million in non-secured, convertible debentures with detachable warrants. At the inception date, the Company elected to measure the instrument and its embedded derivatives in its entirety at fair value, with changes in fair value reported in the income statement under financial income, pursuant to §16 of SFAS 133, as amended by SFAS 155. Thus, the convertible debentures together with their embedded derivatives are recorded as a liability, with subsequent changes in fair value recorded in financial income and expenses. The Company used a binomial valuation model to measure the fair value of the Investor Warrants and a binomial valuation model with a Company specific credit spread to measure the fair value of the convertible debentures. - See Item 3, "Key Information - Risk Factors - Changes in the fair value of the debentures and warrants issued in the October 2007 private placement of each balance sheet date could have a significant impact on our financial condition and results of operations" and Notes 14 and 20 to the Financial Statements for a detailed description of the fair value calculations.

#### ***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, 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. At December 31, 2007, we determined that certain inventories were not appropriately valued and therefore reserved €0.3 million against these inventories.

#### **Litigation**

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. In February 2008, we settled a claim alleging a patient was injured during a Prostatron treatment procedure. The cost for settling this claim was \$15,000, which was covered by our product liability insurance.

#### **Deferred Tax**

As of December 31, 2007, we had approximately €245 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 carry-forwards 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 and services, all net of commissions, as well as other revenues.

Net sales of goods have historically been comprised of net sales of medical devices (Prostatrons, ESWL lithotripters and Ablatherms) and net sales of disposables (mostly Ablapaks in the HIFU division and electrodes in the Lithotripsy division). 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' announcement that it wished to terminate the Distribution Agreement, we entered in a termination agreement pursuant to which HealthTronics exercised 200,000 of the warrants that it had been granted under the Distribution Agreement and the remaining 600,000 warrants have been cancelled. 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 of RPP (Revenue-Per-Procedure) and leases include the revenues from the sale of Ablatherm treatment procedures and from the leasing of Ablatherm machines. We provide Ablatherms 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 the basis of the number of individual treatments provided. With this business model, the hospital or clinic does not make an initial investment until the increase in patient demand justifies the purchase of 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 but, 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 and services include revenues arising from maintenance services furnished by us for the installed base of Prostatrons, ESWL lithotripters and Ablatherms.

We derive a significant portion of both net sales of medical devices and net sales of spare parts and services from our operations in Asia, through our wholly owned subsidiaries or representative offices in Japan (Edap Technomed Co. Ltd), Malaysia (Edap Technomed Sdn Bhd) and Korea (Edap Technomed Korea). Revenue derived from our operations in Asia represented approximately 30% of our total consolidated revenue in 2007. Net sales of medical devices in Asia represented approximately 37% of such sales in 2007 and consisted primarily of sales of ESWL lithotripters and consumables. Net sales of spare parts, supplies and services in Asia represented approximately 38% of such sales in 2007 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 2007, approximately 77% of our research and development, selling, marketing and general and administrative expenses were denominated in euro, while approximately 29% of our sales were denominated in currencies other than euro (primarily the US Dollar and Japanese yen). Our operating profitability could be materially affected by large fluctuations in the rate of exchange between the euro and such other currencies. To minimize our exposure to exchange rate risks, we sometimes use certain financial instruments for hedging purposes.

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

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

Consolidated research and development expenses, as described above, amounted to €3.2 million, €2.4 million and €1.8 million in 2007, 2006 and 2005, respectively, representing approximately 14%, 12%, and 9% of total revenues in 2007, 2006 and 2005, respectively. The increase in research and development in 2007 compared to 2006 was primarily due to an increase in HIFU and ESWL development activities, the development of the new Sonolith I-sys lithotripter and the launch of the Phase II/III PMA trial in the United States to expand our leadership in HIFU for prostate cancer (the cost of which represented 4% of total revenues in 2007). Beginning in 2008, 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 12% of total revenues, which we expect will allow us to maintain our strategy to launch new clinical studies (thus strengthening our clinical credibility), to continue to focus our efforts on getting regulatory approvals and reimbursement in key countries and to fund projects to expand the use of HIFU beyond the treatment of prostate cancer.

Selling and marketing expenses amounted to €5.5 million in 2007, €4.6 million in 2006 and €3.8 million in 2005. The increase of 18.5% from 2006 to 2007 was primarily due to an increase in marketing expenses 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 stay at significant levels in the future to consolidate the Ablatherm-HIFU technology's status as a standard of care for prostate cancer in Europe.

In 2007, we recorded €0.2 million of non-recurring operating expenses, net, including €0.5 million of employee termination expenses and a €0.3 million non-recurring profit with the return of the lithotripsy and HIFU devices from HealthTronics as part of the termination of the Distribution Agreement. 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, we did not record any non-recurring operating expense. See Note 18 of the Notes to the Consolidated Financial Statements.

On February 25, 2004, we entered into the Distribution Agreement with HealthTronics granting it, among other things, (i) the right to begin clinical trials in the United States 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 1,000,000 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 to cease pursuing Ablatherm FDA approval, we have negotiated a termination of the Distribution Agreement with HealthTronics. 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 2005 as a reduction of revenue related to the vesting of a series of warrants linked to HealthTronics' 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—We sell our products in many parts of the world and, as a result, our business is affected by fluctuations in currency exchange rates" and Item 11, "Quantitative and Qualitative Disclosures About Market Risk" for a description of the impact of foreign currency fluctuations on our business and results of operations.

**Fiscal Year Ended December 31, 2007 Compared to Fiscal Year Ended December 31, 2006**

As from the first quarter of 2007, we elected to report our segment information on a “net contribution” basis, so that each segment’s results comprise the elimination of our intra-group revenues and expenses and thus reflect the true contribution to consolidated results of the segment. See Note 28 to the Financial Statements. We have reclassified our 2006 results using this method for comparative purposes.

Total revenues.

Our total revenues increased 10% from €20.3 million in 2006 to €22.3 million in 2007, principally due to the transition in the HIFU division to the new RPP model and the increase in the number of HIFU treatments.

*HIFU division.* The HIFU division’s total net sales increased 22% from €7.6 million in 2006 to €9.3 million in 2007, principally due to an increase in Ablatherm RPP and revenues related to disposables and service activity.

The HIFU division’s net sales of medical devices increased 2%, from €2.6 million in 2006 to €2.7 million in 2007, with six Ablatherm units sold in 2007 compared to eight units sold in 2006. The increase in the average unit sales price from €326 thousand in 2006 to €444 thousand in 2007 was due to the fact that three of the devices sold in 2006 were used machines and only new machines were sold in 2007.

Net sales of treatments on a mobile and fixed RPP basis increased 33%, from €2.8 million in 2006 to €3.7 million in 2007. This was 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 that increase in the number of total HIFU treatments, net sales of consumables increased 60% from €0.7 million in 2006 to €1.2 million in 2007, and net sales of HIFU-related spare parts, supplies, leasing and services increased 17% from €1.5 million in 2006 to €1.7 million in 2007.

Other HIFU-related revenue decreased from €66 thousand in 2006 to €60 thousand in 2007.

*UDS division.* The UDS division’s net sales increased 3% from €12.6 million in 2006 to €12.9 million in 2007.

The UDS division’s net sales of medical devices increased 8% from €6.0 million in 2006 to €6.5 million in 2007 with 38 devices sold in 2006 and 2007 and a better Average Sales Price in 2007 due to better sales in the higher price segment, mostly due to the launch of the new Sonolith I-sys and despite a negative Japanese yen/euro exchange rate.

Net sales of UDS-related spare parts, supplies and services decreased 2% from €6.6 million in 2006 to €6.4 million in 2007, primarily related to the expiration of more profitable service contracts on older generation lithotripsy machines that were not renewed.

Other UDS-related revenue increased from €26 thousand in 2006 to €53 thousand in 2007.

Cost of sales.

Cost of sales increased 10% from €11.9 million in 2006 to €13.1 million in 2007, stable at 59.2% as a percentage of net sales.

Operating expenses.

Operating expenses increased 16%, or €1.9 million, from €11.4 million in 2006 to €13.3 million in 2007. This increase in operating expenses resulted from costs associated with the resumption of the FDA clinical trials and sustained efforts in Europe to improve market education on HIFU and to enhance our Ablatherm-HIFU position.

The costs associated with the FDA/PMA trial accounted for €1.7 million of expenses, comprising mostly clinical and administrative expenses due to the takeover of the PMA trial sponsorship from HealthTronics and the resumption of the selection of clinical centers and patient enrollment. These FDA/PMA trials also included a one-time settlement that resulted in a €0.3 million gain recognized as part of the termination agreement negotiated with HealthTronics.

Excluding the FDA/PMA trials, marketing and sales expenses increased €0.8 million, or 17%, mostly in the HIFU division which accounted for €0.5 million of the increase, or 21%, as a result of the continuing efforts to increase market acceptance and penetration in Europe through the HIFU-RPP model, while expenses in the UDS division increased €0.3 million to prepare for the launch of the new Sonolith I-Sys lithotripsy device.

Excluding the FDA/PMA trials, research and development expenses decreased from €2.4 million in 2006 to €2.3 million in 2007, mostly due to the reallocation of research and development resources to support the FDA/PMA trials, while research and development expenses in the UDS division were stabilized after a more significant effort in the previous year to develop the new lithotripsy machine.

Excluding the FDA/PMA trials, general and administrative expenses decreased from €4.1 million in 2006 to €3.7 million in 2007, a decrease of 9%, while non-recurring expenses increased €0.3 million due to the impact of the severance packages of some senior executives.

#### Operating loss.

As a result of the factors discussed above, we recorded a consolidated operating loss of €4.1 million in 2007, which included expenses for general corporate purposes and the expenses incurred for the resumption of the FDA/PMA trials, as compared to a consolidated operating loss of €3.1 million in 2006.

Excluding the expenses of the FDA/PMA trials, the consolidated operating loss in 2007 was €2.7 million, an improvement of €0.4 million when compared to the previous year.

We realized an operating profit in the HIFU division of €0.2 million in 2007, compared to an operating loss of €0.1 million in 2006 and an operating loss in the UDS division of €0.6 million in 2007, as compared to operating loss of €1.1 million in 2006.

*Interest result, net.* Interest result, net was a loss of €1.2 million in 2007, including €1.1 million of debt fair value variation, compared with a profit of €0.2 million in 2006.

*Foreign currency exchange gains (loss), net.* In 2007, we recorded a net foreign currency exchange loss of €0.3 million, compared to a loss of €0.4 million in 2006, in each case mainly due to the continued weakening of the Japanese yen against the euro.

*Other income (expense), net.* Other income (expense), net was a gain of €16 thousand in 2007, compared to a loss of €5 thousand in 2006.

*Income taxes.* We recorded a corporate income tax profit of €140 thousand in 2007 compared to an expense of €56 thousand in 2006.

#### Net loss.

We realized a consolidated net loss of €5.4 million in 2007 compared with consolidated net loss of €3.4 million in 2006, as a result of the factors mentioned above.

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

The segment results for 2006 and 2005 as discussed below are not presented on a “net contribution” basis newly adopted as from the first quarter of 2007, and the segment results discussed below include the intra-group transactions with the other segments which are eliminated in the “consolidation” adjustments.

#### 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.

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.

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.

HIFU division research and development expenses increased 18% from €1.0 million in 2005 to €1.2 million in 2006. HIFU division research and development 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.

UDS division research and development 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 research and development 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.

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.

HIFU division selling expenses remained stable at €1.4 million in 2006 (18% of net sales).

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.

#### 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.

#### **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, 2007.

#### **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 would potentially undertake. 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 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. Additionally, failure to meet our obligations arising out of the convertible debentures issued in the October 2007 private placement would cause us to incur substantial penalties in the form of liquidated damages and could, over the passage of time, lead to an event of default under the debentures. Payment of liquidated damages or mandatory default amount will have a material adverse effect on our financial condition and results of operation. See Item 3, "Key Information - Risk Factors - Risks Relating to the October 2007 Private Placement."

Our cash position as of December 31, 2007, 2006 and 2005, was €18.6 million (including €1.1 million of short term treasury investments), €10.9 million (including €1.0 million of short term treasury investments), and €8.3 million, respectively. We experienced positive cash flows of €7.7 million in 2007 and €1.5 million in 2006, and negative cash flows of €1.1 million in 2005. In 2007, our positive cash flow situation was primarily due to raising approximately \$17.4 million (€11.9 million) in net proceeds by issuing \$20 million aggregate principal amount of our convertible debentures in a private placement, to fund the FDA/PMA trial for the Ablatherm-HIFU device. Excluding the proceeds from the issuance of the convertible debentures, we experienced negative cash flows of €4.2 million in 2007. 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 placement. Excluding the proceeds from this capital raise, we experienced negative cash flows of €3.7 million in 2006.

In 2007, net cash used in operating activities was €2.8 million compared with net cash used in operating activities of €1.9 million and €0.3 million 2006 and 2005, respectively.

In 2007, net cash used in operating activities reflected principally:

- a net loss of €5.3 million,
- elimination of €3.1 million of net expenses without effects on cash, including €1.3 million of depreciation and amortization and €1.1 million due to changes in the fair value of financial debt and warrants,
- an increase in trade accounts receivable of €1.6 million,
- an increase in inventories of €0.8 million, mostly in anticipation of the launch of the new lithotripsy machine
- an increase in payables of €1.0 million,
- an increase in accrued expenses and other current liabilities of €0.7 million.

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, including €1.3 million of depreciation and amortization,
- 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 2007, net cash used in investing activities was €1.1 million compared with net cash used of €1.6 million in investing activities in 2006 and €1.1 in 2005, reflecting principally an increased investment of €1.9 million in capitalized assets produced by the company (mainly Ablatherm devices as a support of the RPP business model in HIFU), an investment of €0.6 million in property and equipment, net proceeds from sales of lease-back assets of €1.2 million and net proceeds from sales of assets of €0.2 million.

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 2007, net cash provided by financing activities was €11.8 million compared with net cash provided in financing activities of €5.2 million in 2006, and net cash used of €0.2 million in 2005, reflecting principally the raising of net proceeds of €11.9 million in convertible debt, €0.4 million of net proceeds of capital raising through the exercise of warrants and stock options, a short-term debt increase of €0.3 million, repayment of long term borrowing for €0.1 million and repayment of capital lease obligations totaling €0.6 million.

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 totaling €0.4 million.

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 to expand this business model in the near future.

On October 31, 2007, we completed the private placement of \$20 million aggregate principal amount of our 9% Senior Convertible Debentures due 2012. In addition, the purchasers of the convertible debentures and our Placement Agent received warrants to purchase our ordinary shares, which expire in 2013. The October 2007 private placement resulted in net proceeds of approximately \$17.4 million. The terms of the convertible debentures allow us to use the proceeds of the private placement to finance costs associated with the regulatory approval for the commercialization of Ablatherm HIFU in the United States (including related clinical trials) and for general and administrative expenses. The warrants may be exercised for cash or, under certain circumstances, through a cashless exercise procedure. If all of the warrants issued under the October 2007 private placement are fully exercised for cash, including the warrants issued to the Placement Agent, we will receive approximately \$12.8 million in cash from those warrant holders. We will use any proceeds received from the exercise of warrants for the purposes agreed to under the terms of the October 2007 private placement. For further description on the terms of the convertible debentures and the use of proceeds relating to the issuance of the convertible debentures, see the Form of Securities Purchase Agreement dated as of October 29, 2007, included as Exhibit 4.5 to this annual report.

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 for each of our subsidiaries in the local currencies of each subsidiary. The primary currencies in which we maintain balances are the euro, the U.S. dollar and the Japanese yen. To minimize our exposure to exchange rate risks, we may use certain financial instruments for hedging purposes. As of December 31, 2007, there were no outstanding hedging instruments.

|                           | Payments Due by Period |                  |           |           |                   |
|---------------------------|------------------------|------------------|-----------|-----------|-------------------|
|                           | Total                  | Less than 1 year | 1-3 years | 4-5 years | More than 5 years |
| Short-Term Debt           | 1,593                  | 1,593            | —         | —         | —                 |
| Long-Term Debt            | 15,232                 | 58               | —         | 15,174    | —                 |
| Capital Lease Obligations | 1,557                  | 522              | 1,015     | 20        | —                 |
| Operating Leases          | 394                    | 390              | 4         | —         | —                 |

**New Accounting Pronouncements**

On September 15, 2006, the FASB issued Statement of Financial Accounting Standards No. 157 "Fair Value Measurements" ("SFAS 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 is effective as of the beginning of the first fiscal year beginning after November 15, 2007. We are still evaluating the potential impact from the adoption of SFAS 157.

On February 15, 2007, the FASB issued Statement of Financial Accounting Standards No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities: Including an amendment of FASB Statement No.115" ("SFAS 159"). SFAS No. 159 permits all entities to elect to measure many financial instruments and certain other items at fair value with changes in fair value reported in earnings. SFAS 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007, with earlier adoption permitted. We do not anticipate that the adoption of this statement will have a material effect on our financial condition and results of operations.

In December 2007, the FASB issued FASB Statement No. 141 (Revised 2007) "Business Combinations" ("SFAS 141(R)"), which requires us to record fair value estimates of contingent consideration and certain other potential liabilities during the original purchase price allocation, expense acquisition costs as incurred and does not permit certain restructuring activities previously allowed under Emerging Issues Task Force Issue No. 95-3 to be recorded as a component of purchase accounting. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, except for the presentation and disclosure requirements, which shall be applied retrospectively for all periods presented. We will adopt this standard at the beginning of our fiscal year ending December 31, 2009 for all prospective business acquisitions. We have not determined the effect that the adoption of SFAS No. 141(R) will have on our financial results.

In December 2007, the FASB issued FASB Statement No. 160 "Non-controlling Interests in Consolidated Financial Statements - an amendment of ARB No. 51" ("SFAS 160"), which requires non-controlling interests in subsidiaries to be included in the equity section of the balance sheet. SFAS 160 applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, except for the presentation and disclosure requirements, which shall be applied retrospectively for all periods presented. We will adopt this standard at the beginning of our fiscal year ending after November 30, 2009 for all prospective business acquisitions. We have not determined the effect that the adoption of SFAS 160 will have on our financial results.

## 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

We have 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 7, 2008. The Chief Executive Officer and the Chief Financial Officer listed below have entered into employment contracts with us or our subsidiaries (which permit the employee to resign subject to varying notice periods). In addition, in case of a change of control of the Company, or of a termination of their employment contract by the Company without cause, the Senior Executive Officers are entitled to receive severance packages totaling approximately €0.4 million. On March 31, 2007, a transition occurred whereby the Chief Executive Officer stepped down to join the Board of Directors, and the Chief Operating Officer was officially appointed Chief Executive Officer.

| Name              | Age | Position   |
|-------------------|-----|--|
| Philippe Chauveau | 72  | Chairman of the Board of Directors   |
|                   |     | 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, and by Marc Oczachowski in 2007. Since 2000, Philippe Chauveau also served as founding Chairman of the Board of Scynexis Inc., funded by private equity, which is an innovative drug discovery company based in the United States, 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 Vice-President of research and development at AT&T Bell Labs and has also served as Chairman of Apple Computer Europe, preceded by increasing marketing roles in ITT and in Procter & Gamble. He has an Honours Degree from Trinity College Dublin with a B.A. and a Bsc. |
| Marc Oczachowski  | 37  | Chief Executive Officer of EDAP TMS S.A. and President of the HIFU Division and the UDS Division   |
|                   |     | Marc Oczachowski joined the Company in May 1997 as Area Sales Manager, based in Lyon, France. From March 2001 to January 2004, he held management positions as General Manager of EDAP Technomed Malaysia. He was appointed Chief Operating Officer of EDAP TMS in November 2004 and became Chief Executive Officer of the Company on March 31, 2007. Previously he worked for Sodem Systems, which manufactures orthopaedic power tools, as Area Sales Manager. He is a graduate of Institut Commercial de Lyon, France.  |
| Eric Soyer        | 41  | Chief Financial Officer of EDAP TMS S.A.   |
|                   |     | 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 company listed on the Paris stock exchange, 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 a BA degree from Clermont Graduate School of Management, an MBA degree from the University of Kansas and an Executive MBA degree from the HEC Paris School of Management.  |

## Board of Directors

The following table sets forth the names and backgrounds of the members of the Board of Directors. The mandate for each member of the Board of Directors expires on the date of the annual meeting of shareholders approving the financial results for fiscal year 2007, in June 2008. There is no contract providing for benefits upon termination of the directors' mandates.

|                                    |  |
|------------------------------------|--|
| Philippe Chauveau                  | See biography under "—Senior Executive Officers."  |
| Pierre Beysson<br>Age: 66          | 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 a mergers and acquisitions 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 has an MBA from Harvard Business School.   |
| Karim Fizazi<br>Age: 42            | 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 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.   |
| Jean-Philippe Deschamps<br>Age: 66 | 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 organization. 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.   |
| Hugues de Bantel<br>Age: 38        | 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 EDAP TMS France (formerly TMS S.A.) on November 6, 2002, and President of EDAP S.A. on November 13, 2003. He was appointed Chief Executive Officer of the Company on July 1, 2004. On March 31, 2007, he stepped down from his CEO position and joined the Board of Directors. He is currently preparing an MBA at IMD, Lausanne, Switzerland. Before joining EDAP TMS, 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 Supérieure de Commerce, Rouen (France). |

## Compensation and Options

The whole Board of Directors acts as a "Compensation Committee" to review the compensation of our Senior Executive Officers, as per the approved charter of the "Compensation Committee", and to propose any changes to compensation paid to the Board of Directors, provided that the majority of independent members participate in the votes for Management compensations. 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 2007 was approximately €0.6 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 2007.

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 their 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. As of December 31, 2007, none of these warrants have been exercised and Hugues de Bantel, President of each subsidiary until March 22, 2007, renounced the allocated warrants.

As of December 31, 2007, Senior Executive Officers held an aggregate of 197,763 options to purchase or to subscribe to shares of our common stock, with a weighted average exercise price of €3.68 per shares. Of these options, 6,000 expire on December 31, 2008, 6,425 expire on June 18, 2012, 30,000 expire on February 24, 2014 and 155,338 expire on October 29, 2017.

## Audit Committee

The Board of Directors' Audit Committee comprises four fully independent Members: Mr. Pierre Beysson acting as Head of the Audit Committee, Mr. Philippe Chauveau, Dr. Karim Fizazi and Pr. Jean-Philippe Deschamps. The purpose of the Committee, conforming to its annually approved charter, is to:

- Provide assistance to the Board of Directors in fulfilling their oversight responsibility to the shareholders, potential shareholders, the investment community and others relating to: the integrity of our financial statements, our compliance with legal and regulatory requirements, our accounting practices and financial reporting processes, the effectiveness of our disclosure controls and procedures and internal control over financial reporting, the independent auditor's qualifications and independence, and the performance of our internal audit function and independent auditors.
- Prepare the Audit Committee report 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 our 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, 2005, we employed 134 individuals on a full-time basis, employed as follows:

|                | Sales & Marketing | Manufacturing | Service   | Research & Dvpt | Regulatory | Clinical Affairs | Administrative | 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          |
| <b>Total =</b> | <b>30</b>         | <b>22</b>     | <b>40</b> | <b>8</b>        | <b>5</b>   | <b>2</b>         | <b>27</b>      | <b>134</b> |

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

|                | Sales & Marketing | Manufacturing | Service   | Research & Dvpt | Regulatory | Clinical Affairs | Administrative | 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          |
| <b>Total =</b> | <b>32</b>         | <b>22</b>     | <b>43</b> | <b>9</b>        | <b>5</b>   | <b>3</b>         | <b>28</b>      | <b>142</b> |

As of December 31, 2007, we employed 148 individuals on a full-time basis, employed as follows:

|                | Sales & Marketing | Manufacturing | Service   | Research & Dvpt | Regula-tory | Clinical Affairs | Adminis-trative | Total      |
|----------------|-------------------|---------------|-----------|-----------------|-------------|------------------|-----------------|------------|
| France         | 14                | 29            | 20        | 10              | 4           | 2                | 16              | 95         |
| Italy          | 3                 | 0             | 0         | 0               | 0           | 0                | 2               | 5          |
| Germany        | 3                 | 0             | 2         | 0               | 0           | 0                | 3               | 8          |
| Japan          | 8                 | 0             | 15        | 0               | 2           | 0                | 4               | 29         |
| Malaysia       | 2                 | 0             | 3         | 0               | 0           | 0                | 2               | 7          |
| South Korea    | 1                 | 0             | 0         | 0               | 0           | 0                | 1               | 2          |
| Russia         | 1                 | 0             | 0         | 0               | 0           | 0                | 0               | 1          |
| USA            | 0                 | 0             | 0         | 0               | 0           | 1                | 0               | 1          |
| <b>Total =</b> | <b>32</b>         | <b>29</b>     | <b>40</b> | <b>10</b>       | <b>6</b>    | <b>3</b>         | <b>28</b>       | <b>148</b> |

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

#### Share Ownership

As of March 16, 2008, the total number of shares issued was 9,624,497, with 423,740 shares held as Treasury Stocks, thus bringing the total number of shares outstanding to 9,200,757.

As of March 16, 2008, the Board of Directors and the Senior Executive Officers of the Company held a total of 119,103 Shares representing 1.24% of the total share capital and (after subtracting treasury stock which under French law carries no voting rights) 1.29% of the voting rights of the Company.

#### Options to Purchase or Subscribe for Securities

As of March 16, 2008, we had sponsored five stock purchase and subscription option plans.

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 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 subscribe to new shares, based on these fixed performance criteria were then cancelled and these shares will then never be subscribed and issued. On March 8, 2007, a revised business model was approved by the Board of Directors for years 2007 and 2008. On that date, 47,100 rights to subscribe to new shares were granted to new entrants, subject to the achievement of certain milestones based on the revised 2007-2008 business model. As of December 31, 2007 none of the milestones for the year 2007, fixed by the January 6, 2006 Board of Directors, have been reached, and only one milestone fixed by the March 8, 2007 Board of Directors, has been reached, thus triggering the allocation of 7,065 new shares to some employees. As per the Performance Stock Plan approved on March 8, 2007, these shares will only be issued on July 2009. As of December 31, 2007, 211,435 rights to subscribe to new shares, based on these fixed performance criteria for the year 2007 were then cancelled and these shares will then never be subscribed and issued. As of December 31, 2007, only 18,840 rights out of the 625,000 initially granted were still in force, based on 2008 milestones.

On May 22, 2007, the shareholders of EDAP TMS S.A. authorized the Board of Directors to grant up to 600,000 options to subscribe to 600,000 new Shares and up to 105,328 options to purchase pre-existing Shares at a fixed price to be set by the Board of Directors. All of the Shares that may be purchased through the exercise of stock options are currently held as treasury stock.

On December 31, 2007, the duration of our stock option contracts was as follows:

| months until expiration | Number of Shares |
|-------------------------|------------------|
| 12                      | 46,900           |
| 24                      | 1,212            |
| 48                      | 52,000           |
| 54                      | 6,425            |
| 74                      | 171,000          |
| 120                     | 504,088          |

As of December 31, 2007, a summary of stock option activity to purchase or to subscribe to Shares under these plans is as follows:

|  | 2007      |                                     | 2006     |                                     | 2005    |                                     |
|--|-----------|-------------------------------------|----------|-------------------------------------|---------|-------------------------------------|
|  | Options   | Weighted average exercise price (€) | Options  | Weighted average exercise price (€) | Options | Weighted average exercise price (€) |
| Outstanding on January 1,                                  | 502,162   | 2.36                                | 593,262  | 2.50                                | 580,262 | 2.49                                |
| Granted  | 504,088   | 3.99                                |          |                                     | 15,000  | 2.78                                |
| Exercised  | (183,750) | 2.03                                | (72,600) | 3.20                                | (1,000) | 1.62                                |
| Forfeited  | (7,250)   | 2.60                                | (18,500) | 2.60                                | (1,000) | 3.81                                |
| Expired  | (33,625)  | 3.81                                | -        | -                                   | -       | -                                   |
| Outstanding on December 31,                                | 781,625   | 3.42                                | 502,162  | 2.38                                | 593,262 | 2.50                                |
| Exercisable on December 31,                                | 234,787   | 2.63                                | 405,162  | 2.73                                | 409,652 | 2.45                                |
| Shares purchase options available for grant on December 31 | 105,328   | -                                   | 0        | -                                   | 0       | -                                   |

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, 2007:

| Exercise price (€)  | Outstanding options |   |                                     | Exercisable options |                                     |
|---------------------|---------------------|---|-------------------------------------|---------------------|-------------------------------------|
|                     | Options             | Weighted average remaining contractual life | Weighted average exercise price (€) | Options             | Weighted average exercise price (€) |
| 3.99                | 504,088             | 10  | 3.99                                | -                   | -                                   |
| 3.81                | 37,900              | 1   | 3.81                                | 37,900              | 3.81                                |
| 2.60                | 171,00              | 6.2   | 2.60                                | 128,250             | 2.60                                |
| 2.08 <sup>(1)</sup> | 52,000              | 4.0   | 2.08                                | 52,000              | 2.08                                |
| 2.02 <sup>(2)</sup> | 6,425               | 4.5   | 2.02                                | 6,425               | 2.02                                |
| 1.83                | 10,212              | 1.5   | 1.83                                | 10,212              | 1.83                                |
| 1.83 to 3.99        | 781,625             | 3.9   | 3.51                                | 234,787             | 2.63                                |

(1) All the 52,000 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 6,425 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).

#### Exemptions from Certain NASDAQ Corporate Governance Rules

NASDAQ rules provide for 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, 2008, 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 10.42% of the total share capital of the Company and (after subtracting treasury stock, which under French law carries no voting rights) 10.90% of voting rights, Wells Capital Management, Inc., formerly Benson Associates LLC, owned 841,809 Shares representing 8.75% of the total share capital of the Company and (after subtracting treasury stock, which under French law carries no voting rights) 9.14% of voting rights and Bruce & Co., Inc. owned 729,929 shares representing 7.58% of the total share capital of the Company and (after subtracting treasury stock, which under French law carries no voting rights) 7.93% 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, 2008, 9,624,497 Shares were issued, including 9,200,757 outstanding and 423,740 treasury Shares. At the same date, there were 9,461,889 ADSs, each representing one Share, all of which were held of record by 21 registered holders in the United States (including The Depository Trust Company).

#### **Related Party Transactions**

The General Manager of the Company's Korean branch "EDAP-TMS Korea" is also Chairman of a Korean company named Dae You. EDAP-TMS Korea subcontracts to Dae You the service contract maintenance of our medical devices installed in Korea. The amounts payable under this contract were €71 thousand, €61 thousand and €136 thousand, for 2007, 2006 and 2005 respectively. Dae You also acts as an agent to promote our medical devices in South Korea, and receives commissions on sales. Dae You has purchased medical devices from us, which it operates in partnership with hospitals or clinics. These purchases amounted to €558 thousand, €588 thousand and €396 thousand in 2007, 2006 and 2005 respectively. As of December 31, 2007, receivables from Dae You amounted to €52 thousand and our payables to them amounted to €28 thousand. As of December 31, 2006, receivables amounted to €73 thousand and payables to €24 thousand.

We purchase certain technological elements from Siemens AG, an affiliate of our shareholder Siemens France Holding. Total purchases amounted to €183 thousand in 2007, €444 thousand in 2006 and €547 thousand in 2005. As of December 31, 2007, payables due to Siemens AG amounted to €1 thousand and as of December 31, 2006, payables amounted to €18 thousand.

The Company signed an exit agreement, including a severance package, with a former senior executive which provides compensation of approximately €512 thousand including social charges.

#### **Item 8. Financial Information**

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

See Item 18, "Financial Statements."

##### **Export Sales**

As of December 31, 2007, 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, the Company is a party to one product liability action 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 this case following the sale of the Prostatron business in October 2000. 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 claim and suit would not have a material adverse effect on the results of its operations, cash flows, or financial position as of December 31, 2007, and for the year then ended.

## 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—Withholding Tax."

No dividends were paid with respect to fiscal years 2003 through 2007, and we do not anticipate paying any dividends for the foreseeable future. In particular, in connection with the October 2007 private placement, we agreed not to pay cash dividends on any of our equity securities. Thereafter, declaration of dividends on our shares will depend upon, among other things, future earnings, if any, the operating and financial condition of our business, our capital requirements, general business conditions and such other factors as our Board of Directors deems relevant.

## Significant Changes

Except as otherwise disclosed in this Annual Report, there has been no material change in the financial position of EDAP TMS S.A. and its consolidated subsidiaries since December 31, 2007.

## 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 may be evidenced by an American Depositary Receipt issued by The Bank of New York, our Depository. The principal United States trading market for the ADSs, which is also the principal trading market for the ADSs overall, is the NASDAQ Global Market of the NASDAQ Stock Market, Inc. ("NASDAQ"), on which the ADSs are quoted under the symbol "EDAP." 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 our ADSs effective on April 25, 2002.

### Trading Markets

The following tables set forth, for the years 2003 through 2007, the reported high and low sales prices of the ADSs on NASDAQ.

|      | NASDAQ |      |
|------|--------|------|
|      | High   | Low  |
|      | \$     |      |
| 2007 | 9.40   | 4.25 |
| 2006 | 21.64  | 5.12 |
| 2005 | 5.68   | 3.10 |
| 2004 | 3.92   | 1.55 |
| 2003 | 1.99   | 1.00 |

The following tables set forth, for the years 2006 and 2007, the reported high and low sales prices of the ADSs on NASDAQ for each full financial quarter:

|                | NASDAQ |      |
|----------------|--------|------|
|                | High   | Low  |
|                | \$     |      |
| <b>2007:</b>   |        |      |
| First Quarter  | 9.40   | 5.62 |
| Second Quarter | 8.85   | 5.67 |
| Third Quarter  | 8.00   | 4.60 |
| Fourth Quarter | 6.62   | 4.25 |
| <b>2006:</b>   |        |      |
| First Quarter  | 21.64  | 5.30 |
| Second Quarter | 19.46  | 7.02 |
| Third Quarter  | 12.20  | 6.50 |
| Fourth Quarter | 8.60   | 5.12 |

The following table sets forth, for the most recent six months (from October 2007 through March 10, 2008), the reported high and low sale prices of the ADSs on NASDAQ for each month:

|                                | NASDAQ |      |
|--------------------------------|--------|------|
|                                | High   | Low  |
|                                | \$     |      |
| <b>2007:</b>                   |        |      |
| October                        | 8.60   | 7.00 |
| November                       | 7.55   | 5.12 |
| December                       | 6.89   | 5.33 |
| <b>2008:</b>                   |        |      |
| January                        | 4.99   | 3.55 |
| February                       | 5.12   | 3.62 |
| March (through March 16, 2008) | 4.84   | 4.01 |

## Item 10. Additional Information

### Memorandum and Articles of Association

Set forth below is a brief summary of significant provisions of our 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, we file copies of our 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.

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

Our articles of association were last updated in August 2007 to act the recent increase in share capital related to the exercise of subscription options and warrants.

#### 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

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 annual 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; a director may also be dismissed at any time at the shareholders' meeting.

The mandate for each member of the current 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, a director does not own the required number of shares or if during his/her term, he/she no longer owns the required number of shares, he/she 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 our business and supervises our 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 our 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 of Directors bearing the title of Chief Executive Officer. The choice between these two methods of management belongs to the Board of Directors and must be made as provided for by our 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 was replaced by Marc Oczachowski, current Chief Operating Officer. Hugues de Bantel was appointed a 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 our 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.

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

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

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

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

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

#### ***Changes in Share Capital (French Law)***

Our share capital 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.

Our share capital 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 us of our shares. Under French law, all the shareholders in each class of shares must be treated equally unless the inequality in treatment is accepted by the affected shareholder. If the reduction is not attributable to losses incurred by us, each shareholder will be offered an opportunity to participate in such capital reduction and may decide whether or not to participate therein.

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

Pursuant to French law, the Company may not acquire its own shares except (a) to reduce its share capital under certain circumstances with the approval of the shareholders at an extraordinary general meeting, (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 our fiscal year, for approval of the annual accounts. Other ordinary or extraordinary meetings may be convened at any time during the year. Shareholders meetings may be convened by the Board of Directors or, if the Board of Directors fails to call such a meeting, by our statutory auditors or by a court-appointed agent. The court may be requested to appoint an agent either by one or more shareholders holding at least 5% of the our registered capital or by an interested party under certain circumstances, or, in case of an urgent matter, by the Work Council (*Comité d'entreprise*) representing the employees. The notice calling a meeting must state the agenda for such meeting.

French law provides that, at least 15 days before the date set for any general meeting on first notice, and at least 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. Upon our request, the Bank of New York will send to holders of ADSs notices of shareholders' meetings and other reports and communications that are made generally available to. 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. An ADS holder must timely and properly return its voting instruction card to the Depository to exercise the voting rights relating to the shares represented by its ADSs. The Depository will use its reasonable efforts to vote the underlying shares in the manner indicated by the ADS holder. In addition, if an ADS holder does not timely return a voting instruction card or the voting instruction card received is improperly completed or blank, that holder will be deemed to have given the Depository a proxy to vote, and the Depository will vote in favor of all proposals recommended by the Board of Directors and against all proposals that are not recommended by the Board of Directors.

All shareholders who have properly registered their shares have the right to participate in general meetings, either in person, by proxy, or by mail, and to vote according to the number of shares they hold. Each share confers on the shareholder the right to one vote. Under French law, an entity we control directly or indirectly is prohibited from holding shares in the Company and, in the event it becomes a shareholder, such entity would not be entitled to any voting rights. A proxy may be granted by a shareholder whose name is registered on our share registry to his or her spouse, to another shareholder or to a legal representative, in the case of a legal entity, or by sending a proxy in blank to the Company without nominating any representatives. In the latter case, the Chairman of the shareholders' meeting will vote such blank proxy in favor of all resolutions proposed by the Board of Directors and against all others.

The presence in person or by proxy of shareholders having not less than 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 our articles of association, shareholders' meetings are held at our registered office of the Company or at any other locations specified in the written notice. We do not have staggered or cumulative voting arrangements for the election of Directors.

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

Shareholders have preferential rights to subscribe for additional shares issued by the Company for cash on a pro rata basis (or any equity securities of the Company or other securities giving a right, directly or indirectly, to equity securities issued by the Company). Shareholders may waive their preferential rights, either individually or at an extraordinary general meeting under certain circumstances. Preferential subscription rights, if not previously waived, are transferable during the subscription period relating to a particular offering of shares. U.S. holders of ADSs may not be able to exercise preferential rights for Shares underlying their ADSs unless a registration statement under the Securities Act is effective with respect to such rights or an exemption from the registration requirement thereunder is available.

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

##### *Form of Shares*

Our 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 we may issue or cause to be issued confirmations of shareholdings registered in such registry to the persons in whose names the shares are registered. 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, we are exempt from certain rules that apply to domestic U.S. issuers with equity securities registered under the U.S. Securities Exchange Act of 1934, including the proxy solicitation rules and the rules requiring disclosure of share ownership by directors, officers and certain shareholders. We are also exempt from certain of the current NASDAQ corporate governance requirements. For more information on these exemptions, see Item 6, "Directors, Senior Management and Employees—Exemptions from Certain NASDAQ Corporate Governance Rules."

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

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

## Material Contracts

On August 3, 2006, we closed a private placement of 961,676 ordinary shares in the form of ADSs, 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 ADSs with the SEC are covered by the Registration Rights Agreement.

On October 31, 2007, we completed the private placement of \$20 million principal amount of 9% Senior Convertible Debentures due 2012. In addition, the purchasers of the convertible debentures and the Placement Agent received warrants to purchase our ordinary shares, which expire in 2013. The October 2007 private placement resulted in net proceeds of approximately \$17.4 million. The Securities Purchase Agreement, dated as of October 29, 2007, among EDAP TMS S.A. and each purchaser was furnished to the SEC on Form 6-K dated October 31, 2007, and incorporated by reference in our Form F-3 registration statement filed with the SEC on November 30, 2007. The terms for registering the underlying ADSs with the SEC are included in the Registration Rights Agreement, dated as of October 29, 2007, among EDAP TMS S.A. and the investors signatory thereto, which was furnished to the SEC on Form 6-K dated October 31, 2007 and incorporated by reference in our Form F-3 filed with the SEC on November 30, 2007.

## 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. It does not constitute legal or tax advice. 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 by a French corporation, such as EDAP, to non-residents normally are subject to a 25% French withholding tax (reduced to 18% since January 1<sup>st</sup> 2008 when non-residents are individuals resident from one of the countries of the European Economic Area, except Liechtenstein. However, non-resident holders that are entitled to and comply with the procedures for claiming benefits under an applicable tax treaty may be subject to a reduced rate (generally 15%) of French withholding tax. If a non-resident holder establishes its entitlement to treaty benefits prior to the payment of a dividend, then French tax generally will be withheld at the reduced rate provided under the treaty.

#### ***Taxation of dividends***

Dividends received by French resident individuals are either included in their total income and subject to the progressive income tax, or they can alternatively be subject to an 18% levy source at the option of the beneficiary.

When no option is exercised by the French resident individuals, they are taxed on only 60% of the dividends they receive and, in addition to second fixed annual allowance of €3,050 for couples subject to joint taxation and €1,525 for single persons, widows or divorced persons, 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.

As a result of the French Finance Bill for 2008, French resident individuals can elect to have all or part of the dividends received subject to an 18% levy at source at the irrevocable option of the shareholder exercised no later than at the time of the payment if it occurs in France. If the option is exercised only for a portion of the dividends received during the year (whether they are distributed by EDAP or any other company), the remaining dividends subject to the progressive income tax lose the benefit of the aforementioned allowances and the Tax Credit. Holders of Shares are invited to contact their financial or tax advisor to be informed of the consequences of such option on their tax situation and the terms and conditions of exercising the option and the payment of the levy at source as well as the reporting obligations related to such option when the paying agent is not located in France.

Dividends paid to non-residents are not normally eligible for the Tax Credit described above. However, qualifying non-resident individuals who were previously entitled to a refund of the *avoir fiscal* may benefit, under the same conditions as for the *avoir fiscal*, 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, alone or together with their spouse, ascendants or descendants, 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 corporation that are acquired by inheritance or gift. The tax applies without regard to the tax residence of the transferor. However, France has entered into estate and gift tax treaties with a number of countries pursuant to which, assuming certain conditions are met, residents of the treaty country may be exempted from such tax or obtain a tax credit.

#### *Wealth Tax*

Individuals who are not residents of France for purposes of French taxation are not subject to a wealth tax (*Impôt de Solidarité sur la Fortune*) in France as a result of owning an interest in the share capital of a French corporation, provided that such ownership interest is, directly or indirectly, less than 10% of the corporation's share capital and does not enable the shareholder to exercise influence over the corporation. Double taxation treaties may provide for a more favorable tax treatment.

#### **Taxation of U.S. 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 Convention Between the Government of the United States of America and the Government of the French Republic for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital of August 31, 1994 (the "Treaty"), which entered into force on December 30, 1995 (as amended by any subsequent protocols), and the tax regulations issued by the French tax authorities, and are fully eligible for benefits under the Treaty (a "U.S. holder"). A holder generally will be entitled to Treaty benefits in respect of Shares or ADSs if he is concurrently:

- 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.

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

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.

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.

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.

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

#### **Dividends**

Generally, dividend distributions to non-residents of France are subject to French withholding tax at a 25% rate. However, under the Treaty, the rate of French withholding tax on dividends paid to a U.S. holder is reduced to 15% and a US holder may claim a refund from the French tax authorities of the amount withheld in excess of the Treaty rate of 15%, if any.

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

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

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 2007 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 2008 taxable year. Accordingly, dividends paid by us in 2008 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 Depository), 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 guidelines in Instruction n° 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, in order to obtain the reduced withholding tax rate on distributions made on or after January 1, 2005.

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

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

If Form 5000 is not filed prior to the dividend payment, a withholding tax will be levied at the 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](http://www.impots.gouv.fr)) and are also available from the U.S. Internal Revenue Service and from the *Centre des Impôts des Non-Résidents* in France (10 rue du Centre 93160, Noisy-le-Grand).

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 2007 and does not anticipate being a PFIC in 2008. 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 able 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 ("SEC"). These materials, including this annual report and the exhibits hereto, may be inspected and copied at the SEC's public reference room at 100F Street, N.E., Washington, D.C. 20549 and at the SEC'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 SEC's Public Reference Room by calling the SEC 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, 2007, 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 2007, approximately 77% of our total operating expenses were denominated in euro. During the same period, approximately 71% 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, 2007 relative to the U.S. dollar and the Japanese yen would have resulted in an increase in income before taxes and minority interests of approximately €118,000 for the year ended December 31, 2007, compared to a decrease of approximately €65,000 for the year ended December 31, 2006. 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, 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 and U.S. dollars. Approximately €0.05 million and €0.2 million of our outstanding indebtedness at December 31, 2006 and 2005, respectively, were denominated in Japanese yen. At December 31, 2007, we had no outstanding indebtedness denominated in Japanese yen. None of our outstanding indebtedness was denominated in U.S. dollars at December 31, 2006 and 2005 and at December 31, 2007 we had approximately €15.3 million of outstanding debt denominated in U.S. dollars.

In addition, we had approximately €11.4 million, €0.4 million and €0.5 million of cash denominated in U.S. dollars at December 31, 2007, 2006 and 2005, respectively, and €1.0 million, €1.2 million and €0.9 million of cash denominated in Japanese yen at December 31, 2007, 2006 and 2005, respectively.

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

Not Applicable.

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

Under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, the Company conducted an evaluation of the effectiveness of its disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of December 31, 2007. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of such date. The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely discussions regarding required disclosure.

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

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

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

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

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

Management assessed the effectiveness of internal control over financial reporting as of December 31, 2007 based upon the framework as set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on the Management's assessment, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2007.

This annual report does not include the attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

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

No change in the Company's internal control over financial reporting occurred as of the end of the period covered by this report that has materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting.

#### **Item 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 2007, 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](http://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 (the "2003 Rules") 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 2007 financial year:

| <b>Nature of the Fees</b> | <b>2005 (in €)</b> | <b>2006 (in €)</b> | <b>2007 (in €)</b> |
|---------------------------|--------------------|--------------------|--------------------|
| Audit fees                | 136,020            | 175,780            | 162,394            |
| Audit-related fees        | 97,305             | 96,850             | 53,040             |
| Tax fees                  | -                  | -                  | -                  |
| All other fees            | -                  | -                  | -                  |
| <b>Total</b>              | <b>233,325</b>     | <b>272,630</b>     | <b>215,434</b>     |

#### **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 2007 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 2007, neither the Company nor affiliated purchasers made purchases of equity securities of the Company registered pursuant to Section 12 of the Exchange Act.

**Item 17. Financial Statements.**

See Item 18, "Financial Statements."

**Item 18. Financial Statements**

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

**Item 19. Exhibits**

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

## INDEX TO EXHIBITS

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

### Exhibit Description

#### Number:

- 1.1 By-laws (*statuts*) of EDAP TMS S.A. as amended as of August 29, 2007 (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)).<sup>(2)</sup>
  - (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)).<sup>(1)</sup>
  - (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)).<sup>(1)</sup>
  - (d) Termination Agreement dated as of April 3, 2007 among the Company, HT Prostate Therapy Management Company, LLC, EDAP S.A. and Technomed Medical Systems, S.A.
  - (e) Amendment to Termination Agreement dated July 9, 2007, among the Company, HT Prostate Therapy Management Company, LLC, EDAP S.A. and Technomed Medical Systems, S.A.
- 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)).<sup>(1)</sup>
  - (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)).<sup>(1)</sup>
- 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 furnished on August 18, 2006 (File No. 000-29374)).<sup>(1)</sup>
- 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 furnished on August 18, 2006 (File No. 000-29374)).<sup>(1)</sup>

- 4.5 Form of Securities Purchase Agreement dated as of October 29, 2007 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 furnished on October 31, 2007 (File No. 000-29374)). <sup>(1)</sup>
- 4.6 Form of Registration Rights Agreement dated as of October 29, 2007, 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 furnished on October 31, 2007 (File No. 000-29374)). <sup>(1)</sup>
- 8.1 List of subsidiaries of EDAP TMS S.A. as of March 1, 2008.
- 11.1 Code of Ethics of the Company, approved by the Board of Directors on July 22, 2005.
- 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.

(1) *Previously filed.*

(2) *Previously filed with certain confidential portions omitted under Rule 24b-2 under Securities Exchange Act of 1934.*

**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 31, 2008

/s/ MARC OCZACHOWSKI

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*Marc Oczachowski*  
*Chief Executive Officer*

Dated: March 31, 2008

/s/ ERIC SOYER

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*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, 2007, 2006 and 2005**

**Audited Consolidated Financial Statements for EDAP TMS S.A. and Subsidiaries for the Years Ended December 31, 2007, 2006 and 2005**

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**Report of Independent Registered Public Accounting Firm**

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

We have audited the accompanying consolidated balance sheets of EDAP TMS S.A. and subsidiaries as of December 31, 2006 and 2007, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the three years ended December 31, 2007. 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. and subsidiaries at December 31, 2006 and 2007, and the consolidated results of its operations and its cash flows for the three years ended December 31, 2007, 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

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Represented by  
Laurent Chapoulaud

March 31, 2008  
Lyon, France

## EDAP TMS S.A. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

As of December 31, 2007 and 2006

(in thousands of euros unless otherwise noted)

| ASSETS  | Notes | 2007          | 2006          |
|---|-------|---------------|---------------|
| <b>Current assets</b>   |       |               |               |
| Cash and cash equivalents   | 2     | 17,523        | 9,894         |
| Net Trade accounts and notes receivable   | 3     | 10,876        | 10,142        |
| Other receivables   | 4     | 1,149         | 732           |
| Inventories   | 5     | 4,306         | 3,766         |
| Deferred tax assets   | 22-3  | 245           | 85            |
| Other assets, current portion   | 6     | 935           | 744           |
| Short-term investment   | 2     | 1,089         | 1,031         |
| <b>Total current assets</b>   |       | <b>36,124</b> | <b>26,393</b> |
| Other assets, non-current   | 6     | 1,800         | -             |
| Property and equipment, net   | 7     | 4,179         | 3,211         |
| Intangible assets, net  | 8     | 79            | 71            |
| Goodwill  | 8     | 2,412         | 2,412         |
| Deposits and other non-current assets   |       | 410           | 386           |
| <b>Total assets</b>   |       | <b>45,003</b> | <b>32,473</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |       |               |               |
| <b>Current liabilities</b>  |       |               |               |
| Trade accounts and notes payable  | 9     | 5,661         | 4,718         |
| Deferred revenues, current portion  | 10    | 452           | 669           |
| Social security and other payroll withholdings taxes  |       | 813           | 715           |
| Employee absences compensation  |       | 443           | 467           |
| Income taxes payable  |       | 49            | 31            |
| Other accrued liabilities   | 11    | 3,293         | 2,458         |
| Short-term borrowings   | 13    | 1,593         | 1,308         |
| Current portion of capital lease obligations  | 12    | 521           | 436           |
| Current portion of long-term debt   | 14    | 58            | 123           |
| <b>Total current liabilities</b>  |       | <b>12,884</b> | <b>10,926</b> |
| Deferred revenues, non current  | 10    | 708           | 613           |
| Capital lease obligations, non current  | 12    | 1,035         | 696           |
| Convertible debentures carried at fair value  | 14    | 11,691        | -             |
| Financial instruments carried at fair value   | 14    | 3,484         | -             |
| Other Long-term debt, non current   | 14    | -             | 58            |
| Other long-term liabilities   | 15    | 703           | 880           |
| <b>Total liabilities</b>  |       | <b>30,504</b> | <b>13,172</b> |
| <b>Shareholders' equity</b>   |       |               |               |
| Common stock, €0.13 par value;<br>9,624,497 shares issued and 9,200,757 shares outstanding; 9,324,497 shares issued and 8,817,007 shares outstanding at December 31,<br>2007 and 2006, respectively |       | 1,251         | 1,212         |
| Additional paid-in capital  |       | 25,896        | 25,476        |
| Retained earnings   |       | (8,265)       | (2,835)       |
| Cumulative other comprehensive loss   |       | (3,082)       | (3,016)       |
| Treasury stock, at cost; 423,740 and 507,490 shares at December 31, 2007 and 2006, respectively   |       | (1,301)       | (1,538)       |
| <b>Total shareholders' equity</b>   | 16    | <b>14,499</b> | <b>19,300</b> |
| <b>Total liabilities and shareholders' equity</b>   |       | <b>45,003</b> | <b>32,473</b> |

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

**CONSOLIDATED STATEMENTS OF INCOME**  
**For the years ended December 31, 2007, 2006 and 2005**  
(in thousands of euros unless otherwise noted)

|  | Notes | 2007      | 2006      | 2005      |
|--|-------|-----------|-----------|-----------|
| Sales of goods   |       | 11,752    | 10,849    | 12,198    |
| Sales of RPPs & leases   |       | 4,814     | 3,805     | 3,146     |
| Sales of spare parts and services                                    |       | 5,647     | 5,520     | 5,606     |
| Total sales  |       | 22,213    | 20,174    | 20,952    |
| Warrants granted   |       | -         | -         | (235)     |
| Total net sales  | 17    | 22,213    | 20,174    | 20,717    |
| Other revenues   | 18    | 113       | 91        | 93        |
| Total revenues   |       | 22,327    | 20,265    | 20,810    |
| Cost of goods  |       | (7,130)   | (5,582)   | (6,453)   |
| Cost of RPPs & leases  |       | (2,169)   | (1,576)   | (1,115)   |
| Cost of spare parts and services                                     |       | (3,849)   | (4,789)   | (4,744)   |
| Total cost of sales  |       | (13,148)  | (11,946)  | (12,313)  |
| Gross profit   |       | 9,179     | 8,319     | 8,497     |
| Research and development expenses                                    |       | (3,194)   | (2,442)   | (1,784)   |
| Selling and marketing expenses                                       |       | (5,476)   | (4,621)   | (3,758)   |
| General and administrative expenses                                  |       | (4,374)   | (4,082)   | (4,278)   |
| Non-recurring operating expenses                                     | 19    | (224)     | (267)     | -         |
| Loss from operations   |       | (4,089)   | (3,094)   | (1,323)   |
| Financial (expense) income, net                                      | 20    | (1,243)   | 153       | 135       |
| Foreign currency exchange gain (loss), net                           |       | (254)     | (430)     | 218       |
| Other income (expense), net  | 21    | 16        | (5)       | 9         |
| Loss before taxes  |       | (5,571)   | (3,375)   | (961)     |
| Income tax (expense) benefit   | 22    | 140       | (56)      | (104)     |
| Net loss   |       | (5,430)   | (3,431)   | (1,065)   |
| Basic and diluted <sup>(1)</sup> net loss per share                  | 1-18  | (0.59)    | (0.39)    | (0.14)    |
| Basic and diluted <sup>(1)</sup> Weighted average shares outstanding | 1-18  | 9,200,757 | 8,817,007 | 7,782,731 |

<sup>(1)</sup> Due to the net losses in 2005, 2006 and 2007, the assumed net exercise of stock options/warrants and stock relating to the convertible bonds in those years was excluded, as the effect would have been anti-dilutive.

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, 2007, 2006 and 2005  
(in thousands of euros unless otherwise noted)

|  | 2007    | 2006    | 2005    |
|--|---------|---------|---------|
| Net loss                                 | (5,430) | (3,431) | (1,065) |
| Other comprehensive loss:                |         |         |         |
| Foreign currency translation adjustments | (71)    | (55)    | 110     |
| Provision for retirement indemnities     | 5       | (84)    |         |
| Comprehensive loss, net of tax           | (5,496) | (3,570) | (955)   |

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, 2007, 2006 and 2005**  
(in thousands of euros unless otherwise noted)

|                                      | Number of<br>Shares | Common Stock | Additional<br>paid-in Capital | Retained<br>Earnings | Cumula-tive<br>Other Compre-<br>hensive Income<br>(loss) | Treasury Stock | Total   |
|--------------------------------------|---------------------|--------------|-------------------------------|----------------------|--|----------------|---------|
| Balance as of January 1, 2005        | 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  |
| Net loss                             |                     |              |                               | (5,430)              |  |                | (5,430) |
| Translation adjustment               |                     |              |                               |                      | (71)   |                | (71)    |
| Warrants and stock options granted   | 383,750             | 39           | 420                           |                      |  | 237            | 695     |
| Capital increase                     |                     |              |                               |                      |  |                |         |
| Provision for retirement indemnities |                     |              |                               |                      | 5  |                | 5       |
| Balance as of December 31, 2007      | 9,200,757           | 1,251        | 25,896                        | (8,265)              | (3,082)  | (1,301)        | 14,499  |

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

## EDAP TMS S.A. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the years ended December 31, 2007, 2006 and 2005**  
(in thousands of euros unless otherwise noted).

|   | 2007    | 2006    | 2005    |
|---|---------|---------|---------|
| <b>Cash flows from operating activities</b>                                   |         |         |         |
| Net loss  | (5,430) | (3,431) | (1,065) |
| Adjustments to reconcile net loss to net cash used in operating activities:   |         |         |         |
| Depreciation and amortization   | 1,296   | 1,257   | 1,202   |
| Change in fair value on Convertible Debentures                                | 747     | —       | —       |
| Change in fair value on Investors Warrants and Placement Agent Warrants       | 371     | —       | —       |
| Other Non-cash compensation   | 72      | 32      | 360     |
| Change in allowances for doubtful accounts & slow-moving inventories          | 412     | 273     | 128     |
| Change in long-term provisions  | (18)    | 229     | 67      |
| Net capital loss on disposals of assets                                       | 407     | 245     | —       |
| Deferred tax expense/(benefit)  | (161)   | (91)    | 84      |
| Net loss (gain) on sale of assets   | —       | —       | (21)    |
| Operating cash flow   | (2,304) | (1,486) | 755     |
| Increase/Decrease in operating assets and liabilities:                        |         |         |         |
| Decrease/(Increase) in trade accounts and notes and other receivables         | (1,599) | (1,201) | (1,473) |
| Decrease/(Increase) in inventories  | (820)   | 429     | (681)   |
| Decrease/(Increase) in other assets   | 278     | (353)   | 41      |
| (Decrease)/Increase in trade accounts and notes payable                       | 1,009   | 395     | 632     |
| (Decrease)/Increase in accrued expenses, other current liabilities            | 707     | 315     | 441     |
| Net increase/decrease in operating assets and liabilities                     | (426)   | (415)   | (1040)  |
| <b>Net cash used in operating activities</b>                                  | (2,729) | (1,901) | (285)   |
| <b>Cash flows from investing activities</b>                                   |         |         |         |
| Additions to capitalized assets produced by the Company                       | (1,947) | (1,287) | (1,042) |
| Net proceeds from sale of leased back assets                                  | 1,192   | 737     | 239     |
| Acquisitions of property and equipment  | (513)   | (208)   | (372)   |
| Acquisitions of intangible assets   | (46)    | (43)    | (24)    |
| Acquisitions of short term investments  | (58)    | (1,031) | —       |
| Net proceeds from sale of assets  | 168     | 221     | 113     |
| Increase in deposits and guarantees   | (34)    | (18)    | (21)    |
| Reimbursement of deposits and guarantees                                      | —       | —       | 48      |
| <b>Net cash used in investing activities</b>                                  | (1,238) | (1,629) | (1,059) |
| <b>Cash flow from financing activities</b>                                    |         |         |         |
| Proceeds from capital increase (2007: exercise of warrants and stock options) | 352     | 5,239   | —       |
| Proceeds from long term borrowings, net of financing costs                    | 11,876  | 150     | 288     |
| Repayment of long term borrowings   | (121)   | (148)   | (93)    |
| Repayment of obligations under capital leases                                 | (569)   | (464)   | (378)   |
| Increase/(decrease) in bank overdrafts and short-term borrowings              | 285     | 409     | 371     |
| <b>Net cash used in financing activities</b>                                  | 11,824  | 5,186   | 188     |
| Net effect of exchange rate changes on cash and cash equivalents              | (227)   | (80)    | 75      |
| <b>Net increase/(decrease) in cash and cash equivalents</b>                   | 7,629   | 1,575   | (1,081) |
| Cash and cash equivalents at beginning of year                                | 9,894   | 8,317   | 9,398   |
| <b>Cash and cash equivalents at end of year</b>                               | 17,523  | 9,894   | 8,317   |

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands of euros unless otherwise noted, except per share data)

## 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**1-1 Nature of operations**

EDAP TMS S.A. and its subsidiaries (“the Company”) are engaged in the development, production, marketing, distribution and maintenance of a portfolio of minimally-invasive medical devices for the treatment of urological diseases. The Company currently produces 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.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(in thousands of euros unless otherwise noted, except per share data)**

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. Revenues from devices leased to customers under operating leases are recognized on a straight-line basis.

Sales of spare parts and services:

Revenues related to spare parts are recognized when goods are delivered. Maintenance contracts rarely exceed one year and are recognized on a 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 judgments as to its ability to collect outstanding receivables and provides allowances for the portion of receivables when collection becomes doubtful. Provision is made based upon a specific review of all significant outstanding invoices. These estimates are based on our bad debt write-off experience, analysis of credit information, specific identification of probable bad debt based on our collection efforts, aging of accounts receivables and other known factors.

**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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(in thousands of euros unless otherwise noted, except per share data)**

**1-9 Property and equipment**

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

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

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

**1-10 Long-lived assets**

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

**1-11 Goodwill and intangible assets**

Goodwill represents the excess of purchase price over the fair value of identifiable net assets of businesses acquired. Goodwill is not amortized but instead tested annually for impairment or more frequently when events or change in circumstances indicate that the assets might be impaired by comparing the carrying value to the fair value of the reporting units to which it is assigned. Under Statement of Financial Accounting Standards 142, "Goodwill and other intangible assets", the impairment test is performed in two steps. The first step compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit is less than its carrying amount, a second step is performed to measure the amount of impairment loss. The second step allocates the fair value of the reporting unit to the Company's tangible and intangible assets and liabilities. This derives an implied fair value for the reporting unit's goodwill. If the carrying amount of the reporting units goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized equal to that excess. For the purpose of any impairment test, the Company relies upon projections of future undiscounted cash flows and takes into account assumptions regarding the evolution of the market and its ability to successfully develop and commercialize its products.

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

EDAP TMS S.A. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands of euros unless otherwise noted, except per share data)

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

|                          |         |
|--------------------------|---------|
| Patents                  | 5 years |
| Licenses                 | 5 years |
| Trade name and trademark | 7 years |

**1-12 Treasury Stocks**

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

**1-13 Shipping and handling costs**

Shipping and handling costs incurred by the Company are reflected in cost of goods sold.

**1-14 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 €645 thousand, €483 thousand and €517 thousand for the years ended December 31 2007, 2006 and 2005 respectively.

**1-15 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.

**1-16 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, 2007, EDAP TMS had total research tax credits receivable of €222 thousand.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(in thousands of euros unless otherwise noted, except per share data)**

**1-17 Advertising costs**

Advertising costs are recorded as an expense in the period in which they are incurred. Advertising costs amounted to €831 thousand, €584 thousand and €382 thousand for the years ended December 31 2007, 2006 and 2005 respectively.

**1-18 Foreign currency translation and transactions***Translation of the financial statements of consolidated companies*

The reporting currency of EDAP TMS S.A. for all years presented, is the euro (€). The functional currency of each subsidiary is its local currency. In accordance with Statement of Financial Accounting Standards No. 52, all accounts in the financial statements are translated into euro from the functional currency at exchange rate as follows:

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

*Foreign currencies transactions*

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

**1-19 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.

**1-20 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 instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, the Company must classify the hedging instrument, based upon the exposure being hedged, as fair value hedge, cash flow hedge or a hedge of a net investment in a foreign operation.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(in thousands of euros unless otherwise noted, except per share data)**

**1-21 Employee stock option plans**

At December 31, 2007, the Company had five 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 graded 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 pro forma 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:

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

## EDAP TMS S.A. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands of euros unless otherwise noted, except per share data)

The fair value of each stock option granted during the year is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

|  | Year Ended December 31, |                     |      |
|--|-------------------------|---------------------|------|
|  | 2007                    | 2006 <sup>(1)</sup> | 2005 |
| Weighted-average expected life (years)                             | 10                      | —                   | 2    |
| Expected volatility rates  | 75%                     | —                   | 75%  |
| Expected dividend yield  | —                       | —                   | —    |
| Risk-free interest rate  | 4.4%                    | —                   | 4.3% |
| Weighted-average exercise price (€)                                | 3.99                    | —                   | 2.78 |
| Weighted-average fair value of options granted during the year (€) | 3.43                    | —                   | 1.82 |

(1) The Company did not make any grants during the year ended December 31, 2006.

**1-22 Convertible debentures and detachable warrants**Warrants:

As part of the October 2007 \$20 million issuance of the 9% Senior Convertible Debentures, we issued warrants to both the investors in the convertible debentures and to the bank that assisted us as the Placement Agent. See Note 14 for further discussion.

In accordance with EITF 00-19, the warrants issued to the investors in the convertible debentures ("Investor Warrants") and the Placement Agent ("Placement Agent Warrants") are classified as a liability because the Company may be required to net-cash and settle them upon the occurrence of certain events outside the control of the Company. We accounted for the Investor Warrants based on their fair value at inception date, with subsequent changes in fair value recorded as financial earnings (or loss) as each balance sheet date. We used a binomial pricing model to determine the fair value of the Investor Warrants: the binomial model was developed to capture the specific nature of this instrument, and in particular the possibility the holder may exercise the call option at any time from the inception date. 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, and the liquidity discount factor. A change in one or more of these assumptions could result in a material change to the estimated fair value of the vested warrants.

The warrants issued to the Placement Agent as partial consideration for placing the convertible debentures recorded as a liability, with changes in fair value at each balance sheet date reflected in financial income. We used the Black-Scholes option-pricing model to determine the fair value of the Placement Agent Warrants. The application of the model to the warrants at inception date therefore required the use of subjective assumptions, including historical share price volatility, the expected life of the warrants and our risk-free interest rate.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(in thousands of euros unless otherwise noted, except per share data)**

Convertible Debentures

On October 29, 2007 the Company raised \$20 million in non-secured, convertible debentures with detachable warrants. See Note 14 for further discussion. At the inception date, the Company elected to measure the instrument and its embedded derivatives in its entirety at fair value, with changes in fair value reported in the income statement under financial income, pursuant to §16 of SFAS 133, as amended by SFAS 155. Thus, the convertible debentures together with their embedded derivatives are recorded as a liability, with subsequent changes in fair value recorded in financial income and expenses. The Company used a binomial valuation model to measure the fair value of the Investor Warrants and a binomial valuation model with a Company specific credit spread to measure the fair value of the convertible debentures.

**1-23 Leases and Sales and leaseback transactions**

In accordance with SFAS 13, Accounting for Leases, we classify all leases at the inception date as either a capital lease or an operating lease. A lease is a capital lease if it meets any one of the following criteria; otherwise, it is an operating lease:

- Ownership is transferred to the lessee by the end of the lease term;
- The lease contains a bargain purchase option;
- The lease term is at least 75% of the property's estimated remaining economic life;
- The present value of the minimum lease payments at the beginning of the lease term is 90% or more of the fair value of the leased property to the lessor at the inception date.

We enter into sale and leaseback transactions from time to time. In accordance with SFAS 13 and EITF 93-8, any profit or loss on the sale is deferred and amortized prospectively over the term of the lease, in proportion to the leased asset if a capital lease, or in proportion to the related gross rental charged to expense over the lease term, if an operating lease.

**1-24 New accounting pronouncements**

On September 15, 2006, the FASB issued Statement of Financial Accounting Standards No. 157 "Fair Value Measurements" ("SFAS 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 is effective as of the beginning of the first fiscal year beginning after November 15, 2007. The Company is still evaluating the potential impact on its financial condition and results of operations of the adoption of SFAS 157.

On February 15, 2007, the FASB issued Statement of Financial Accounting Standards No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities: Including an amendment of FASB Statement No. 115" ("SFAS 159"). SFAS No. 159 permits all entities to elect to measure many financial instruments and certain other items at fair value with changes in fair value reported in earnings. SFAS 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007, with earlier adoption permitted. The Company does not anticipate that the adoption of this statement will have a material effect on its financial condition and results of operations.

In December 2007, the FASB issued FASB Statement No. 141 (Revised 2007) "Business Combinations" ("SFAS 141(R)"), which requires the Company to record fair value estimates of contingent consideration and certain other potential liabilities during the original purchase price allocation, expense acquisition costs as incurred and does not permit certain restructuring activities previously allowed under Emerging Issues Task Force Issue No. 95-3 to be recorded as a component of purchase accounting. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, except for the presentation and disclosure requirements, which shall be applied

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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retrospectively for all periods presented. The Company will adopt this standard at the beginning of the Company's fiscal year ending November 30, 2009 for all prospective business acquisitions. The Company has not determined the effect that the adoption of SFAS No. 141(R) will have on the financial results of the Company.

In December 2007, the FASB issued FASB Statement No. 160 "Non-controlling Interests in Consolidated Financial Statements - an amendment of ARB No. 51" ("SFAS 160"), which causes non controlling interests in subsidiaries to be included in the equity section of the balance sheet. SFAS 160 applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, except for the presentation and disclosure requirements, which shall be applied retrospectively for all periods presented. The Company will adopt this standard at the beginning of the Company's fiscal year ending November 30, 2009 for all prospective business acquisitions. The Company has not determined the effect that the adoption of SFAS 160 will have on the financial results of the Company

**2—CASH EQUIVALENTS AND SHORT TERM INVESTMENTS**

Cash and cash equivalents are comprised of the following:

|  | December 31,  |               |
|--|---------------|---------------|
|  | 2007          | 2006          |
| Total cash and cash equivalents                                    | 17,523        | 9,894         |
| Short term investment  | 1,089         | 1,031         |
| <b>Total cash and cash equivalents, and short term investments</b> | <b>18,611</b> | <b>10,925</b> |

**3—TRADE ACCOUNTS AND NOTES RECEIVABLE, NET**

Trade accounts and notes receivable consist of the following:

|                                       | December 31,  |               |
|---------------------------------------|---------------|---------------|
|                                       | 2007          | 2006          |
| Trade accounts receivable             | 11 370        | 10 631        |
| Notes receivable                      | 242           | 192           |
| Less: allowance for doubtful accounts | (735)         | (681)         |
| <b>Total</b>                          | <b>10 877</b> | <b>10 142</b> |

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

Bad debt expenses recognized in operating expenses amount to €131 thousand, €86 thousand and €274 thousand, for the years ended December 31, 2007, 2006, and 2005.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(in thousands of euros unless otherwise noted, except per share data)

**4—OTHER RECEIVABLES**

Other receivables consist of the following:

|  | December 31, |            |
|--|--------------|------------|
|  | 2007         | 2006       |
| Value-added taxes receivable   | 420          | 420        |
| Research and development tax credit receivable from the French State | 222          | 111        |
| Personnel advances   | 353          | 44         |
| Other receivables from the French State                              | 100          | 52         |
| Others   | 54           | 105        |
| <b>Total</b>   | <b>1 149</b> | <b>732</b> |

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.

At the end of 2007, Personnel advances include €300 thousand related to the severance package of a former senior executive.

**5—INVENTORIES**

Inventories consist of the following:

|   | December 31, |              |
|---|--------------|--------------|
|   | 2007         | 2006         |
| Components, spare parts                   | 3,751        | 3,678        |
| Work-in-progress                          | 688          | 495          |
| Finished goods                            | 888          | 521          |
| Total gross inventories                   | 5,327        | 4,694        |
| Less: provision for slow-moving inventory | (1,021)      | (928)        |
| <b>Total</b>                              | <b>4,306</b> | <b>3,766</b> |

The provision for slow moving inventory relates to components and spare parts. The allowance for slow moving inventory, the changes in which are classified within cost of sales, amounted to €288 thousand, €388 thousand and €386 thousand for the years ended December 31, 2007, 2006 and 2005, respectively.

**6—OTHER ASSETS**

Other assets consist of the following:

|  | December 31, |            |
|--|--------------|------------|
|  | 2007         | 2006       |
| Deferred financing costs , current portion | 470          |            |
| Other prepaid expenses, current portion    | 465          | 744        |
| <b>Total</b>                               | <b>935</b>   | <b>744</b> |

  

|  | December 31, |      |
|--|--------------|------|
|  | 2007         | 2006 |
| Deferred financing costs , non-current | 1,800        |      |

EDAP TMS S.A. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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Deferred financing costs related to the debentures issued in the October 2007 private placement are being amortized over five years, the duration of the debt. The amortization of deferred financing costs, which is classified as financial expense, net, amounted to €78 thousand, for the year ended December 31, 2007.

7—PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following:

|   | December 31,  |              |
|---|---------------|--------------|
|   | 2007          | 2006         |
| Equipment                                       | 8,222         | 6,690        |
| Furniture, fixture, and fittings and other      | 2,541         | 2,341        |
| <b>Total gross value</b>                        | <b>10,763</b> | <b>9,031</b> |
| Less: accumulated depreciation and amortization | (6,583)       | (5,820)      |
| <b>Total</b>                                    | <b>4,180</b>  | <b>3,211</b> |

Depreciation and amortization expense related to property and equipment amounted to €1,180 thousand, €1,200 thousand and €1,145 thousand for the years ended December 31, 2007, 2006 and 2005, respectively.

Capitalized costs on equipment held under capital leases of €2,517 thousand and €1,557 thousand and are included in property and equipment at December 31, 2007 and 2006, respectively. Accumulated amortization of these assets leased to third parties was €1,159 thousand and €828 thousand, at December 31, 2007 and 2006, respectively. Amortization expense on assets held under capital leases is included in total amortization expense and amounted to €374 thousand, €277 thousand and €267 thousand for the years ended December 31, 2007, 2006 and 2005, respectively.

8—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, 2007.

The Company completed the required annual impairment test in the fourth quarter of 2007. 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 14%, (iii) a residual value specific to each segment. In both cases, the fair value of the reporting unit was in excess of the reporting unit's book value, which resulted in no goodwill impairment.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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Intangible assets consist of the following:

|                                | December 31,   |                |
|--------------------------------|----------------|----------------|
|                                | 2007           | 2006           |
| Licenses                       | 532            | 486            |
| Trade name and trademark       | 539            | 540            |
| Patents                        | 412            | 412            |
| Organization costs             | 363            | 363            |
| Total gross value              | <u>1 846</u>   | <u>1 801</u>   |
| Less: accumulated amortization | <u>(1 767)</u> | <u>(1 730)</u> |
| Total                          | <u>79</u>      | <u>71</u>      |

Amortization expenses related to intangible assets amounted to €37 thousand, €57 thousand and €57 thousand, for the years ended December 31, 2007, 2006 and 2005, respectively.

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

**9—TRADE ACCOUNTS AND NOTES PAYABLE**

Trade accounts and notes payable consist of the following:

|                        | December 31, |              |
|------------------------|--------------|--------------|
|                        | 2007         | 2006         |
| Trade accounts payable | 5 066        | 3 987        |
| Notes payable          | 595          | 731          |
| Total                  | <u>5 661</u> | <u>4 718</u> |

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.

**10—DEFERRED REVENUES**

Deferred revenues consist of the following:

|  | December 31, |              |
|--|--------------|--------------|
|  | 2007         | 2006         |
| Deferred revenues on maintenance contracts           | 217          | 447          |
| Deferred revenue on RPP                              | 11           | 67           |
| Deferred revenue on sale of devices                  | 618          | 627          |
| Deferral of the gain on sale-lease-back transactions | 314          | 141          |
| Total  | <u>1 160</u> | <u>1 282</u> |
| Less long term portion                               | <u>708</u>   | <u>613</u>   |
| Current portion                                      | <u>452</u>   | <u>669</u>   |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**11—OTHER ACCRUED LIABILITIES**

Other accrued liabilities consist of the following:

|                                  | December 31, |              |
|----------------------------------|--------------|--------------|
|                                  | 2007         | 2006         |
| Provision for warranty costs     | 874          | 700          |
| Value added tax payable          | 467          | 580          |
| Accruals for social expenses     | 864          | 344          |
| Conditional government subsidies | 788          | 588          |
| Advance from debtors             | 77           | 11           |
| Retirement indemnities           | 17           | 20           |
| Others                           | 206          | 215          |
| <b>Total</b>                     | <b>3 293</b> | <b>2 458</b> |

At the end of 2007, Accruals for social expenses include €422 thousand related to the severance package of a former senior executive.

Changes in the provision for warranty costs are as follows:

|  | December 31, |       |
|--|--------------|-------|
|  | 2007         | 2006  |
| Beginning of year                      | 700          | 700   |
| Amount used during the year (payments) | (471)        | (483) |
| New warranty expenses                  | 645          | 483   |
| End of year                            | 874          | 700   |

**12—LEASE OBLIGATIONS***12-1 Capital leases*

The Company leases certain of its equipment under capital leases. At December 31, 2007, this equipment consists of medical devices for an amount of €1,526 thousand and vehicles for an amount of €30 thousand. Future minimum lease payments under capital leases for the years ending December 31, 2007 are as follows:

|   | December 31,<br>2007 |
|---|----------------------|
| 2008                                    | 599                  |
| 2009                                    | 513                  |
| 2010                                    | 399                  |
| 2011                                    | 190                  |
| Thereafter                              | 22                   |
| Total minimum lease payments            | 1 723                |
| Less: amount representing interest      | (166)                |
| Present value of minimum lease payments | 1 557                |
| Less: current portion                   | 522                  |
| Long-term portion                       | <b>1 035</b>         |

Interest paid under capital lease obligations was €64 thousand, €48 thousand, and €28 thousand for the years ended December 31, 2007, 2006, and 2005, respectively.

EDAP TMS S.A. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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12-2 Operating leases

As of December 31, 2007, 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:

|              | <u>TMS</u> | <u>Japan</u> |
|--------------|------------|--------------|
| 2008         | 267        | 123          |
| 2009         | -          | 4            |
| <b>Total</b> | <u>267</u> | <u>127</u>   |

Total rent expense under operating leases amounted to €688 thousand, €689 thousand and €703 thousand for the years ended December 31, 2007, 2006 and 2005, 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.

13—SHORT-TERM BORROWINGS

As of December 31, 2007, short-term borrowings consist of €593 thousand of account receivables factored and for which the Company is supporting the risk of uncollectibility and loans in euros amounting to €1,000 thousand with the following conditions:

|              | <u>Amount</u> | <u>Maturation</u> | <u>Interest rate</u> |
|--------------|---------------|-------------------|----------------------|
| TMS SA       | 225           | December 22, 2008 | Euribor + 0,5%       |
| EDAP SA      | 258           | December 22, 2008 | Euribor + 0,5%       |
| EDAP SA      | 207           | December 22, 2008 | Euribor + 0,5%       |
| EDAP SA      | 310           | December 22, 2008 | Euribor + 0,5%       |
| <b>Total</b> | <u>1 000</u>  |                   |                      |

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:

|              | <u>Amount</u> | <u>Maturation</u>  | <u>Interest rate</u> |
|--------------|---------------|--------------------|----------------------|
| 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%         |
| <b>Total</b> | <u>878</u>    |                    |                      |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(in thousands of euros unless otherwise noted, except per share data)

**14—LONG-TERM DEBT**

Long-term debt consists of the following:

|  | <b>December 31,</b> |             |
|--|---------------------|-------------|
|  | <b>2007</b>         | <b>2006</b> |
| Japanese yen term loan                       |                     | 49          |
| Convertible debentures carried at fair value | 11,691              |             |
| Investor Warrants                            | 3,141               |             |
| Placement Agent Warrants                     | 343                 |             |
| Financial Instruments carried at fair value  | 3,484               |             |
| Italy  | 58                  | 132         |
| Total  | 15,232              | 181         |
| Less current portion                         | (58)                | (123)       |
| Total long-term portion                      | 15,174              | 58          |

Long-term debt at December 31, 2007 matures as follows:

|       |        |
|-------|--------|
| 2008  | 58     |
| 2009  |        |
| 2010  |        |
| 2011  |        |
| 2012  | 12,033 |
| 2013  | 3,141  |
| Total | 15,232 |

As of December 31, 2007, long-term debt in Italy consists of 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.

As of December 31, 2007, long-term in USD consists of a \$20 million convertible debt with warrants, raised on October 29, 2007 through a Private Investment in Public Equity deal with selected investors - see Note 1-21 on the accounting treatment of the convertible debentures and the detachable warrants.

At inception date, the fair value of the convertible debentures and detachable warrants was \$20 million. The Company has allocated the proceeds to the fair value of the debt host and the warrants.

The \$20 million convertible debt is in the form of 20,000 debentures with a face value of \$1,000 and each bond is convertible into 152 shares of common stock at any time at the election of the holder, using a conversion price of \$6.57, subject to standard anti-dilution adjustments.

The debentures mature in five years (October 28, 2012) and bear an annual interest rate of 9% payable on a quarterly basis in cash or in common stock, at the option of the company (decision made every quarter) with a 10% discount price over the average market price of common stock.

Investors in the convertible debentures also received an aggregate number of 1,680,000 detachable warrants to purchase one share of common stock for each warrant. The warrants have a six-year term and an exercise price of \$6.87, subject to standard anti-dilutive adjustments.

The company also granted to the bank acting as placement agent in the transaction warrants to purchase 188,965 shares of common stock, with a five-year term and the following exercise prices: 121,765 shares at \$6.57 and 67,200 shares at \$6.87.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands of euros unless otherwise noted, except per share data)Fair Value of Investor Warrants:

The valuation model of Investor Warrants uses a binomial valuation model to capture the complexity of the instruments, and notably the possibility to exercise the call option at any time from the inception date.

As of October 29, 2007, the binomial model uses the following main assumptions and parameters:

- Share price at inception date: \$5.95
- Strike price of warrants: \$6.87
- Risk free interest rate at 6 years: 4.11%
- Monthly volatility: 45%
- Liquidity Discount Factor: 26.91%

As of December 31, 2007, the binomial model uses the following main assumptions and parameters:

- Share price at closing date: \$4.80
- Strike price of warrants: \$6.87
- Risk free interest rate at 6 years: 3,55%
- Monthly volatility: 75%
- Liquidity Discount Factor: 26.91%

On that basis, the unit fair value of Investor Warrants was \$2.32 per warrant at inception date and \$2.75 per warrant as of December 31, 2007. The total fair value for the 1,680,000 issued warrants was \$3.890 million at inception date and \$4.624 million at December 31, 2007.

Fair Value of the Convertible Debt:

At inception date, the Company elected to measure the entire convertible debt (i.e. the debt host with all embedded derivative features) at fair value (with changes in fair value reported in income statement), pursuant to §16 of SFAS 133, as amended by SFAS 155. The total fair value of the convertible debt is the aggregate of the fair value of the underlying debt host instrument and the fair value of the embedded derivatives.

The estimate of the fair value of the underlying debt component is obtained by using the actual interest spread the Company would have had to pay if a straight, unsecured, debt had been raised, with no additional remuneration to lenders in the form of conversion options or warrants. Before and at inception date, the Company conducted an analysis of the terms available on a non-convertible, unsecured, conventional debt. Based on this analysis, a rate of 30% has been used as in conducting the fair value of the debt host which represents an interest spread of 26% over the risk-free interest rate at inception date. The present value of the debt host using an effective interest rate of 30% is \$10.330 million. At December 31, 2007 the fair value has been measured again considering any changes required in underlying assumptions, and mostly the risk free interest rate and the Company specific credit spread of 26%. The spread, which depends on the Company's specific risk profile is unchanged at December 31, 2007 as no significant changes occurred in the risk profile of the Company. The present value of the debt host at December 31, 2007 is \$10.533 million.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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The valuation model of the conversion option uses a binomial valuation model to capture the complexity of the instrument, and notably the continuous possibility of an arbitrage between holding common shares versus interest bearing bonds.

As of October 29, 2007, the binomial model uses the following main assumptions and parameters:

- Share price at inception date: \$5.95
- Strike price of convertible debentures: \$6.87
- Risk free interest rate at 5 years: 4.04%
- Monthly volatility: 45%
- Liquidity Discount Factor: 26.91%

As of December 31, 2007, the Binomial model uses the following main assumptions and parameters:

- Share price at closing date: \$4.80
- Strike price of warrants: \$6.57
- Risk free interest rate at 5 years: 3.43%
- Monthly volatility: 75%
- Liquidity Discount Factor: 26.91%

On that basis, the fair value of the conversion option was \$5.780 million (\$7.909 million before liquidity discount) at inception date and \$6.677 million (\$9.135 million before liquidity discount) as of December 31, 2007.

**Placement Agent Warrants:**

As part of the transaction costs, the Company granted to the bank acting as placement agent in the transaction warrants to purchase 188,965 shares of common stock, with a five year term and the following exercise prices: 121,765 shares at \$6.57 per share and 67,200 shares at \$6.87 per share. The fair value of the Placement Agent Warrants has been valued using the Black-Scholes option valuation method, using a 4.04% risk free interest rate and a 75% volatility at inception date, and a 3.43% risk free interest rate and a 75% stock volatility at December 31, 2007.

The following table summarizes the fair value of the entire indebtedness related to the convertible debentures, Investor Warrants and Placement Agent Warrants:

| <b>In '000 US Dollars</b>          | <b>Total Fair Value<br/>At inception date</b> | <b>Total Fair Value<br/>At December 31, 2007</b> | <b>Change in Fair Value in USD</b> |
|------------------------------------|---|--|------------------------------------|
| Convertible debt                   | 16,110  | 17,210   | 1,100                              |
| Investor Warrants                  | 3,890   | 4,624  | 734                                |
| <b>Total</b>                       | <b>20,000</b>                                 | <b>21,834</b>                                    | <b>1,834</b>                       |
| Placement Agent Warrants at \$6.57 | 448   | 327  | (121)                              |
| Placement Agent Warrants at \$6.87 | 244   | 177  | (67)                               |
| <b>Total</b>                       | <b>20,692</b>                                 | <b>22,338</b>                                    | <b>1,646</b>                       |



The following table reflects the impact after translation in euros:

| In '000 Euros            | Total Fair Value<br>At inception date | Total Fair Value<br>At December 31, 2007 | Change in Fair Value in EUR<br>(reflected in Financial income<br>- See Note 20) | Exchange Rate Impact |
|--------------------------|---------------------------------------|--|---|----------------------|
| Exchange Rate (USD/EUR)  | 1,4548                                | 1,4721                                   | 1,4721  |                      |
| Convertible debt         | 11,074                                | 11,691                                   | 747   | (131)                |
| Investor Warrants        | 2,674                                 | 3,141                                    | 498   | (31)                 |
| Total                    | 13,748                                | 14,832                                   | 1,246   | (162)                |
| Placement Agent Warrants | 476                                   | 343                                      | (127)   | (6)                  |
| Total                    | 14,224                                | 15,174                                   | 1,118   | (168)                |

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**15—OTHER LONG-TERM LIABILITIES**

Other long-term liabilities consist of the following:

|                                      | December 31, |            |
|--------------------------------------|--------------|------------|
|                                      | 2007         | 2006       |
| Provision for retirement indemnities | 652          | 577        |
| Other                                | 51           | 303        |
| <b>Total</b>                         | <b>703</b>   | <b>880</b> |

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, 2007 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 |       |       |
|---|---------------------------|-------|-------|
|   | 2007                      | 2006  | 2005  |
| Weighted average assumptions:               |                           |       |       |
| Discount rate                               | 5.50%                     | 4.50% | 4.00% |
| Salary increase                             | 2.50%                     | 2.00% | 2.00% |
| Retirement age                              | 65                        | 65    | 65    |
| Average retirement remaining service period | 27                        | 26    | 27    |

|                               | Pension Benefits - Japan |       |       |
|-------------------------------|--------------------------|-------|-------|
|                               | 2007                     | 2006  | 2005  |
| Weighted average assumptions: |                          |       |       |
| Discount rate                 | 1.50%                    | 1.75% | 1.50% |
| Salary increase               | 1.80%                    | 1.80% | 1.80% |

## EDAP TMS S.A. AND SUBSIDIARIES

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The reconciliation between projected benefit obligations and the accumulated benefit obligations is as follows as of December 31, 2007 (in thousands of euros):

|                                | France | Japan |
|--------------------------------|--------|-------|
| Projected benefit obligation   | 240    | 278   |
| Normal cost                    | 22     | 33    |
| Accumulated benefit obligation | 157    | 243   |

Provision presentation according to FAS 158:

|  | France         | Japan          |
|--|----------------|----------------|
| Non current liabilities                | 239 972        | 260 314        |
| Current liabilities                    | -              | 17 464         |
| Non current asset                      | -              | -              |
| Accumulated other comprehensive income | 24 186         | (103 380)      |
| <b>Total</b>                           | <b>264 158</b> | <b>174 398</b> |

Detailed reconciliation of pension cost components (in thousands of euros) during fiscal year ending December 31, 2007:

| France  | 2007       | 2006       | 2005       |
|---|------------|------------|------------|
| <b>Change in benefit obligations</b>            |            |            |            |
| Benefit obligations at beginning of year        | 218        | 229        | 132        |
| Service cost                                    | 22         | 23         | 17         |
| Interest cost                                   | 10         | 9          | 6          |
| Plan amendments                                 | -          | -          | -          |
| (gain) / loss                                   | (7)        | (44)       | 74         |
| Benefits paid                                   | (3)        | -          | -          |
| <b>Benefit obligations at end of year</b>       | <b>240</b> | <b>218</b> | <b>229</b> |
| <b>Change in plan assets</b>                    |            |            |            |
| Fair value of plan assets at beginning of year  | -          | -          | -          |
| Employer contribution                           | 3          | -          | -          |
| Return on plan assets                           | -          | -          | -          |
| Benefits paid                                   | (3)        | -          | -          |
| <b>Fair value of plan assets at end of year</b> | <b>-</b>   | <b>-</b>   | <b>-</b>   |
| Unrecognized actuarial (gain) loss              | (24)       | (17)       | 27         |
| Unrecognized prior service cost                 | -          | -          | -          |
| <b>Accrued pension cost</b>                     | <b>264</b> | <b>235</b> | <b>202</b> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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| JAPAN   | 2007       | 2006       | 2005       |
|---|------------|------------|------------|
| <b>Change in benefit obligations</b>            |            |            |            |
| Benefit obligations at beginning of year        | 239        | 262        | 217        |
| Service cost                                    | 31         | 32         | 35         |
| Interest cost                                   | 4          | 3          | 3          |
| Plan amendments                                 | -          | -          | -          |
| Termination benefits                            | -          | -          | -          |
| (gain) / loss                                   | (16)       | (3)        | 7          |
| Benefits paid                                   | -          | (25)       | -          |
| Exchange rate impact                            | 20         | (30)       | -          |
| <b>Benefit obligations at end of year</b>       | <b>278</b> | <b>239</b> | <b>262</b> |
| <b>Change in plan assets</b>                    |            |            |            |
| Fair value of plan assets at beginning of year  | -          | -          | -          |
| Employer contribution                           | -          | -          | -          |
| Return on plan assets                           | -          | -          | -          |
| Benefits paid                                   | -          | -          | -          |
| <b>Fair value of plan assets at end of year</b> | <b>-</b>   | <b>-</b>   | <b>-</b>   |
| Unrecognized actuarial (gain) loss              | 104        | 101        | 130        |
| Unrecognized prior service cost                 | -          | -          | -          |
| <b>Accrued pension cost</b>                     | <b>174</b> | <b>138</b> | <b>132</b> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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## 16—SHAREHOLDERS' EQUITY

**16-1 Common stock**

As of December 31, 2007, EDAP TMS S.A.'s common stock consisted of 9,624,497 issued shares, fully paid, and with a par value of €0.13 each. 9,200,757 of the shares were outstanding.

**16-2 Pre-emptive subscription rights**

Shareholders have preemptive rights to subscribe on a *pro rata* basis for additional shares issued by the Company for cash. Shareholders may waive such preemptive subscription rights at an extraordinary general meeting of shareholders under certain circumstances. Preemptive subscription rights, if not previously waived, are transferable during the subscription period relating to a particular offer of shares.

**16-3 Dividend rights**

Dividends may be distributed from the statutory retained earnings, subject to the requirements of French law and the Company's by-laws. The Company has not distributed any dividends since its inception. Distributable statutory retained earnings amounted to €25,396 thousand and €26,438 thousand at December 31, 2007 and 2006, respectively. Dividend distributions, if any, will be made in euros. The Company has no plans to distribute dividends in the foreseeable future.

**16-4 Treasury stock**

As of December 31, 2007, the 423,740 shares of treasury stock consisted of (i) 21,400 shares acquired on December 2, 1996 for €85 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 423,740 shares of treasury stock have been acquired to cover outstanding stock options (see Note 15-5).

**16-5 Stock-option plans**

As of December 31, 2007, EDAP TMS S.A. sponsored five 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. This stock purchase plan is no longer valid as the related stock options contracts have expired.

EDAP TMS S.A. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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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.

EDAP TMS S.A. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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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 be 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 to 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.

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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). On March 8, 2007, a revised business model was approved by the Board of Directors for years 2007 and 2008. On that date, 47,100 rights to subscribe to new shares were granted to new entrants, subject to the achievement of certain milestones based on the revised 2007-2008 business model. As of December 31, 2007 none of the milestones for the year 2007, fixed by the January 6, 2006 Board of Directors, have been reached, and only one milestone fixed by the March 8, 2007 Board of Directors, has been reached, thus triggering allocation of 7,065 new shares to some employees. As per the Performance Stock Plan approved on March 8, 2007, these shares will only be issued on July 2009. As of December 31, 2007, 211,435 rights to subscribe to new shares, based on these fixed performance criteria for the year 2007 were then cancelled and these shares will then never be subscribed and issued. As of December 31, 2007, only 18,840 rights out of the 625,000 initially granted were still in force, based on 2008 milestones.

On May 22, 2007, the shareholders of EDAP TMS S.A. authorized the Board of Directors to grant up to 600,000 options to subscribe to 600,000 new Shares and up to 105,328 options to purchase pre-existing Shares at a fixed price to be set by the Board of Directors. All of the 105,328 Shares that may be purchased through the exercise of stock options are currently held as treasury stock.

Conforming to this stock option plan, on October 29, 2007, the Board of Directors granted 504,088 options to subscribe to new Shares to certain employees of EDAP TMS. The exercise price was fixed at €3.99 per share. Options were to begin vesting one year after the date of grant and will be fully vested as of October 29, 2011 (i.e., four years after the date of grant). Shares acquired pursuant to the options cannot be sold prior to four years from the date of grant. The options expire on October 29, 2017 (i.e., ten years after the date of grant) or when employment with the Company ceases, whichever occurs earlier. At December 31, 2007 the total fair value of the options granted under this plan was €1,731 thousand. This non-cash financial charge will be recognized in the Company's operating expenses over a period of 48 months; the impact on 2007 Operating Income was €156 thousand.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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As of December 31, 2007, a summary of stock option activity to purchase or to subscribe to Shares under these plans is as follows:

|  | 2007      |                                     | 2006     |                                     | 2005    |                                     |
|--|-----------|-------------------------------------|----------|-------------------------------------|---------|-------------------------------------|
|  | Options   | Weighted average exercise price (€) | Options  | Weighted average exercise price (€) | Options | Weighted average exercise price (€) |
| Outstanding on January 1,                                  | 502,162   | 2.36                                | 593,262  | 2.50                                | 580,262 | 2.49                                |
| Granted  | 504,088   | 3.99                                | -        | -                                   | 15,000  | 2.78                                |
| Exercised  | (183,750) | 2.03                                | (72,600) | 3.20                                | (1,000) | 1.62                                |
| Forfeited  | (7,250)   | 2.60                                | (18,500) | 2.60                                | (1,000) | 3.81                                |
| Expired  | (33,625)  | 3.81                                | -        | -                                   | -       | -                                   |
| Outstanding on December 31,                                | 781,625   | 3.42                                | 502,162  | 2.38                                | 593,262 | 2.50                                |
| Exercisable on December 31,                                | 234,787   | 2.63                                | 405,162  | 2.73                                | 409,652 | 2.45                                |
| Shares purchase options available for grant on December 31 | 105,328   | -                                   | 0        | -                                   | 0       | -                                   |

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, 2007:

| Exercise price (€)  | Outstanding options |   |                                     | Exercisable options |                                     |
|---------------------|---------------------|---|-------------------------------------|---------------------|-------------------------------------|
|                     | Options             | Weighted average remaining contractual life | Weighted average exercise price (€) | Options             | Weighted average exercise price (€) |
| 3.99                | 504,088             | 10  | 3.99                                | -                   | -                                   |
| 3.81                | 37,900              | 1   | 3.81                                | 37,900              | 3.81                                |
| 2.60                | 171,000             | 6.2   | 2.60                                | 128,250             | 2.60                                |
| 2.08 <sup>(1)</sup> | 52,000              | 4.0   | 2.08                                | 52,000              | 2.08                                |
| 2.02 <sup>(2)</sup> | 6,425               | 4.5   | 2.02                                | 6,425               | 2.02                                |
| 1.83                | 10,212              | 1.5   | 1.83                                | 10,212              | 1.83                                |
| 1.83 to 3.99        | 781,625             | 3.9   | 3.51                                | 234,787             | 2.63                                |

(1) All the 52,000 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 6,425 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).

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**16-6 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. On June 22, 2007, the beneficiary of the remaining warrants officially renounced to his allocated warrants.

**17—NET SALES**

Net sales consist of the following:

|                                 | <u>2007</u>   | <u>2006</u>   | <u>2005</u>   |
|---------------------------------|---------------|---------------|---------------|
| Sales of goods                  | 11,752        | 10,849        | 12,198        |
| Sales of RPPs & Leases          | 4,814         | 3,805         | 3,146         |
| Sales of spare parts & services | 5,647         | 5,520         | 5,606         |
| Total sales                     | <u>22,213</u> | <u>20,174</u> | <u>20,952</u> |
| Warrants granted                | -             | -             | (235)         |
| Total net sales                 | 22,213        | 20,174        | 20,717        |

**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 1,000,000 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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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In accordance with EITF 96-18, the Company accounted 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, was then recorded as a reduction of revenue. On December 29, 2005, the Distribution Agreement was amended after HealthTronics decided to focus all of its efforts on implementing Ablatherm clinical trials in the United States to gain FDA approval and to cease pursuing distribution of our lithotripters in the United States. In connection with this amendment, 200,000 warrants that had been issued to HealthTronics were cancelled since their exercise was directly linked to future purchases of our lithotripters.

The non-cash charge of €235 thousand recorded for 2005 related to a series of warrants is linked to HealthTronics' 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.

On April 3, 2007, both parties executed a Termination Agreement whereby HealthTronics agreed to transfer the Ablatherm FDA study to the Company. Under the Termination Agreement, HealthTronics exercised 200,000 warrants which had been granted under the Distribution Agreement to acquire 200,000 ordinary shares of the Company for an aggregate exercise price of \$300,000. The 600,000 remaining warrants granted under the Distribution Agreement were cancelled.

**18—OTHER REVENUES**

Other revenues consists of the following:

|                   | 2007       | 2006      | 2005      |
|-------------------|------------|-----------|-----------|
| Royalties         | -          | -         | 47        |
| Grants and others | 113        | 91        | 46        |
| <b>Total</b>      | <b>113</b> | <b>91</b> | <b>93</b> |

In 2007, EDAP SA invoiced €43 thousand to China Medical Technologies for consulting services.

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 from the French Ministry of Research and Development.

**19—NON-RECURRING OPERATING EXPENSES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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In 2007, the Company recorded other non-recurring operating expenses of €0.2 million including €0.5 million of employee termination expenses and €0.3 million of other income linked to the recovery of medical equipments from HealthTronics as part of the Termination Agreement.

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.

**20—FINANCIAL INCOME, NET**

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

|   | 2007           | 2006       | 2005       |
|---|----------------|------------|------------|
| Interest income                                       | 331            | 224        | 187        |
| Interest expense                                      | (378)          | (71)       | (52)       |
| Depreciation of prepaid expenses on debt grant        | (78)           | -          | -          |
| Changes in fair value of the Convertible Debentures   | (747)          | -          | -          |
| Changes in fair value of the Investor Warrants        | (498)          | -          | -          |
| Changes in fair value of the Placement Agent Warrants | 127            | -          | -          |
| <b>Total</b>  | <b>(1,243)</b> | <b>153</b> | <b>135</b> |

Interest expense in 2007 comprises a €218 thousand expense for the payment of the 9% interest coupon on the convertible debentures from October 29, 2007.

See Note 14 for discussion on the accounting for the convertible debentures, Investor Warrants, and Placement Agent Warrants.

**21—OTHER INCOME (EXPENSE), NET**

Other income (expense), consists of the following:

|                             | 2007      | 2006       | 2005     |
|-----------------------------|-----------|------------|----------|
| Other income (expense), net | 16        | (5)        | 9        |
| <b>Total</b>                | <b>16</b> | <b>(5)</b> | <b>9</b> |

**22—INCOME TAXES****22-1 Loss before income taxes**

Loss before income taxes is comprised of the following:

|                 | 2007           | 2006           | 2005         |
|-----------------|----------------|----------------|--------------|
| France          | (5,055)        | (2,990)        | (755)        |
| Other countries | (516)          | (385)          | (206)        |
| <b>Total</b>    | <b>(5,571)</b> | <b>(3,375)</b> | <b>(961)</b> |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(in thousands of euros unless otherwise noted, except per share data)

**22-2 Income tax (expense)/ benefit**

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

|  | <u>2007</u> | <u>2006</u> | <u>2005</u>  |
|--|-------------|-------------|--------------|
| <i>Current income tax expense:</i>                     |             |             |              |
| France   | 107         | 4           | 38           |
| Other countries  | (58)        | (69)        | (57)         |
| <b>Sub-total current income tax expense</b>            | <b>49</b>   | <b>(65)</b> | <b>(19)</b>  |
| <i>Deferred income tax (expense) benefit:</i>          |             |             |              |
| France   | 21          | 72          | (90)         |
| Other countries  | 70          | (63)        | 5            |
| <b>Sub-total deferred income tax (expense) benefit</b> | <b>91</b>   | <b>9</b>    | <b>(85)</b>  |
| <b>Total</b>   | <b>140</b>  | <b>(56)</b> | <b>(104)</b> |

**22-3 Deferred income taxes:**

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

|  | <u>December 31,</u> |              |
|--|---------------------|--------------|
|  | <u>2007</u>         | <u>2006</u>  |
| Elimination of intercompany profit in inventory            | 139                 | 169          |
| Other items  | 751                 | 540          |
| <b>Net operating loss carryforwards</b>                    | <b>7,799</b>        | <b>6,874</b> |
| <b>Total deferred tax assets</b>                           | <b>8,689</b>        | <b>7,583</b> |
| Capital leases treated as operating leases for tax         | (35)                | (38)         |
| Exit tax   |                     | (81)         |
| <b>Other items</b>   | <b>(161)</b>        | <b>(224)</b> |
| <b>Total deferred tax liabilities</b>                      | <b>(196)</b>        | <b>(343)</b> |
| <b>Net deferred tax assets</b>                             | <b>8,493</b>        | <b>7,240</b> |
| Valuation allowance for deferred tax assets                | (8,248)             | (7,156)      |
| <b>Deferred tax assets (liabilities), net of allowance</b> | <b>245</b>          | <b>84</b>    |

Net operating loss carryforwards of €1,746 thousand, €1,801 thousand, €1,910 thousand, €817 thousand and €16,548 thousand as of December 31, 2007 are available at EDAP Technomed Inc., TMS S.A., EDAP S.A., Edap Technomed Co Ltd Japan and EDAP TMS S.A., respectively. These net operating losses generate deferred tax assets of €7,799 thousand. Realization of these assets is contingent on future taxable earnings in the applicable tax jurisdictions. As of December 31, 2007, €7,465 thousand out of these €7,799 thousand net operating loss carry-forwards have no expiration date. The remaining tax loss carry-forwards expire in years 2011 through 2014. In accordance with SFAS No. 109, a valuation allowance is recorded as realization of those amounts are not considered probable.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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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 2007, 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.

**22-4 Effective tax rate**

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

|   | <u>2007</u> | <u>2006</u> | <u>2005</u> |
|---|-------------|-------------|-------------|
| French statutory rate                                       | 33.8%       | 33.8%       | 33.8%       |
| Research and development tax credit                         | 2.0         | 1.4%        | 7.6%        |
| Income of foreign subsidiaries taxed at different tax rates | 0.5%        | 1.3%        | 1.5%        |
| Effect of net operating loss carryforwards and valuation    |             |             |             |
| Allowances  | (19.1%)     | (27.6%)     | (22.5%)     |
| Non deductible entertainment expenses                       | (0.9%)      | (1.4%)      | (4.9%)      |
| Other   | (13.8%)     | (9.1%)      | (27.7%)     |
| Effective tax rate  | 2.5%        | (1.6%)      | (12.2%)     |

**22-5 Uncertainty in Income Taxes**

Through the adoption of FIN No 48, the Company reviewed the tax positions of each subsidiary. On December 31, 2007 there is no uncertainty in the Company's tax positions. As a result, there is no effect on the retained earnings

|  | <u>Unrecognized tax benefits</u> |
|--|----------------------------------|
| Balance as of January 1 <sup>st</sup> , 2007               | -                                |
| Impact of tax positions taken during a prior period        | -                                |
| Impact of tax positions taken during the current period    | -                                |
| Impact of settlements with taxing authorities              | -                                |
| Impact of a lapse of the applicable statute of limitations | -                                |
| Balance as of December 31 <sup>st</sup> , 2007             | -                                |

In 2007, the Company did not record any interest and penalties. In case of interest and penalties, they would be recognized as non-recurring operating expenses

The tax years that remain subject to examination by major tax jurisdictions are 2005, 2006 and 2007.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**23—EARNINGS (LOSS) PER SHARE**

A reconciliation of the numerators and denominators of the basic and diluted EPS calculations for the years ended December 31, 2007, 2006 and 2005 is as follows:

|  | For the year ended Dec. 31, 2007 |                      |                     | For the year ended Dec. 31, 2006 |                      |                     | For the year ended Dec. 31, 2005 |                      |
|--|----------------------------------|----------------------|---------------------|----------------------------------|----------------------|---------------------|----------------------------------|----------------------|
|  | Loss in euro<br>(Numerator)      | Shares (Denominator) | Per-Share<br>Amount | Loss in euro<br>(Numerator)      | Shares (Denominator) | Per-Share<br>Amount | Loss in euro<br>(Numerator)      | Shares (Denominator) |
| <b>Basic EPS</b>   |                                  |                      |                     |                                  |                      |                     |                                  |                      |
| Loss available to common Shareholders                                | (5,430,460)                      | 9,200,757            | (0.59)              | (3,430,985)                      | 8,817,007            | (0.39)              | (1,065,375)                      | 10,000,000           |
| Effect of dilutive securities:                                       |                                  |                      |                     |                                  |                      |                     |                                  |                      |
| Stock options  |                                  | 516,730              |                     |                                  | 740,526              |                     |                                  |                      |
| <b>Diluted EPS</b>   |                                  |                      |                     |                                  |                      |                     |                                  |                      |
| Loss available to common shareholders, including assumed conversions | (5,430,460)                      | 9,717,487            | (0.59)              | (3,430,985)                      | 9,557,533            | (0.39)              | (1,065,375)                      | 10,000,000           |

**24—COMMITMENTS AND CONTINGENCIES****24-1 Commitments**

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

The Company also has commitments regarding its convertible debentures and warrants. Under the terms of the registration rights agreement the Company entered into in connection with the October 2007 private placement, the Company agreed to secure the registration of a portion of the securities deliverable upon conversion of the debentures and in payment of interest under the debentures by certain dates, and the Company agreed to secure the registration of the remaining securities deliverable on conversion of the debentures and all of the securities deliverable upon exercise of the warrants by certain dates, with penalties, including payment of liquidated damages in case of a default of these commitments. Also, the Company committed to a certain number of covenants regarding its convertible debentures and warrants, and any event of default on these covenants could require the early repayment of the debentures at the mandatory default amount, including all other amounts of interest, costs, expenses and liquidated damages due in respect of the defaulted debentures.

**24-2 Litigation**

To date, the Company is a party to one product liability action 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 this case following the sale of the Prostatron business in October 2000. 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 claim and suit would not have a material adverse effect on the results of its operations, cash flows, or financial position as of December 31, 2007, and for the year then ended.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(in thousands of euros unless otherwise noted, except per share data)

**25—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, 2007 and 2006.

|   | December 31,           |                           | December 31,        |                           |
|---|------------------------|---------------------------|---------------------|---------------------------|
|   | 2007<br>Recorded Value | 2007 Estimated Fair Value | 2006 Recorded Value | 2006 Estimated Fair Value |
| Assets:   |                        |                           |                     |                           |
| Cash and cash equivalents                       | 17,523                 | 17,523                    | 9,894               | 9,894                     |
| Trade accounts and notes receivable, net        | 10,877                 | 10,877                    | 10,142              | 10,142                    |
| Short term investment                           | 1,089                  | 1,089                     | 1,031               | 1,031                     |
| Liabilities:                                    |                        |                           |                     |                           |
| Short-term borrowings                           | 1,593                  | 1,593                     | 1,308               | 1,308                     |
| Trade accounts payable                          | 5,067                  | 5,067                     | 3,987               | 3,987                     |
| Notes payable                                   | 595                    | 595                       | 731                 | 731                       |
| Convertible Debentures and other Long Term Debt | 11,691                 | 11,691                    | 58                  | 54                        |
| Investor Warrants                               | 3,141                  | 3,141                     |                     |                           |
| Placement Agent Warrants                        | 343                    | 343                       |                     |                           |

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.

The long-term debt is recorded at fair value.

**26—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, 2007 and 2006. Ultimate losses may vary from the current estimates, and any adjustments are reported in earnings in the periods in which they become known.

In 2007 and 2006, the Company did not generate significant revenue with a single customer.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(in thousands of euros unless otherwise noted, except per share data)**

**27—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, 2007, there were no outstanding hedging instruments.

**28—SEGMENT INFORMATION**

In July 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. Then, in 2007, the Company created a new reporting segment dedicated to the FDA approval for Ablatherm-HIFU activity. The following tables set forth the key income statement figures, by segment for fiscal years 2007, 2006 and 2005 and the key balance sheet figures, by segment, for fiscal years 2007, 2006 and 2005.

As from the first quarter of 2007, the Company elected to report our segment information on a "net contribution" basis, so that each segment's results comprise the elimination of our intra-group revenues and expenses and thus reflect the true contribution to consolidated results of the segment. The Company has reclassified its 2006 results using this method for comparative purposes with its 2007 results, but has retained the former presentation of the 2006 segment results for comparative purposes with its 2005 results.

The business in which the Company operates is the development and production of minimally invasive medical devices, primarily for the treatment of urological diseases. Substantially all revenues result from the sale of medical devices and their related license and royalty payments from third parties. The segments derive their revenues from this activity.

Segment operating profit or loss and segment assets are determined in accordance with the same policies as those described in the summary of significant accounting policies 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:

|   | 2007    | 2006    | 2005    |
|---|---------|---------|---------|
| Segment operating loss                        | (4,089) | (3,094) | (1,323) |
| Financial income, net                         | (1,243) | 153     | 135     |
| Foreign Currency exchange (losses) gains, net | (254)   | (430)   | 218     |
| Other income, net                             | 16      | (5)     | 9       |
| Income tax (expense) credit                   | 140     | (56)    | (104)   |
| Consolidated net loss                         | (5,430) | (3,431) | (1,065) |

## EDAP TMS S.A. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands of euros unless otherwise noted, except per share data)

A summary of the Company's operations by business unit is presented below for years ending December 31, 2007, 2006 and 2005:

|   | <u>HIFU Division</u> | <u>UDS Division</u> | <u>EDAP TMS<br/>(Corporate)</u> | <u>FDA</u> | <u>Total consolidated</u> |
|---|----------------------|---------------------|---------------------------------|------------|---------------------------|
| <b>2007 (Net contribution approach)</b> |                      |                     |                                 |            |                           |
| External sales of medical devices       | 2,661                | 6,496               |                                 |            | 9,157                     |
| External sales of spares parts,         |                      |                     |                                 |            |                           |
| Supplies & services                     | 6,610                | 6,447               |                                 |            | 13,057                    |
| Total sales                             | 9,271                | 12,943              |                                 |            | 22,213                    |
| Warrants granted                        |                      |                     |                                 |            |                           |
| Total net sales                         | 9,271                | 12,943              |                                 |            | 22,213                    |
| External other revenues                 | 60                   | 53                  |                                 |            | 113                       |
| Total revenues                          | 9,331                | 12,996              |                                 |            | 22,327                    |
| Total COS                               | (3,940)              | (9,208)             |                                 |            | (13,148)                  |
| Gross margin                            | 5,391                | 3,788               |                                 |            | 9,179                     |
| R&D                                     | (1,216)              | (1,060)             |                                 | (918)      | (3,194)                   |
| Selling expenses                        | (2,986)              | (2,408)             |                                 | (81)       | (5,476)                   |
| G&A                                     | (985)                | (944)               | (1,786)                         | (659)      | (4,374)                   |
| Non recurring operating expenses        |                      | (7)                 | (512)                           | 295        | (224)                     |
| Total expenses                          | (5,187)              | (4,419)             | (2,298)                         | (1,363)    | (13,267)                  |
| Operating income (loss)                 | 204                  | (631)               | (2,298)                         | (1,363)    | (4,089)                   |
| Total Assets                            | 9,876                | 18,578              | 3,696                           | 12,851     | 45,003                    |
| Capital expenditures                    | 1,109                | 1,354               | 44                              |            | 2,507                     |
| Long-lived assets                       | 3,029                | 4,059               | 82                              | 217        | 7,387                     |
| Goodwill                                | 645                  | 1,767               |                                 |            | 2,412                     |

## EDAP TMS S.A. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands of euros unless otherwise noted, except per share data)

|  | <u>HIFU Division</u> | <u>UDS Division</u> | <u>EDAP TMS<br/>(Corporate)</u> | <u>FDA</u> | <u>Total consolidated</u> |
|--|----------------------|---------------------|---------------------------------|------------|---------------------------|
| <b>2006 (Net contribution approach)</b>                |                      |                     |                                 |            |                           |
| External sales of medical devices                      | 2,611                | 5,998               |                                 |            | 8,608                     |
| External sales of spares parts,<br>Supplies & services | 4,989                | 6,576               |                                 |            | 11,566                    |
| Total sales  | 7,600                | 12,574              |                                 |            | 20,174                    |
| Warrants granted                                       |                      |                     |                                 |            |                           |
| Total net sales  | 7,600                | 12,574              |                                 |            | 20,174                    |
| External other revenues                                | 65                   | 26                  |                                 |            | 91                        |
| Total revenues   | 7,666                | 12,599              |                                 |            | 20,265                    |
| Total COS  | (3,169)              | (8,776)             |                                 |            | (11,946)                  |
| Gross margin   | 4,497                | 3,822               |                                 |            | 8,319                     |
| R&D  | (1,423)              | (1,019)             |                                 |            | (2,442)                   |
| Selling expenses                                       | (2,475)              | (2,146)             |                                 |            | (4,621)                   |
| G&A  | (696)                | (1,748)             | (1,638)                         |            | (4,083)                   |
| Non recurring operating expenses                       |                      |                     | (267)                           |            | (267)                     |
| Total expenses   | (4,595)              | (4,913)             | (1,905)                         |            | (11,413)                  |
| Operating income (loss)                                | (98)                 | (1,091)             | (1,905)                         |            | (3,094)                   |
| Total Assets   | 12,544               | 16,816              | 3,112                           |            | 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                     |

|  | <u>HIFU Division</u> | <u>UDS Division</u> | <u>EDAP TMS<br/>(Corporate)</u> | <u>Consolidation</u> | <u>Total consolidated</u> |
|--|----------------------|---------------------|---------------------------------|----------------------|---------------------------|
| <b>2006 (Previous approach)</b>                        |                      |                     |                                 |                      |                           |
| External sales of medical devices                      | 2,633                | 5,975               |                                 |                      | 8,608                     |
| External sales of spares parts,<br>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)               | (1,954)                         | (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                     |

## EDAP TMS S.A. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands of euros unless otherwise noted, except per share data)

|  | <u>HIFU Division</u> | <u>UDS Division</u> | <u>EDAP TMS<br/>(Corporate)</u> | <u>Consolidation</u> | <u>Total consolidated</u> |
|--|----------------------|---------------------|---------------------------------|----------------------|---------------------------|
| <b>2005</b>  |                      |                     |                                 |                      |                           |
| External sales of medical devices                      | 4,260                | 5,982               |                                 |                      | 10,242                    |
| External sales of spares parts,<br>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                     |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(in thousands of euros unless otherwise noted, except per share data)

**29—VALUATION ACCOUNTS**

|   | Allowance for doubtful<br>accounts | Slow-moving inventory |
|---|------------------------------------|-----------------------|
| Restated balance as of January 1, 2005          | 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                   |
| Charges to costs and expenses                   | 131                                | 288                   |
| Deductions: write-off provided in prior periods | (77)                               | (195)                 |
| Restated balance as of December 31, 2007        | 735                                | 1021                  |

**30—SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

Interest and income taxes paid are as follows:

|                                      | 2007  | 2006  | 2005 |
|--------------------------------------|-------|-------|------|
| Income taxes paid (refunds received) | 142   | 204   | (66) |
| Interest paid                        | 291   | 22    | 7    |
| Interest received                    | 284   | 150   | 119  |
| Non-cash transactions:               | 2007  | 2006  | 2005 |
| Capital lease obligations incurred   | 1,557 | 1,132 | 859  |

**31—RELATED PARTY TRANSACTIONS**

The General Manager of the Company's Korean branch "EDAP-TMS Korea" is also Chairman of a Korean company named Dae You. EDAP-TMS Korea subcontracts to Dae You the service contract maintenance of our medical devices installed in Korea. The amounts payable under this contract were €71 thousand, €61 thousand and €136 thousand, for 2007, 2006 and 2005 respectively. Dae You also acts as an agent to promote our medical devices in South Korea, and receives commissions on sales. Dae You has purchased medical devices from us, which it operates in partnership with hospitals or clinics. These purchases amounted to €558 thousand, €588 thousand and €396 thousand in 2007, 2006 and 2005 respectively. As of December 31, 2007, receivables from Dae You amounted to €52 thousand and our payables to them amounted to €28 thousand. As of December 31, 2006, receivables amounted to €73 thousand and payables to €24 thousand.

The Company purchases certain technological elements from Siemens AG, an affiliate of its shareholder, Siemens France Holding. Total purchases amounted to €183 thousand in 2007, €444 thousand in 2006 and €547 thousand in 2005. As of December 31, 2007, payables due to Siemens AG amounted to €1 thousand and as of December 31, 2006, payables due to Siemens AG amounted to €18 thousand.

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

The Company signed an exit agreement, including a severance package, with a former senior executive which provides compensation of approximately €512 thousand, including social charges.

EDAP TMS  
Société anonyme au Capital de 1.251.184,61 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 au  
Conseil d'Administration du 29 Août 2007**

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## **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 1.251.184,61 Euros, divisé en 9.624.497 actions, d'une valeur nominale de 0,13 Euro chacune, intégralement libérées. "

Le Conseil d'administration confère tous pouvoirs au Directeur Général de la Société pour exécuter la présente décision et remplir les formalités nécessaires à la modification des statuts de la société.

#### **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. Le 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 répartisable 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 l'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 l'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 effectifs 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 - PRÉSIDENT 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 qu'elles 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-proprétaire 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.

L'Assemblée Générale Extraordinaire ne délibère valablement que dans les conditions de quorum prescrites par les dispositions du code de commerce applicables en la matière.

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.

L'Assemblée Générale Ordinaire ne délibère valablement que dans les conditions de quorum prescrites par les dispositions du code de commerce applicables en la matière. 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**

##### **ARTICLE 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 1,251,184.61  
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 approved on August 29, 2007

**Duly Certified copy, conforms to original**

**Marc Oczachowski  
Chief Executive Officer  
EDAP TMS SA**

**TITLE I**

**FORMATION - PURPOSE - CORPORATE NAME**  
**REGISTERED OFFICES - DURATION**

**ARTICLE 1 - FORMATION OF THE COMPANY**

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

**ARTICLE 2 – CORPORATE PURPOSES**

The purpose of the Company is:

- the taking of financial interests under whatever form in all French or foreign groups, companies or businesses which currently exist or which may be created in the future, mainly through contribution, subscription or purchasing of shares, obligations or other securities, mergers, holding companies, groups, alliances or partnerships
- the management of such financial interests
- the direction, management, supervision and coordination of its subsidiaries and interests
- the provision of all administrative, financial, technical or other services
- and generally, all operations of whatever nature, financial, commercial, industrial, civil, relating to property and real estate which may be connected directly or indirectly, in whole or in part, to the company's purposes or to any similar or related purposes which may favor the extension or development of said purpose.

**ARTICLE 3 - CORPORATE NAME**

The corporate name of the Company is:

EDAP TMS

**ARTICLE 4 - REGISTERED OFFICE**

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

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

#### **ARTICLE 5 - DURATION**

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

### **TITLE II**

#### **REGISTERED CAPITAL**

#### **ARTICLE 6 - REGISTERED CAPITAL**

The registered capital is fixed at the amount of one million two hundred and fifty one thousand one hundred eighty-four Euros and sixty one cents (Euros 1,251,184.61) divided into nine million six hundred and twenty-four thousand four hundred and ninety seven (9,624,497) 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 tenure has not expired remains in office only for the remaining duration of the tenure of his predecessor.

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

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

Directors cannot be more than 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, 3<sup>rd</sup>, 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 23<sup>rd</sup>, 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 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 Meeting may only deliberate under the quorum criteria provided by the relevant provisions of the French Commercial Code.

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

**ARTICLE 24 - ORDINARY GENERAL MEETINGS**

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

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

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

**TITLE VII**

**INVENTORIES - PROFITS - RESERVES**

**ARTICLE 25 - COMPANY'S FISCAL YEAR**

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

**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 sections L.237-1 to L.237-31 of the French Commercial Code and under the provisions of the decree of March 23<sup>rd</sup>, 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.



## AGREEMENT AND RELEASE

This Agreement and Release (this "**Agreement**"), dated as of April 3, 2007, is by and among HT Prostate Therapy Management Company, LLC, a Delaware limited liability company ("**HT Prostate**"), HealthTronics, Inc, a Georgia corporation ("**HealthTronics**"), EDAP TMS S.A., a French société anonyme ("**Parent Corporation**"), EDAP S.A., a French société anonyme ("**HIFU Subsidiary**"), and Technomed Medical Systems S A, a French société anonyme ("**Manufacturing Subsidiary**") and, collectively with Parent Corporation and HIFU Subsidiary, the "**EDAP Parties**"). Capitalized terms used but not defined herein shall have the meanings given them in the Distribution Agreement (as defined below).

## BACKGROUND

HT Prostate is a wholly-owned subsidiary of HealthTronics; HT Prostate and HealthTronics are collectively called "**HT Prostate Parties**".

HT Prostate and the EDAP Parties previously entered into that certain Distribution Agreement dated February 25, 2004, as amended by that certain Amendment No. 1 to the Distribution Agreement, dated as of December 23, 2004, and that certain Agreement and Amendment No. 2 of the Distribution Agreement, dated December 29, 2005 (as amended, the "**Distribution Agreement**");

In accordance with the terms of the Distribution Agreement, HT Prostate agreed to provide certain services to the EDAP Parties towards the goal of obtaining United States Food and Drug Administration ("**FDA**") approval to market a medical device that utilizes High Intensity Focused Ultrasound ("**HIFU**") to provide minimally invasive treatment of prostate cancer (such medical device, the "**Ablatherm**");

The EDAP Parties granted HT Prostate (i) the exclusive distribution rights to market the Ablatherm in the United States of America and (ii) warrants, issued on January 28, 2005, to purchase one million (1,000,000) ordinary shares of the Parent Corporation at a price of U.S. \$1.50 per share (the "**Warrants**");

On December 29, 2005, both Parties amended the Distribution Agreement to cancel the Category E and F Warrants;

HT Prostate, Parent Corporation, and Caceis Corporate Trust (as successor to Euro Emetteurs Finance) ("**Caceis**") entered into that certain Escrow Agreement, dated as of January 25, 2005, as amended by Amendment #1 thereto, dated December 30, 2005 (as amended, the "**Escrow Agreement**"), to govern the terms of the Warrants;

HT Prostate and the EDAP Parties desire (i) to terminate the Distribution Agreement effective immediately, (ii) to terminate the Escrow Agreement effective as soon as practicable, (iii) for HT Prostate to exercise Warrants covering 200,000 ordinary shares of the Parent Corporation (the "**Shares**") and pay Parent Corporation U.S.\$300,000 as the purchase price therefor, (iv) for HT Prostate to receive 200,000 restricted American Depositary Shares (the "**Restricted ADSs**"), each representing one ordinary share of the Parent Corporation, as a result of the conversion of the Shares into ADSs, (v) to cancel the remaining Warrants (the "**Remaining Warrants**"), (vi) that the Parent Corporation register the resale of the Shares represented by the Restricted ADS, either in the form of Shares

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or in the form of American Depositary Shares (“ADSs”) evidenced by American Depositary Receipts (“ADRs”) that do not include restrictive legends pursuant to a registration statement filed with and declared effective by the United States Securities and Exchange Commission (the “SEC”), (vii) for the HT Prostate Parties to compensate the EDAP Parties for termination of the Distribution Agreement by paying the Parent Corporation the amounts set forth in Section 2.4, and (viii) that the HT Prostate Parties will provide certain transition services to the EDAP Parties in connection with the Investigational Device Exemption (“IDE”) with the FDA and the ongoing clinical study (the “Study”) being conducted in the United States in respect of the Ablatherm device under the IDE.

#### STATEMENT OF AGREEMENT

NOW, THEREFORE, in consideration of the promises and mutual covenants contained herein and for other good, valuable and binding consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

I. TERMINATION OF DISTRIBUTION AGREEMENT AND ESCROW AGREEMENT.

1.1 The parties hereby terminate the Distribution Agreement and agree that all respective obligations of the parties under the Distribution Agreement are hereby forever discharged.

1.2 On the date hereof, HT Prostate and Parent Corporation shall execute and deliver to the other an agreement to terminate the Escrow Agreement, the form of which agreement is attached hereto as Exhibit A (the “**Escrow Termination Agreement**”). Parent Corporation shall cause Caceis to execute and deliver to HT Prostate and Parent Corporation the Escrow Termination Agreement as soon as practicable on or after the date hereof.

II. EXERCISE OF WARRANTS, REGISTRATION RIGHTS, PAYMENT, RETURN OF DEVICES.

2.1 On the Business Day (as such term is defined in the Registration Rights Agreement (as defined below)) immediately following the date hereof, HT Prostate shall (i) exercise Warrants covering the Shares effective as of the second Business Day after the date hereof (the “**Effective Date**”) and (ii) pay to Parent Corporation U.S.\$300,000 (the “**Purchase Price**”) by wire transfer of immediately available funds in accordance with wire transfer instructions given by Parent Corporation in writing to HT Prostate (such wire to be received by the second Business Day after the date hereof). Parent Corporation shall execute a receipt acknowledging its receipt of the Purchase Price immediately following such receipt.

2.2 On the Effective Date (provided Parent Corporation has received the Purchase Price by such date), the Board of Directors of Parent Corporation shall, and Parent Corporation shall cause its Board of Directors to, hold a duly convened meeting (the “**Meeting**”) of such Board of Directors to take note of the exercise of the Warrants and to acknowledge and record the subsequent issuance of the Shares. As soon as practicable following the Meeting, but in no event later than the third Business Day after the Business Day on which the Purchase Price was received by Parent Corporation, Parent Corporation shall

cause Caceis (i) to issue the Shares registered in the name of HT Prostate, and (ii) on behalf of HT Prostate, cause the re-registration of such Shares in the name of The Bank of New York and transfer such Shares for deposit into the account designated by The Bank of New York, as depository (the "**Depository**") under the Deposit Agreement dated as of July 31, 1997 (the "**Deposit Agreement**") among the Parent Corporation, the Depository and the owners and beneficial owners of ADRs from time to time. On the date of such transfer, the EDAP Parties shall instruct the Depository to promptly deliver to HT Prostate by overnight delivery at the address set forth beneath its signature to this Agreement the Restricted ADSs evidenced by restricted American Depositary Receipts (the "**Restricted ADRs**") that include the legend set forth in Section 5.2 hereof. The EDAP Parties shall use their reasonably best efforts to cause the Depository to deliver the Restricted ADRs to HT Prostate within three Business Days of such transfer.

2.3 On the date hereof, Parent Corporation and HT Prostate shall execute and deliver to the other a Registration Rights Agreement, the form of which is attached hereto as **Exhibit B** (the "**Registration Rights Agreement**").

2.4 During the period beginning on the date the SEC declares the Registration Statement effective and ending on the sixtieth (60<sup>th</sup>) day following such date (or if there exists any Tolling Event (as defined in the Registration Rights Agreement) during such sixty-day period, such sixty-day period shall be tolled during the continuation of such Tolling Event and the days during the continuation of such Tolling Event shall be excluded when calculating the number of days in the sixty-day period) (such period, the "**Resale Period**"), HT Prostate shall use its reasonably best efforts to resell the Shares in accordance with a Registration Statement (as defined in the Registration Rights Agreement). Within five (5) days following the earlier of (the "**Expiration Date**") (a) the expiration of the Resale Period and (b) the resale by HT Prostate of all of the Shares in accordance with the Registration Statement, HT Prostate Parties shall pay to Parent Corporation an amount equal to (x) \$600,000, plus (y) the amount of Excess Proceeds (as defined below) as of the Expiration Date, by wire transfer of immediately available funds in accordance with wire transfer instructions given by Parent Corporation in writing to HT Prostate. For purposes of this Section 2.4, "**Excess Proceeds**" shall mean an amount equal to (i) the aggregate net proceeds received by HT Prostate from sales of the Shares during the relevant period (net of brokers' commissions and other out-of-pocket expenses incurred in connection with such sales), less (ii) an amount equal to the number of Shares sold in such sales multiplied by \$7.00. If HT Prostate has not resold all of the Shares by the Expiration Date, then HT Prostate shall use its reasonably best efforts to resell the Shares in accordance with a Registration Statement following the Expiration Date. With respect to each fifteen-day period following the Expiration Date HT Prostate shall, promptly following the end of such fifteen-day period, pay to Parent Corporation any Excess Proceeds received by HT Prostate for sales of Shares during such fifteen-day period. Any sale of Shares by any HT Prostate Party, whether made under a Registration Statement, Rule 144 under the Securities Act or otherwise, shall be included in the calculation of Excess Proceeds pursuant to this Section 2.4. The HT Prostate Parties shall provide support documentation reasonably requested by the EDAP Parties to evidence such sales.

- 2.5 Promptly after the date hereof and after delivery of the written notice of location described below, the HT Prostate Parties shall deliver or cause to be delivered, at their expense and free of any lien, pledge, charge, claim, encumbrance, security interest, option, mortgage, challenge to use, license or other restriction or third party right of any kind created or caused by an HT Prostate Party or any of their affiliates (other than those consented to by an EDAP Party) (each, an "**Encumbrance**"), the six (6) lithotripters, together with the associated spare parts, tools, accessories and disposables, described in Exhibit C hereto (the "**European Devices**") to Parent Corporation at such location as Parent Corporation determines, written notice of which location shall be delivered to HT Prostate by Parent Corporation. Delivery of the European Devices shall be by air freight. Risk of loss or damage to the European Devices shall pass to the EDAP Parties upon delivery of the European Devices to the transportation company DDP (INCOTERMS 2000).
- 2.6 Promptly after the date hereof, the HT Prostate Parties shall assign, transfer, convey and deliver to Parent Corporation, free and clear of all Encumbrances, all of their right, title and interest to the transportation robots (including Intellectual Property Rights therein) related to the Ablatherm device referenced in Section 2.5 hereof (the "**Ablatherm Robots**"), and to effect any necessary registration of the transfer of title to such robots with the appropriate authorities. The Ablatherm Robots will be delivered to Parent Corporation at HealthTronics' facility located at 110 Reservation Road, Aberdeen, NC 28315 on April 10, 2007. Risk of loss or damage to the Ablatherm Robots shall pass to the EDAP Parties upon delivery of the Ablatherm Robots to Parent Corporation.
- 2.7 Promptly after the date hereof, the HT Prostate Parties shall deliver or cause to be delivered, at their expense, free and clear of all Encumbrances, the three (3) Ablatherm devices, together with associated spare parts, tools, accessories and disposables, described in Exhibit C hereto (the "**U.S. Devices**," and together with the European Devices and the Ablatherm Robots, the "**Devices**"), to Parent Corporation. The U.S. devices will be delivered to Parent Corporation at HealthTronics' facility located at 110 Reservation Road, Aberdeen, NC 28315 on April 10, 2007. Risk of loss or damage to the U.S. Devices shall pass to the EDAP Parties upon delivery of the U.S. Devices to Parent Corporation.

III. CONFIDENTIAL INFORMATION AND INTELLECTUAL PROPERTY RIGHTS

- 3.1 The HT Prostate Parties hereby acknowledge and agree that all rights of the HT Prostate Parties in the Intellectual Property Rights created by any party to this Agreement in connection with the Study, or contributed by any party to this Agreement exclusively in connection with the Study, during the term of the Distribution Agreement shall vest exclusively in the EDAP Parties. In this Agreement, "**Intellectual Property Rights**" means all intellectual property rights at any time protected by statute or common law, in any jurisdiction, including but not limited to: inventions (whether or not patentable), patents, copyright, design rights, trademarks, rights in databases, rights in know-how, and other confidential information and trade secrets; and any application or right to apply for any of the foregoing.

- 3.2 Each HT Prostate Party hereby covenants and agrees that it shall, and procure that its affiliates shall, transfer all Confidential Information and related Intellectual Property Rights, and any embodiment thereof, whether tangible or intangible and on whatever media, referred to in Section 3.1 above and owned by an EDAP Party, to the Parent Corporation, or such third party as the Parent Corporation may designate in writing, within thirty (30) days of the date of this Agreement; provided, that (a) to the extent the consent of a third party is required for such transfer, such transfer shall not be completed until receipt of such consent by HT Prostate, and (b) to the extent Confidential Information of an EDAP Party is contained in any notes, analyses or other documents prepared by an HT Prostate Party, HT Prostate may destroy such documents (unless such documents represent the only documentation of particular Intellectual Property Rights of an EDAP Party and the EDAP Parties do not otherwise have documentation of such Intellectual Property Rights).
- 3.3 Each HT Prostate Party hereby covenants and agrees that it shall not use, or procure the use of, any or all of the Confidential Information of the EDAP Parties and Intellectual Property Rights referred to in Section 3.1 above, in any way from the date of this Agreement, including without limitation, any use in relation to obtaining a Pre-Market Approval from the FDA ("**PMA**") or any full approval of the IDE, or its equivalent in any jurisdiction, including without limitation, the United States of America.
- IV. TRANSITION SERVICES.
- 4.1 The HT Prostate Parties shall use their reasonably best efforts to transition HT Prostate's responsibilities as sponsor of the IDE and Study to an EDAP Party or a third party designated by the EDAP Parties and reasonably cooperate therewith. The HT Prostate Parties' transition services and related cooperation shall be, without prejudice to Section 3 above, limited to (a) officially transfer the IDE Study to EDAP, (b) coordination with the current contract research organization ("**CRO**") for the Study in respect of the EDAP Parties' engagement of the CRO, (c) coordination with Parent Corporation and the CRO to file the appropriate notice(s) with the FDA to reflect that HT Prostate is no longer the sponsor of the IDE or Study, and (d) coordination with those investigation sites that as of the date hereof are parties to clinical study agreements (and related agreements) in respect of the Study to assign HealthTronics' rights and obligations under such agreements to Parent Corporation.
- 4.2 Each of the parties shall bear its own costs and expenses in complying with the terms of Section 4.1.
- 4.3 If the amount of out-of-pocket costs and expenses incurred by HT Prostate, HealthTronics and/or their affiliates paid to third parties in connection with the transition of the Study (and related transition matters), including but not limited to costs to ship the equipment and documents contemplated herein and such other equipment and documents reasonably requested by the EDAP Parties and costs (including legal fees and expenses) incurred in connection with the transition services described in Section 4.1, but excluding costs (including legal fees and expenses) incurred in connection with the preparation and negotiation of this Agreement and the Registration Rights Agreement and the registration

of the Shares and ADSs pursuant to the Registration Rights Agreement, is less than \$50,000 (the excess of \$50,000 over such amount, the “*Cap*”), then HT Prostate agrees to promptly reimburse the EDAP Parties for out-of-pocket transition costs incurred by them, provided, that (a) the EDAP Parties provide support documentation reasonably requested by HT Prostate to evidence the incurrence of such costs and (b) the amount of such reimbursement shall not exceed the amount of the Cap.

V. REPRESENTATIONS AND WARRANTIES OF THE HT PROSTATE PARTIES.

The HT Prostate Parties hereby represent and warrant to the EDAP Parties as follows:

5.1 Each HT Prostate Party has the power and authority to execute and deliver this Agreement, the Escrow Termination Agreement and the Registration Rights Agreement (such agreements, collectively, the “*Transaction Agreements*”) and to perform and consummate the transactions contemplated by the Transaction Agreements. Each HT Prostate Party has taken all action necessary to authorize its execution and delivery of the Transaction Agreements, the performance of its obligations thereunder, and its consummation of the transactions contemplated thereby. The Transaction Agreements have been duly authorized, executed and delivered by each HT Prostate Party and, assuming the due authorization, execution and delivery by the other parties thereto, the Transaction Agreements are enforceable against the HT Prostate Party in accordance with their terms.

5.2 HT Prostate is an “accredited investor” as defined in Rule 501(a) of Regulation D under the Securities Act of 1933, as amended (the “*Securities Act*”), that is acquiring the Shares and the Restricted ADSs for investment purposes only, for HT Prostate’s own account, and not with a view to, or for resale in connection with, any distribution thereof within the meaning of the Securities Act; provided, that HT Prostate may convert the Shares and resell the ADSs as contemplated herein pursuant to a Registration Statement (as defined in the Registration Rights Agreement) or otherwise in compliance with applicable securities laws. HT Prostate acknowledges that the Restricted ADR will bear the following restrictive legend:

THESE SECURITIES HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS OR BLUE SKY LAWS. THIS LEGEND MAY NOT BE REMOVED AND THIS AMERICAN DEPOSITARY RECEIPT MAY NOT BE SURRENDERED FOR WITHDRAWAL OF

THE SHARES UNDERLYING SUCH RECEIPT OR ISSUANCE OF A NEW AMERICAN DEPOSITARY RECEIPT NOT BEARING THIS LEGEND UNLESS, UPON SUCH WITHDRAWAL OR ISSUANCE, SUCH SHARES AND ANY RELATED AMERICAN DEPOSITARY SHARES (1) ARE REGISTERED FOR RESALE UNDER THE SECURITIES ACT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR (2) ARE BEING SOLD OR TRANSFERRED PURSUANT TO RULE 144 (ASSUMING THE TRANSFEROR IS NOT AN AFFILIATE OF THE COMPANY) OR (3) ARE ELIGIBLE FOR SALE UNDER RULE 144(k) AND THE DEPOSIT OF SUCH SHARES IN AN UNRESTRICTED DEPOSITARY FACILITY AND THE SALE OF ANY RELATED AMERICAN DEPOSITARY SHARES BY THAT PERSON ARE NOT OTHERWISE RESTRICTED UNDER THE SECURITIES ACT OF 1933, AS EVIDENCED BY A LEGAL OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE COMPANY AND THE DEPOSITARY.

5.3 HT Prostate has good and marketable title to the Devices, free and clear of all liens, security interests and other encumbrances. As of the date hereof, to the knowledge of the HT Prostate Parties, the Devices are in good working condition, ordinary wear and tear excepted. EXCEPT AS SET FORTH IN THE PRIOR TWO SENTENCES, THE DEVICES ARE PROVIDED "AS IS" AND HT PROSTATE MAKES NO EXPRESS OR IMPLIED WARRANTIES REGARDING THE DEVICES, INCLUDING WITHOUT LIMITATION ANY STATUTORY OR IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.

VI. REPRESENTATIONS AND WARRANTIES OF THE EDAP PARTIES.

The EDAP Parties represent and warrant to HT Prostate and HealthTronics as follows:

6.1 Each EDAP Party has the power and authority to execute and deliver the Transaction Agreements and to perform and consummate the transactions contemplated thereby. Each EDAP Party has taken all action necessary to authorize its execution and delivery of the Transaction Agreements, the performance of its obligations thereunder, and its consummation of the transactions contemplated thereby. The Transaction Agreements have been duly authorized, executed and delivered by each EDAP Party and, assuming the due authorization, execution and delivery by the other parties thereto, the Transaction Agreements are enforceable against each EDAP Party in accordance with their terms.

6.2 The Shares issued by Parent Corporation to HT Prostate pursuant to Section 2.1 are duly authorized, validly issued, fully paid, and nonassessable and free and clear of any liens, options, claims, charges, pledges, security interests, voting restrictions, or other encumbrances of any kind other than restrictions created pursuant to applicable securities laws. Upon due issuance by the Depository of Restricted ADRs evidencing Restricted ADSs against the deposit of Shares in respect thereof in accordance with the provisions of the Deposit Agreement and the instruction letter to be delivered by the Parent Corporation to the Depository, such Restricted ADRs evidencing Restricted ADSs will be

duly and validly issued and the persons in whose names the Restricted ADRs evidencing Restricted ADSs are registered will be entitled to the rights specified therein and in the Deposit Agreement.

VII. OTHER COVENANTS.

7.1 Non-Disparagement Covenant. Each of the HT Prostate Parties and the EDAP Parties hereby covenants and agrees that it shall, at all times hereafter, refrain from making or implying any derogatory or negative references, statements or allusions concerning (a) the other party, (b) any officer, agent, employee or affiliate of the other party, or (c) the business or business practices of any of the foregoing. For purposes of this Article VII, each of the HT Prostate Parties, on the one hand, and the EDAP Parties, on the other, will be referred to as a "party".

7.2 Non-disclosure of Confidential Information. For purposes of this Agreement, the term "Confidential Information" means this Agreement, the terms of any of the foregoing, and all confidential information, ideas, trade secrets, procedures, methods, systems, concepts, technology, program code, source code, user interfaces, displays, file layouts, algorithms, inventions, technical know-how improvements, data, files, information relating to suppliers and customer identities and lists, records, business and marketing plans, user, training and operational manuals, printed collateral documentation and all similar information and other proprietary property of the parties, whether disclosed orally or in writing or in electronic form, or by any other media.

Each party recognizes and acknowledges that it had in the past, currently has, and in the future may possibly have access to Confidential Information of the other party and that such information is valuable, special and unique. Each party agrees that it will not disclose or itself use, directly or indirectly, Confidential Information of the other party to any person, firm, company, association or other entity (except for the disclosing party's directors, officers, employees and representatives on a need-to-know basis) for any purpose or reason whatsoever, unless (i) such information becomes available to or known by the public generally through no fault of such party, (ii) disclosure is required by law or the final order of any governmental authority, including subpoena, or is required under the Securities Act or the Securities Exchange Act of 1934, as amended, or the rules promulgated under either such Act, (iii) a party determines such disclosure is reasonably necessary to carry out its responsibilities hereunder, (iv) a party determines that disclosure is reasonably necessary to enforce such party's rights hereunder, or (v) the other party consents in writing to such disclosure; provided, that prior to disclosing any information pursuant to clause (ii), such party shall, if possible, give prior written notice thereof to the other party, and provide the other party with the opportunity to contest such disclosure. In the event of a breach or threatened breach by a party of the provisions of this Section, the other party is entitled to an injunction restraining such party from disclosing, in whole or in part, such Confidential Information. Nothing contained herein may be construed as prohibiting either party from pursuing any other available remedy for such breach or threatened breach, including the recovery of damages.



VIII. RELEASE BY THE HT PROSTATE PARTIES.

8.1 Released Parties. The parties being released by the HT Prostate Parties by virtue of this Agreement, all of whom are collectively referred to herein as the “*EDAP Released Parties*,” are each of the EDAP Parties, their affiliates, and their respective principals, shareholders, partners, members, directors, managers, officers, agents, employees, spouses, children, servants, insurers, administrators and other fiduciaries, parent companies, affiliated entities, subsidiaries, successors and assigns, and each of them, individually and collectively.

8.2 Release by HT Prostate. The HT Prostate Parties hereby release and discharge the EDAP Released Parties (the “*Release by the HT Prostate Parties*”), individually and collectively, of and from any and all claims, causes of action, suits, debts, contracts, agreements, promises, liability, demands, damages, and other expenses of any nature whatsoever, at law or in equity, known or unknown, fixed or contingent, contemplated or unanticipated, whether asserted or assertable, arising out of any matter whatsoever which has occurred from the beginning of time up through and including the date hereof, except for such claims, causes of action, suits, debts, contracts, agreements, promises, liability, demands, damages, and other expenses for which indemnity may be sought by any HT Prostate Party under Section X hereof. Without limiting the generality of the foregoing, but except as aforesaid, each HT Prostate Party hereby acknowledges and agrees that the Release by the HT Prostate Parties is intended to waive and discharge any and all actions, claims, demands and causes of action arising out of or in any way related to its prior business dealings with any EDAP Released Party, including but not limited to any claims under the Distribution Agreement and any claims related to acts or omissions of any EDAP Party and/or any of its affiliates or employees in connection with the Distribution Agreement, and any acts or omissions of any EDAP Party and/or any of its affiliates or employees in connection with the IDE or the Study. But the foregoing provisions do not, and should not be construed so as to, alter, amend or negate the enforceability of this Agreement.

8.3 Construction. The Release by the HT Prostate Parties is intended to be and should be construed as a general, complete and final waiver and release of all claims except those arising under this Agreement. The Release by the HT Prostate Parties is being made and executed by the HT Prostate Parties individually and on behalf of its heirs, successors, assigns, agents, all persons and entities subrogated to its rights or to whom its rights are secondary or derivative, and all other persons and entities on behalf of whom it is authorized to act.

8.4 Remaining Warrants. The Remaining Warrants are hereby cancelled, terminated, and of no further force and effect.

IX. RELEASE BY EDAP

9.1 Released Parties. The parties being released by the EDAP Parties by virtue of this Agreement, all of whom are collectively referred to herein as the “*HT Prostate Released Parties*,” are HT Prostate, HealthTronics, their affiliates, and their respective principals,

shareholders, partners, members, directors, managers, officers, agents, employees, spouses, children, servants, insurers, administrators and other fiduciaries, parent companies, affiliated entities, subsidiaries, successors and assigns, and each of them, individually and collectively.

9.2 Release by EDAP. Each of the EDAP Parties hereby releases and discharges the HT Prostate Released Parties (the "**Release by EDAP**"), individually and collectively, of and from any and all claims, causes of action, suits, debts, contracts, agreements, promises, liability, demands, damages, and other expenses of any nature whatsoever, at law or in equity, known or unknown, fixed or contingent, contemplated or unanticipated, whether asserted or assertable, arising out of any matter whatsoever which has occurred from the beginning of time up through and including the date hereof, except for such claims, causes of action, suits, debts, contracts, agreements, promises, liability, demands, and other expenses for which indemnity may be sought by any EDAP Party under Section X hereof. Without limiting the generality of the foregoing, but except as aforesaid, each of the EDAP Parties hereby acknowledges and agrees that the Release by EDAP is intended to waive and discharge any and all actions, claims, demands and causes of action arising out of or in any way related to its prior business dealings with any HT Prostate Released Party, including but not limited to any claims under the Distribution Agreement and any claims related to acts or omissions of HT Prostate, HealthTronics and/or any of their affiliates or employees in connection with the Distribution Agreement, and any acts or omissions of HT Prostate, HealthTronics and/or any of its affiliates or employees in connection with the IDE or the Study. But the foregoing provisions do not, and should not be construed so as to, alter, amend or negate the enforceability of this Agreement.

9.3 Construction. The Release by EDAP is intended to be and should be construed as a general, complete and final waiver and release of all claims except those arising under this Agreement. The Release by EDAP is being made and executed by each of the EDAP Parties individually and on behalf of its heirs, successors, assigns, agents, all persons and entities subrogated to its rights or to whom its rights are secondary or derivative, and all other persons and entities on behalf of whom it is authorized to act.

X. INDEMNIFICATION.

10.1 Each of the EDAP Parties hereby agrees that it shall indemnify, hold harmless and defend HT Prostate, HealthTronics, each of their affiliates, and each of their respective directors, managers, officers, partners, members, employees and agents and successors and assigns (all of the foregoing, collectively, the "**HT Indemnified Parties**" or, individually, an "**HT Indemnified Party**"), from and against any and all claims, demands, proceedings, losses, damages, obligations, liabilities, deficiencies, costs and expenses (including all legal and other professional fees and disbursements, interest, penalties and amounts paid in settlement) ("**Losses**") that arise from or are in connection with: (i) any breach by any EDAP Party of any of its respective covenants or agreements contained in this Agreement; (ii) any personal injuries, deaths or property damage related to treatments by or use of the Ablatherm device after the date hereof, (iii) the conduct of the Study after the date hereof; and (iv) any claims by any of the eight patients treated in the Study prior

to the date hereof for personal injuries or property damage related to treatments by or use of the Ablatherm device in connection with the Study, which such injuries or damage occurred prior to the date hereof, if such injuries or damages were caused by actions or omissions by any EDAP Party, any of their affiliates, or any of their or their affiliates' directors, officers, employees, representatives, or other persons acting on their behalf, provided that the liability under the indemnification obligations under this [Section 10.1\(iv\)](#) shall not exceed \$100,000.

10.2 Each of the HT Prostate Parties hereby agrees that it shall indemnify, hold harmless and defend each EDAP Party and each of their respective directors, managers, officers, partners, members, employees and agents and successors and assigns (all of the foregoing, collectively, the "**EDAP Indemnified Parties**" or, individually, an "**EDAP Indemnified Party**"), from and against any and all Losses that arise from or are in connection with: (i) any breach by HT Prostate Parties of any of its covenants or agreements contained in this Agreement and (ii) claims by any of the eight patients treated in the Study prior to the date hereof for personal injuries or property damage related to treatments by or use of the Ablatherm device in connection with the Study, which such injuries or damage occurred prior to the date hereof, if such injuries or damage were caused by actions or omissions by any HT Prostate Party, any of their affiliates, or any of their or their affiliates' directors, officers, employees, representatives, or other persons acting on their behalf, provided, that the liability under the indemnification obligations under this Section 10.2(ii) shall not exceed \$100,000.

10.3 Promptly after the receipt by any HT Indemnified Party or by any EDAP Indemnified Party (as applicable, an "**Indemnified Party**") of notice of the commencement of any action or proceeding against such Indemnified Party by a third party, such Indemnified Party shall, if a claim with respect thereto is or may be made against any indemnifying party (the "**Indemnifying Party**") pursuant to this [Article X](#), give such Indemnifying Party written notice of the commencement of such action or proceeding and give such Indemnifying Party a copy of such claim and/or process and all legal pleadings in connection therewith. The failure to give such notice shall not relieve any Indemnifying Party of any of its indemnification obligations contained in this [Article X](#), except where, and solely to the extent that, such failure prejudices the rights of such Indemnifying Party. Such Indemnifying Party shall have the right to defend, at its own expense and by its own counsel reasonably acceptable to the Indemnified Party, any such matter involving the asserted liability of the Indemnified Party; provided, however, that the Indemnified Party shall have the right to participate in the defense of such asserted liability at the Indemnified Party's own expense. Without limiting the foregoing and notwithstanding any provision herein to the contrary, the Indemnifying Party shall not be entitled to control the defense or settlement of any claim (x) to which the Indemnifying Party is also a party and with respect to which the Indemnified Party has been advised by counsel that a material conflict of interest exists between such Indemnified Party and the Indemnifying Party as a result of the Indemnifying Party's control over such proceedings or (y) if the Indemnified Party reasonably determines that the Indemnifying Party has failed to defend the claim actively and in good faith. In the event that such Indemnifying Party shall decline to participate in or assume the defense of such action, in accordance with the provisions hereof, or if the Indemnifying Party discontinues the diligent and

timely conduct thereof, or if the Indemnifying Party shall not be able to control the defense or settlement of any claim pursuant to clause (x) or (y) of this Section 10.3, any of the Indemnified Parties may undertake or participate in, as the case may be, such defense and the Indemnifying Party shall be responsible for reimbursing the Indemnified Parties for their reasonable legal fees and expenses in connection therewith as and when such fees and expenses are incurred by them; *provided* that the Indemnifying Party shall not be liable for the fees and expenses of more than one separate firm of attorneys at any time for all Indemnified Parties. The Indemnifying Party shall not be liable for any settlement of any claim effected without its prior written consent, which consent shall not be unreasonably withheld, delayed or conditioned. No Indemnifying Party shall, without the prior written consent of the Indemnified Party, effect any settlement of any pending claim in respect of which any Indemnified Party is a party, unless such settlement includes an unconditional release of such Indemnified Party from all liability on claims that are the subject matter of such claim and no non-monetary relief would be imposed against such Indemnified Party.

10.4 IN NO EVENT SHALL HT PROSTATE OR HEALTHTRONICS, OR ANY OF THEIR AFFILIATES, OR ANY OF THEIR RESPECTIVE DIRECTORS, MANAGERS, OFFICERS, PARTNERS, MEMBERS, EMPLOYEES, REPRESENTATIVES OR ADVISORS BE LIABLE TO ANY EDAP INDEMNIFIED PARTY FOR ANY SPECIAL, CONSEQUENTIAL, INDIRECT, INCIDENTAL, OR PUNITIVE DAMAGES OR LOST PROFITS, HOWEVER CAUSED AND ON ANY THEORY OF LIABILITY (INCLUDING NEGLIGENCE) ARISING IN ANY WAY OUT OF THIS AGREEMENT OR THE PERFORMANCE OF THE HT PROSTATE PARTIES' OBLIGATIONS HEREUNDER.

10.5 IN NO EVENT SHALL ANY OF THE EDAP PARTIES, OR ANY OF THEIR AFFILIATES, OR ANY OF THEIR RESPECTIVE DIRECTORS, MANAGERS, OFFICERS, PARTNERS, MEMBERS, EMPLOYEES, REPRESENTATIVES OR ADVISORS BE LIABLE TO ANY HT INDEMNIFIED PARTY FOR ANY SPECIAL, CONSEQUENTIAL, INDIRECT, INCIDENTAL, OR PUNITIVE DAMAGES OR LOST PROFITS, HOWEVER CAUSED AND ON ANY THEORY OF LIABILITY (INCLUDING NEGLIGENCE) ARISING IN ANY WAY OUT OF THIS AGREEMENT OR THE PERFORMANCE OF THE EDAP PARTIES' OBLIGATIONS HEREUNDER.

XI. MISCELLANEOUS PROVISIONS.

11.1 Acknowledgments and Integration. Each party hereby warrants, represents, acknowledges and agrees that it has fully and completely read this Agreement and has had adequate opportunity to consider and seek counsel regarding its terms and effect, that the Transaction Agreements, including the Releases contained herein, is being executed voluntarily, with full knowledge and understanding of its terms and effects, and that there are no agreements, statements or representations except those expressly set forth herein which constitute a part hereof. The Transaction Agreements, including the Releases contained herein, is not subject to attack on the grounds that any factual or legal assumptions leading to its execution were wrong or invalid in any respect.

- 11.2 **No Admissions.** It is expressly understood and agreed that neither this Agreement, the other Transaction Agreements, the Releases contained herein, nor the furnishing of consideration for this Agreement, the other Transaction Agreements, or such Releases, are deemed or construed at any time for any purpose as an admission by anyone of wrongdoing or liability of any kind, all such wrongdoing and liability being expressly denied.
- 11.3 **Knowledge of Claims.** Each party expressly warrants and stipulates that it intends for the Releases contained herein to release any and all claims that each may now have against the other, regardless of whether such claims have been asserted and regardless of whether such claims arise out of or are related in any way to any facts in existence on or before the date of this Agreement.
- 11.4 **Modifications.** This Agreement may not be modified, altered or amended except in writing duly signed by each of the parties hereto. If any provision of this Agreement is rendered or declared illegal or unenforceable by reason of any existing or subsequently enacted statute, rule or regulation, or by order of or judgment of a court, any and all other terms and provisions hereof remain in full force and effect as stated and set forth herein.
- 11.5 **Choice of Law and Forum.** This agreement shall be governed by the laws of the State of New York, without giving effect to its conflict of law principles. Any dispute, controversy or claim arising out of, relating to or in connection with this agreement, including without limitation any dispute regarding the performance or breach thereof, shall be subject to the exclusive jurisdiction of the state or federal courts located in the Borough of Manhattan in New York City.
- 11.6 **Binding Nature.** All of the covenants and agreements contained herein extend to and are binding upon the heirs, executors, administrators, successors and assigns of the parties hereto. Neither HT Prostate nor any EDAP Party may assign this Agreement or its rights, duties or obligations hereunder without the prior written consent of the EDAP Parties or HT Prostate, respectively.
- 11.7 **Further Assurance.** Each party hereby covenants and agrees that it shall on the reasonable request of any other party in writing and at its sole expense do and execute or arrange for the doing and executing of, anywhere in the world, each necessary act, document and thing reasonably within its power to implement this Agreement.

*[Signature Page Follows]*



**HT Prostate**

HT Prostate Therapy Management

Company

By: /s/ James Whittenburg  
Name: James Whittenburg  
Title: Vice President

Address: 1301 Capital of Texas Highway  
Suite 200B  
Austin, Texas 78746

HealthTronics Inc.

By: /s/ James Whittenburg  
Name: James Whittenburg  
Title: President - Urology Services

Address: 1301 Capital of Texas Highway  
Suite 200B  
Austin, Texas 78746

**EDAP**

EDAP TMS S.A.

By: /s/ Marc Oczachowski  
Name: Marc Oczachowski  
Title: Chief Executive Officer

Address: 4-6 rue de Dauphiné  
69120 Vaux-en-Velin  
FRANCE

EDAP S.A.

By: /s/ Marc Oczachowski  
Name: Marc Oczachowski  
Title: Chief Executive Officer

Address: 4-6 rue de Dauphiné  
69120 Vaux-en-Velin  
FRANCE

TECHNOMED MEDICAL SYSTEMS S.A.

By: /s/ Marc Oczachowski  
Name: Marc Oczachowski  
Title: Chief Executive Officer

Address: 4-6 rue de Dauphiné  
69120 Vaux-en-Velin  
FRANCE

EXHIBIT A  
Escrow Termination Agreement



**EXHIBIT B**  
**Registration Rights Agreement**

**EXHIBIT C**

**Devices**

European Devices:

Six EDAP Sonolith Praktis lithotripter units identified as follows:

1. Demo unit — S/N SP105 DOM
2. S/N SP114
3. S/N SP122
4. S/N SP127
5. S/N SP131
6. S/N SP140

and associated spare parts, tools, accessories and disposables.

U.S. Devices:

Three Ablatherm devices pertaining to EDA

1. Ablatherm S/N 146 DOM
2. Ablatherm AB 206
3. Ablatherm AB 210

And associated spare parts, tools, accessories and disposables.

July 9, 2007

HT Prostate Therapy Management Company, LLC  
HealthTronics, Inc.  
1301 Capital of Texas Highway  
Suite 200B  
Austin, Texas 78746  
USA

Ladies and Gentlemen:

Reference is made to the Agreement and Release dated as of April 3, 2007 (the "Agreement"), among HT Prostate Therapy Management Company, LLC, HealthTronics, Inc., EDAP TMS S.A., EDAP S.A. and Technomed Medical Systems S.A. Capitalized terms used but not defined herein shall have the meaning set forth in the Agreement.

Pursuant to Section 2.4 of the Agreement, the HT Prostate Parties agreed to pay any Excess Proceeds to Parent Corporation. The EDAP Parties hereby irrevocably waive all right to, release the HT Prostate Parties from any obligation to pay, and will not accept any payment of, any Excess Proceeds that may be payable to Parent Corporation under the terms of the Agreement.

This letter agreement shall amend the Agreement as provided above. The Agreement as amended by this letter agreement shall continue in full force and effect.

\* \* \*

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Please confirm your agreement with the foregoing by countersigning both copies of this letter where indicated and returning one copy to EDAP TMS S.A. at the address provided above.

Very truly yours,

EDAP TMS S.A.

By: /s/ Marc Oczachowski  
Name: Marc Oczachowski  
Title: Chief Executive Officer

EDAP S.A.

By: /s/ Marc Oczachowski  
Name: Marc Oczachowski  
Title: Chief Executive Officer

TECHNOMED MEDICAL SYSTEMS S.A.

By: /s/ Marc Oczachowski  
Name: Marc Oczachowski  
Title: Chief Executive Officer

Accepted and Agreed:

HT PROSTATE THERAPY MANAGEMENT  
COMPANY, LLC

By: /s/ James Whittenburg  
Name: James Whittenburg  
Title: Vice President  
HEALTHTRONICS, INC.

By: /s/ James Whittenburg  
Name: James Whittenburg  
Title: President - Urology Services

**LIST OF EDAP TMS S.A. SUBSIDIARIES**  
**(as of March 16, 2008)**

| <u>Name of Subsidiary</u> | <u>Jurisdiction of Incorporation</u> |
|---------------------------|--------------------------------------|
| EDAP TMS France 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                              |

**EDAP TMS  
CODE OF ETHICS**

As an employee of EDAP TMS S.A. and/or its Subsidiaries (the "Company"), I will adhere to the following principles and responsibilities, as well as the Company's other legal and compliance policies and procedures:

- Act with honesty and integrity, avoiding actual or apparent conflicts of interest involving personal and professional relationships;
- Provide other officials and constituents of the Company with information that is full, fair, accurate, complete, objective, timely and understandable;
- Comply, to the best of my knowledge, with rules and regulations of governmental entities as well as other private or public regulatory agencies to which the Company is subject;
- Act at all times in good faith, responsibly, with due care, competence and diligence, and without any misrepresentation of material facts;
- Act objectively, without allowing my independent judgment to be subordinated;
- Respect the confidentiality of Company information, except when authorized or otherwise required to make any disclosure, and avoid the use of any Company information for personal advantage;
- Share my knowledge and skills with others to improve the Company's communication to its constituents;
- Promote ethical behavior among employees under my supervision at the Company; and
- Achieve responsible use of and control over all assets and resources of the Company entrusted to me.
- Report violations of the Code to the Chief Executive Officer promptly if there are reasonable and objective reasons to believe this Code has been violated.

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

I, Marc Oczachowski, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Dated: March 31, 2008

/s/ MARC OCZACHOWSKI  
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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Dated: March 31, 2008

/s/ ERIC SOYER  
Title: Chief Financial Officer



**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, 2007 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 31, 2008

/s/ MARC OCZACHOWSKI  
Marc Oczachowski  
Chief Executive Officer

Dated : March 31, 2008

/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 Statements (Form F-3, No. 333-136811 and Form F-3, No. 333-147762) of EDAP TMS S.A. (the "Company") of our report dated March 31, 2008, 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, 2007.

ERNST & YOUNG Audit

/s/ LAURENT CHAPOULAUD

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Represented by  
Laurent Chapoulaud

Lyon, France  
March 31, 2008