EDAP TMS SA
Form 6-K
September 26, 2018

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16

UNDER THE SECURITIES EXCHANGE ACT OF 1934

EDAP TMS S.A. Files on

September 26, 2018

EDAP TMS S.A.

Parc d’activités la Poudrette - Lamartine

4/6 Rue du Dauphine

69120 Vaulx-en-Velin - France

Commission File Number: 0-29374

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F ....X........ Form 40-F................

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ....

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ....

THIS REPORT ON FORM 6-K SHALL BE DEEMED TO BE INCORPORATED BY REFERENCE IN THE REGISTRATIONS STATEMENTS ON FORM S-8 (NOS. 333-188112 and 333-217160) OF EDAP TMS S.A. AND TO BE PART THEREOF FROM THE DATE ON WHICH THIS REPORT IS FURNISHED, TO THE EXTENT NOT SUPERSEDED BY DOCUMENTS OR REPORTS SUBSEQUENTLY FILED OR FURNISHED.

1

Explanatory Note

Operating and Financial Review and Prospects and Unaudited Consolidated Interim Financial Statements for the six months ended and as of June 30, 2018

The following discussion of our results of operations and liquidity and capital resources for the six months ended June 30, 2018 is based on, and should be read in conjunction with, the unaudited consolidated interim financial statements and the notes thereto included in this report on Form 6-K. The unaudited consolidated interim financial statements have been prepared in accordance with U.S. GAAP and refer to the new topic-based FASB Accounting Standards Codification ("ASC").

The financial data included in this report has been prepared by, and is the responsibility of, EDAP TMS's management. KPMG Audit has not audited, reviewed, compiled or performed any procedures with respect to the accompanying financial data. Accordingly, KPMG Audit does not express an opinion or any other form of assurance with respect thereto.

The unaudited consolidated interim financial statements filed in this report on Form 6-K supplements the unaudited financial information furnished on Form 6-K on August 29, 2018.

Operating and Financial Review and Prospects for the six months ended and as of June 30, 2018

Operating Results

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

	Six months ended	**Six months ended**

(in millions of euros)	June 30, 2018	June 30, 2017
Total revenues	17.8	18.0
Total net sales	17.7	18.0
Of which HIFU	4.7	5.2
Of which UDS	13.0	12.7
Total cost of sales	(10.2)	(10.4)
Gross profit	7.6	7.6
Gross profit as a percentage of total net sales	42.6 %	42.1 %
Total operating expenses	(9.0)	(8.4)
Loss from operations	(1.5)	(0.8)
Net income (loss)	(0.7)	(0.1)

Total revenues.

Our total revenues decreased 1.3% from €18.0 million in the first half of 2017 to €17.8 million in the first half of 2018.

HIFU division. The HIFU division's total revenues decreased 9% to €4.8 million in the first half of 2018 as compared to €5.2 million in the first half of 2017. This decrease was primarily due to the slowdown in U.S. sales of HIFU devices during the first half of 2018.

The HIFU division's net sales of medical devices decreased 29.6% to €1.2 million in the first half of 2018, as compared to €1.7 million in the first half of 2017. We sold two Focal One units in the first half of 2018, as compared with two Ablatherm units and two Focal One units in the first half of 2017.

HIFU treatment-driven revenue, which includes net sales of RPP and leases, net sales of consumables and net sales of treatment related services, decreased 4.9% to €2.9 million for first six months of 2018 as compared to €3.0 million for the same period of last year.

Net sales of HIFU maintenance services increased from €0.5 million in 2017 to €0.7 million in 2018.

Other HIFU-related revenues increased to €14 thousand in 2018 from €8 thousand in 2017 and were comprised of license-based revenues from Theraclion.

UDS division. The UDS division's total revenues increased 1.9% from €12.8 million in the first half of 2017 to €13.0 million in the first half of 2018. The growth is mainly driven by the lithotripsy devices sales.

The UDS division's net sales of medical devices decreased 6.2% from €7.2 million in the first half of 2017 to €6.8 million in the first half of 2018 with 18 lithotripsy devices sold in the first half of 2018 compared to 15 lithotripsy devices sold in the first half of 2017, and a decrease of 15% of the distribution devices sales.

Net sales of UDS-related consumables, spare parts, supplies, leasing and services increased 13% from €5.5 million in the first half of 2017 to €6.2 million in the first half of 2018.

Cost of sales.

Cost of sales decreased 2.2% from €10.4 million in the first half of 2017 to €10.2 million in the first half of 2018, and represented 57.5% of net sales in the first half of 2018, compared to 58.1% of net sales in the first half of 2017. This Gross margin improvement was generated by our new sales organization in Korea.

Operating expenses.

Operating expenses increased 7.4%, or €0.6 million, from €8.4 million in the first half of 2017 to €9.0 million in the first half of 2018, reflecting the increased investment in sales and marketing and in HIFU pipeline development programs.

Research and Development expenses increased €335 thousand, or 18.0%.

Marketing and Sales expenses increased €217 thousand, or 4.4%.

General and Administrative expenses increased € 75 thousand, or 4.4%.

Operating income(loss).

As a result of the factors discussed above, we recorded a consolidated operating loss of €1.5 million in the first half of 2018 as compared to a consolidated operating loss of €0.8 million in the first half of 2017.

We realized an operating profit in the UDS division of €1.1 million in the first half of 2018, as compared to an operating profit of €0.8 million in the first half of 2017, and an operating loss in the HIFU division of €1.9 million in the first half of 2018, as compared to an operating loss of €0.9 million in the first half of 2017.

Financial (expense) income, net.

Financial (expense) income net was an income of €0.5 million in the first half of 2018, which was mostly comprised of a €0.5 million income generated by the fair value adjustments of the outstanding warrants, compared with an income of €1.4 million in the first half of 2017 reflecting the €1.4 million income generated by the fair value adjustments of the outstanding warrants.

Foreign currency exchange gains (loss), net.

In the first half of 2018, we recorded a net foreign currency exchange gain of €0.5 million, compared to a loss of €0.4 million in the first half of 2017.

Income taxes.

Income tax was an expense of €0.2 million in the first half of 2018, compared to an expense of €0.2 million in the first half of 2017.

Net income (loss).

As a result of the above, we realized a consolidated net loss of €0.7 million in the first half of 2018 compared with a consolidated net loss of €0.07 million in the first half of 2017.

Liquidity and Capital Resources

(in thousands of euros)	**Six months ended** June 30, 2018	**Six months ended** June 30, 2017
Net cash generated by (used in) operating activities	(958)	(3,654)
Net cash used in investing activities	(1,111)	(710)
Net cash generated by (used in) financing activities	(554)	826
Net effect of exchange rate changes	(179)	104
Net increase/(decrease) in cash and cash equivalents	(2,802)	(3,435)
Cash and cash equivalents at the beginning of the period	20,004	21,989
Cash and cash equivalents at the end of the period	17,203	18,554
Total cash and cash equivalents, and short-term investments as of June 30	17,203	18,554

Our cash position as of June 30, 2018 was €17.2 million (including €0 million of short-term treasury investments), compared to €18.6 million (including €0 million of short-term treasury investments), as of June 30, 2017. We experienced negative cash flows of €2.8 million in the first half of 2018 and negative cash flows of €3.4 million in the first half of 2017.

In 2018, net cash used in operating activities was €1 million compared with net cash used in operating activities of €3.4 million in the first half of 2017.

In the first half of 2018, net cash used in operating activities reflected principally:

- a net loss of €0.7 million;
- the elimination of €0.5 million of net income without an effect on cash, including €0.7 million of depreciation and amortization, €0.3 million loss for change in long-term provisions and non-cash compensation and €0.5 million income due to variation of the fair value of outstanding warrants;
- an increase in trade accounts and other receivables of €0.4 million;
- a increase in inventories of €0.4 million;

- an increase in other assets of €0.7 million;
- a increase in payables of €0.3 million;
- an increase in other current liabilities of €0.4 million.

In the first half of 2017, net cash used in operating activities reflected principally:

- a net loss of €0.07 million;
- the elimination of €0.5 million of net income without an effect on cash, including €0.6 million of depreciation and amortization, €0.3 million loss for change in long-term provisions and non-cash compensation and €1.4 million income due to variation of the fair value of outstanding warrants;
- an increase in trade accounts and other receivables of €0.6 million;
- a increase in inventories of €0.4 million;
- an increase in other assets of €1.0 million;
- a decrease in payables of €0.7 million;
- an decrease in other current liabilities of €0.4 million.

In the first half of 2018, net cash used in investing activities was €1.1 million compared with net cash used of €0.7 million in investing activities in the first half of 2017.

Net cash used in investing activities of €1.1 million in the first half of 2018 reflected mainly acquisitions of equipment of €0.5 million and investments (including 0.3M€ for new ERP program implementation) of €0.7 million in capitalized assets produced by the Company, mostly for rental and RPP activity and R&D prototypes.

4

Net cash used in investing activities of €0.7 million in the first half of 2017 reflected mainly acquisitions of equipment of €0.3 million and investments of €0.4 million in capitalized assets produced by the Company, mostly for rental and RPP activity and R&D HIFU prototypes.

In the first half of 2018, net cash used by financing activities was €0.5 million compared with net cash provided by financing activities of €0.05 million in the first half of 2017.

In the first half of 2018, net cash used in financing activities reflected principally the €0.4 million net proceeds from new long-term borrowings, repayment of capital lease obligations totaling €0.1 million and of long-term borrowings totaling €0.2 million, and the decrease of €0.6 million in bank overdrafts.

In the first half of 2017, net cash generated in financing activities reflected principally the €0.7 million net proceeds from exercise of warrants and stock options, but also new long-term borrowings of €0.8 million of conditional advances to finance HECAM project research, repayment of capital lease obligations totaling €0.1 million and of long-term borrowings totaling €0.1 million, and the decrease of €0.4 million in bank overdrafts.

Interim Unaudited Financial Statements for the six months ended and as of June 30, 2018

Index

Consolidated Balance Sheets (Unaudited) as of June 30, 2018 and December 31, 2017	7
Consolidated Statement of Income (Unaudited) for the periods ended June 30, 2018 and 2017	8
Consolidated Statement of Shareholders' Equity (Unaudited) for the period ended June 30, 2018	9
Consolidated Statements of Cash Flows (Unaudited) for the periods ended June 30, 2018 and 2017	10
Notes to Consolidated Interim Financial Statements	11

EDAP TMS S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of June 30, 2018 (unaudited) and December 31, 2017

(in thousands of euros unless otherwise noted)

ASSETS	Notes	06-30-2018	12-31-2017
Current assets			
Cash and cash equivalents	2	17,203	20,004
Current portion of net trade accounts and notes receivable		12,076	11,277
Other receivables		1,812	1,066
Inventories	3	7,074	6,739
Other assets, current portion		385	489
Short-term investment		-	-
Total current assets		38,551	39,574
Non-current assets			
Property and equipment, net		4,155	3,682
Intangible assets, net		746	527
Goodwill		2,412	2,412
Deposits and other non-current assets		510	462
Deferred tax assets		257	165
Net trade accounts and notes receivable, non-current		50	77
Total assets		46,679	46,897
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade accounts and notes payable		6,627	6,310
Deferred revenues, current portion		2,569	2,295
Social security and other payroll withholdings taxes		1,033	1,075
Employee absences compensation		634	575
Income taxes payable		147	147
Other accrued liabilities		1,919	1,536
Short-term borrowings	4	2,112	2,718
Current portion of capital lease obligations	5	280	255
Current portion of financial instruments carried at fair value…………	6	319	840
Current portion of long-term debt	6	375	383
Total current liabilities		16,016	16,134
Non-current liabilities			
Deferred revenues, non-current		603	562
Capital lease obligations, non-current	5	639	528
Financial instruments carried at fair value, non-current…………..	6	-	-
Long-term debt, non-current	6	1,019	834
Other long-term liabilities		3,851	3,681
Total liabilities		22,129	21,739

Shareholders’ equity			
Common stock, €0.13 par value; 29,368,394 shares issued and 28,997,866			
Shares outstanding at June 30, 2018 and December 31, 2017,		3,818	3,818
Additional paid-in capital		65,846	65,694
Retained earnings		(40,287)	(39,608)
Cumulative other comprehensive loss		(3,686)	(3,604)
Treasury stock, at cost; 370,528 shares at June 30, 2018 & at Dec. 31, 2017	7	(1,142)	(1,142)
Total shareholders’ equity	7	24,550	25,158
Total liabilities and shareholders’ equity		46,679	46,897

7

EDAP TMS S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

For the periods ended June 30, 2018 and 2017

(in thousands of euros unless otherwise noted)

	Notes	**6 months ended June 30, 2018**	**6 months ended June 30, 2017**
Sales of goods		10,929	11,478
Sales of RPPs & leases		2,480	2,599
Sales of spare parts and services		4,338	3,879
Total sales		17,748	17,956
Other revenues		14	40
Total revenues		17,762	17,995
Cost of goods		(6,042)	(6,464)
Cost of RPPs & leases		(1,355)	(1,364)
Cost of spare parts and services		(2,823)	(2,600)
Total cost of sales		(10,201)	(10,427)
Gross profit		7,561	7,568
Research and development expenses		(2,200)	(1,865)
Selling and marketing expenses		(5,080)	(4,863)
General and administrative expenses		(1,763)	(1,688)
Income (Loss) from operations		(1,482)	(848)
Financial (expense) income, net		528	1,408
Foreign currency exchange gain (loss), net		456	(450)
Income (loss) before taxes		(498)	110
Income tax (expense) benefit		(180)	(175)
Net income (loss)		(679)	(65)
Basic income (loss) per share		(0.02)	(0.00)
Diluted income (loss) per share (1)		(0.02)	(0.00)
Basic weighted average shares outstanding		28,997,866	28,919,984
Diluted weighted average shares outstanding (1)		28,997,866	28,919,984

(1) Due to the net loss in the first six months of 2018, the assumed net exercise of stock options/warrants and stock relating to the convertible bonds in this year was excluded, as the effect would have been anti-dilutive.

8

EDAP TMS S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the period ended June 30, 2018 (unaudited)

(in thousands of euros unless otherwise noted)

	Number of Shares outstanding	Common Stock	Additional paid-in Capital	Retained Earnings	Cumulative Other Comprehensive Income (loss)	Treasury Stock	**Total**
Balance as of December 31, 2017	28,997,866	3,818	65,694	(39,608)	(3,604)	(1,142)	25,158
Net income	-	-	-	(679)	-	-	(679)
Translation adjustment	-	-	-	-	(82)	-	(82)
Warrants and stock options granted	-	-	152	-	-	-	152
Capital increase or warrants and stock options exercised	-	-	-	-	-	-	-
Balance as of June 30, 2018	28,997,866	3,818	65,846	(40,287)	(3,686)	(1,142)	24,550

EDAP TMS S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

For the periods ended June 30, 2018 and June 30, 2017

(in thousands of euros unless otherwise noted).

		6 months ended June 30, 2018	**6 months ended June 30, 2017**
Cash flows from operating activities:			
Net income (loss)		(679)	(65)
Adjustments to reconcile net income (loss) to net cash generated by (used in) operating activities:			
Depreciation and amortization		672	591
Change in warrants fair value		(545)	(1,421)
Other Non-cash compensation		152	217
Change in allowances for doubtful accounts & slow-moving inventories		114	89
Change in long-term provisions		188	53
Net capital loss on disposals of assets		19	24
Deferred tax expense/(benefit)	6	(89)	(40)
Operating cash flow		(168)	(551)
Increase/Decrease in operating assets and liabilities:			
Decrease/(Increase) in trade accounts and notes and other receivables		(393)	(644)
Decrease/(Increase) in inventories		(413)	(361)
Decrease/(Increase) in other assets		(717)	(1,033)
(Decrease)/Increase in trade accounts and notes payable		308	(708)
(Decrease)/Increase in accrued expenses, other current liabilities		425	(357)
Net increase/decrease in operating assets and liabilities		(790)	(3,103)
Net cash generated by (used in) operating activities		(958)	(3,654)
Cash flows from investing activities:			
Additions to capitalized assets produced by the Company		(676)	(438)
Net proceeds from sale of leased back assets		139	-
Acquisitions of property and equipment		(282)	(251)
Acquisitions of intangible assets		(260)	(12)
Decrease/(Increase) in deposits and guarantees		(33)	(9)
Net cash generated by (used in) investing activities		(1,111)	(710)
Cash flow from financing activities:			
Proceeds from capital increase		-	548
Proceeds from stock-option exercise		-	115
Proceeds from long term borrowings, net of financing costs		400	802
Repayment of long term borrowings		(224)	(144)

Repayment of obligations under capital leases	(113)	(117)
Increase/(decrease) in bank overdrafts and short-term borrowings	(617)	(378)
Net cash generated by (used in) financing activities	(554)	826
Net effect of exchange rate changes on cash and cash equivalents	(179)	104
Net increase (decrease) in cash and cash equivalents	(2,802)	(3,435)
Cash and cash equivalents at beginning of year	20,004	21,989
Cash and cash equivalents at end of period	17,203	18,554

1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1-1 Nature of operations

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

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

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

1-2 Basis of preparation

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

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

1-3 Management estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (''U.S. GAAP'') requires management to make estimates and assumptions, such as business plans, stock price volatility, duration of standard warranty per market and cost of maintenance contract used to determine the amount of revenue to be deferred and life duration of our range of products. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1-4 Consolidation

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

1-5 Revenue recognition

Sales of goods:

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

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

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

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

Sales of RPPs and leases:

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

Sales of spare parts and services:

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

1-6 Costs of sales

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

1-7 Shipping and handling costs

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

1-8 Cash equivalents and short term investments

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

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

1-9 Accounts Receivables

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

1-10 Inventories

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

1-11 Property and equipment

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

Leasehold improvements..	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.

1-12 Long-lived assets

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

1-13 Goodwill and intangible assets

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

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

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

Patents...	5 years
SAP Licenses..	10 years
Other Licenses...	5 years
Trade name and trademark	7 years

1-14 Treasury Stocks

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

1-15 Warranty expenses

The Company provides customers with a warranty for each product sold and accrues warranty expense at time of sale based upon historical claims experience. Standard warranty period may vary from 1 year to 2 years depending on the market. Actual warranty costs incurred are charged against the accrual when paid and are classified in cost of sales in the statement of income.

1-16 Income taxes

The Company accounts for income taxes in accordance with ASC 740, ‘‘Accounting for Income Taxes’’ Under ASC 740, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured by applying enacted tax rates and laws to taxable years in which such differences are expected to reverse. A valuation allowance is established if, based on the weight of available evidence, it is more likely than not that some portion, or all of the deferred tax assets, will not be realized. In accordance with

ASC740, no provision has been made for income or withholding taxes on undistributed earnings of foreign subsidiaries, such undistributed earnings being permanently reinvested.

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

1-17 Research and development costs

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

1-18 Advertising costs

Advertising costs are recorded as an expense in the period in which they are incurred.

1-19 Foreign currency translation and transactions

Translation of the financial statements of consolidated companies

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

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

Foreign currencies transactions

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

1-20 Presentation in the Income Statement

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

1-21 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.

1-22 Derivative instruments

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

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

1-23 Employee stock option plans

At June 30, 2018, the Company had four stock-based employee compensation plans. The Company adopted ASC 718, "Share-Based Payment", effective January 1, 2006. ASC 718 requires the recognition of fair value of stock compensation as an expense in the calculation of net income (loss).

The Company granted 260,000 stock options to subscribe to new shares to certain employees of the Company in April 2017.

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:

	06-30-2018[1]	12-31-2017	
Weighted-average expected life (years)	-	6.25	
Expected volatility rates	-	57.4	%
Expected dividend yield	-	—	
Risk-free interest rate	-	0.02	%
Weighted-average exercise price (€)	-	2.39	
Weighted-average fair value of options granted during the year (€)	-	1.29	

(1) The company did not make any grants during the period ended June 30, 2018.

1-24 Warrants

On May 28, 2013, pursuant to a securities purchase agreement dated May 20, 2013, as amended, the Company issued new ordinary shares in the form of ADSs to selected institutional investors in a registered direct placement (the "May 2013 Placement") with warrants attached (the "May 2013 Investor Warrants"). The Company also issued warrants to the placement agent, H.C. Wainwright & Co., LLC (the "May 2013 Placement Agent Warrants" and together with the May 2013 Investor Warrants, the "May 2013 Warrants"). As the May 2013 Warrants comprised the same structure and provisions than the March 2012 Warrants, including an exercise price determined in U.S. dollars while the functional currency of the Company is the Euro, the Company determined that the May 2013 Warrants should be accounted for as a liability.

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

On April 14, 2016, pursuant to a securities purchase agreement dated April 7, 2016, as amended, the Company issued new ordinary shares in the form of ADSs to selected institutional investors in a registered direct placement (the "April 2016 Placement") with warrants attached (the "April 2016 Investor Warrants"). As the April 2016 Warrants comprised the same structure and provisions than the March 2012 and May 2013 Warrants, including an exercise price determined in U.S. dollars while the functional currency of the Company is the Euro, the Company determined that the April 2016 Warrants should be accounted for as a liability.

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

1-25 Leases and Sales and leaseback transactions

In accordance with ASC 840, Accounting for Leases, the Company classifies all leases at the inception date as either a capital lease or an operating lease. A lease is a capital lease if it meets any one of the following criteria; otherwise, it is an operating lease:

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

For sales type leases, the following two additional criteria are applied:

- Collectability of the minimum lease payment is reasonably predictable;
- No important uncertainties surround the amount of un-reimbursable costs yet to be incurred by the lessor under the lease.

16

The Company enters into sale and leaseback transactions from time to time. In accordance with ASC 840, any profit or loss on the sale is deferred and amortized prospectively over the term of the lease, in proportion to the leased asset if a capital lease, or in proportion to the related gross rental charged to expense over the lease term, if an operating lease.

2—CASH, CASH EQUIVALENTS AND SHORT TERM INVESTMENTS

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

	06-30-2018	**12-31-2017**
Total cash and cash equivalents	17,203	20,004
Short term investments	-	-
Total cash and cash equivalent and short term investments	17,203	20,004

Short term investments are comprised of money market funds. The aggregate fair value of the short-term investments is consistent with their book value.

3—INVENTORIES

Inventories consist of the following:

	06-30-2018	**12-31-2017**
Components, spare parts	4,824	3,909
Work-in-progress	-	729
Finished goods – own manufactured products	1,629	1,167
Finished goods – distribution products	1,477	1,656
Total gross inventories	7,930	7,461
Less: allowance for slow-moving inventory and net realizable value	(856)	(722)
Total	7,074	6,739

The provision for slow moving inventory relates to components and spare parts.

4—SHORT-TERM BORROWINGS

As of June 30, 2018, short-term borrowings consist mainly of €2,112 thousand of account receivables factored and for which the Company is supporting the risk of non-collection.

As of June 30, 2017, short-term borrowings consist mainly of €1,253 thousand of account receivables factored and for which the Company is supporting the risk of non-collection.

5—CAPITAL LEASE OBLIGATIONS

The Company leases certain of its equipment under capital leases. At June 30, 2018, this equipment consists mainly of medical devices for a liability amount of €173 thousand and vehicles and other IT equipment for a liability amount of €746 thousand.

6— LONG TERM DEBT, AND FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

6-1 Long-term debt:

	06-30-2018	12-31-2017
France term loan	613	700
Japanese term loan (YEN)	-	40
Germany term loan	728	399
Italy term loan	53	78
Total long term debt	1,394	1,217
Less current portion	(375)	(383)
Total long-term portion	1,019	834

As of December 31, 2017, long-term debt in Japan consists of two loans in Yen with the following conditions:

	Initial Amount	Maturation	Fixed Interest rate	Frequency of principal payments
EDAP Technomed Co. Ltd	55,000,000	June 30, 2018	1.80 %	Monthly instalment
	10,000,000	June 30, 2018	2.10 %	Monthly instalment

As of June 30, 2018, long-term debt in Germany consists of three loans in euro with the following conditions:

	Initial Amount	Maturation	Fixed Interest rate	Frequency of principal payments
EDAP TMS GMBH	450,000	November 30, 2020	2.49 %	Monthly instalment

This loan is pledged by an HIFU equipment with a purchase value of €450 thousand.

	Initial Amount	Maturation	Fixed Interest rate	Frequency of principal payments
EDAP TMS GMBH	136,500	December 31, 2022	2.25 %	Monthly instalment

This loan is pledged by an UDS equipment with a purchase value of €136 thousand.

	Initial Amount	Maturation	Fixed Interest rate	Frequency of principal payments
EDAP TMS GMBH	400,000	March 31, 2023	2.40 %	Monthly instalment

This loan is pledged by an HIFU equipment with a purchase value of €400 thousand.

18

As of December 31, 2017 long-term debt in Germany consists of two loans in euro with the following conditions:

	Initial Amount	Maturation	Fixed Interest rate	Frequency of principal payments
EDAP TMS GMBH	450,000	November 30, 2020	2.49 %	Monthly instalment

This loan is pledged by an HIFU equipment with a purchase value of €450 thousand.

	Initial Amount	Maturation	Fixed Interest rate	Frequency of principal payments
EDAP TMS GMBH	136,500	December 31, 2022	2.25 %	Monthly instalment

This loan is pledged by an UDS equipment with a purchase value of €136 thousand.

As of June 30, 2018 and December 31, 2017, long-term debt in Italy consists of a loan in euro for an initial amount of €242 thousand with an interest rate of Euribor 1 month + 4.5% due to mature on June 6, 2019.

As of June 30, 2018 and December 31, 2017, long-term debt in France consists of one loan in Euro to finance the ERP project with the following conditions:

	Initial Amount	Maturation	Fixed Interest rate	Reimbursement Periodicity
EDAP TMS FRANCE	700,000	October 16, 2021	0.40 %	Quarterly instalment

6-2 Financial instruments carried at fair value:

	06-30-2018	12112-31-2017
Investor Warrants	319	840
Total	319	840
Less current portion	(319)	(840)
Total long-term portion	-	-

May 28, 2013, pursuant to a securities purchase agreement dated May 20, 2013, as amended, the Company issued 3,000,000 ordinary shares in the form of ADSs to selected institutional investors in a registered direct placement (the “May 2013 Placement”), at a price of $4.00 per share, with warrants attached (the “May 2013 Investor Warrants”). The May 2013 Investor Warrants allow investors to purchase up to 1,500,000 shares in the form of ADSs at an exercise price of $4.25. The May 2013 Investor Warrants are exercisable from November 29, 2013 and expire on November 29, 2018. The Company also issued warrants to purchase up to 180,000 shares in the form of ADSs to the placement agent, H.C. Wainwright & Co., LLC, with an exercise price of $5.00 per share (the “May 2013 Placement Agent Warrants” and together with the Investor Warrants, the “May 2013 Warrants”). The May 2013 Placement Agent Warrants were exercisable from November 29, 2013 and expired on May 28, 2016. As the May 2013 Warrants comprised the same structure and provisions than the March 2012 Warrants, including an exercise price determined in U.S. dollars while the functional currency of the Company is the Euro, the Company determined that the May 2013 Warrants should be accounted for as a liability. Total gross proceeds for the placement amounted to $12.0 million (€ 9.270 million), out of which $3.817 million (€2.950 million) allocated to the Investor and Placement Agent Warrants based on their fair value and accounted for as liability, and the remaining $8.183 million (€6.320 million) allocated to the share capital increase. The form of the securities purchase agreement and the form of Investor Warrant werefurnished to the SEC on our report on Form 6-K dated May 28, 2013.

19

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

On April 14, 2016, pursuant to a securities purchase agreement dated April 7, 2016, the Company issued 3,283,284 ordinary shares in the form of ADSs to selected institutional investors in a registered direct placement (the "April 2016 Placement"), at a price of $3.50 per share, with warrants attached (the "April 2016 Investor Warrants"). The April 2016 Investor Warrants allow investors to purchase up to 3,283,284 shares in the form of ADSs at an exercise price of $4.50. The April 2016 Investor Warrants are exercisable from October 14, 2016 and expire on October 14, 2018. As the April 2016 Warrants comprised the same structure and provisions than the May 2013 Warrants, including an exercise price determined in U.S. dollars while the functional currency of the Company is the Euro, the Company determined that the April 2016 Warrants should be accounted for as a liability. Total gross proceeds for the placement amounted to $11.5 million (€ 10.2 million), out of which $3.578 million (€3.168 million) allocated to the Investor Warrants based on their fair value and accounted for as liability, and the remaining $7.913 million (€7.006 million) allocated to the share capital increase. The form of the securities purchase agreement and the form of Investor Warrant were furnished to the SEC on our report on Form 6-K dated April 14, 2016.

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

As of June 30, 2018, all of the March 2012 placement agent warrants were exercised or forfeited.

Fair Value of the May 2013 Investor Warrants:

The valuation model of the Investor Warrants uses the following main assumptions and parameters based on a Black-Scholes model. Note that Warrant's maturity is assumed to be their legal duration as per Warrant contract.

	At inception date	June 30, 2018	December 31, 2017
Share price at closing date	$3.96	$3.03	$2.87
Strike price of warrants	$4.25	$4.25	$4.25
Risk free interest rate at 5.5 years	1.07 %	0 %	0 %
Share price volatility	71 %	57.40 %	57.40 %
Dividend rates	0 %	0 %	0 %
Unit fair value	$2.35	$0.13	$0.26

Total fair value (in thousand)	$3.525	$193	$392
Total equivalent amount (in thousand €)	€2,725	€166	€328

20

Fair Value of the April 2016 Investor Warrants:

The valuation model of the Investor Warrants uses the following main assumptions and parameters based on a Black-Scholes model. Note that Warrant's maturity is assumed to be their legal duration as per Warrant contract.

	At inception date	June 30, 2018	December 31, 2017
Share price at closing date	3.64	3.03	2.87
Strike price of warrants	$4.50	$4.50	$4.50
Risk free interest rate at 2.5 years	0 %	0 %	0 %
Share price volatility	60.20 %	57.40%	57.40 %
Dividend rates	0 %	0 %	0 %
Unit fair value	$1.09	$0.05	$0.19
Total fair value (in thousand)	$3.579	$179	$614
Total equivalent amount (in thousand €)	€3,168	€153	€513

6-3 Long-term debt and financial instruments maturity:

Long-term debt and financial instruments carried at fair value at June 30, 2018 mature as follows:

2018	529
2019	395
2020	364
2021	284
2022	112
2023	28
Total	1,713

7—SHAREHOLDERS' EQUITY

7-1 Common stock

As of June 30, 2018, EDAP TMS S.A.'s common stock consisted of 29,368,394 issued shares, fully paid, and with a par value of €0.13 each. 28,997,866 of the shares were outstanding.

7-2 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.

7-3 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.

7-4 Treasury stock

As of June 30, 2018, the 370,528 shares of treasury stock consisted of (i) 190,238 shares acquired between August and December 1998 for €649 thousand, and (ii) 180,290 shares acquired in June and July 2001 for €493 thousand. All 370,528 shares of treasury stock have been acquired to cover outstanding stock options (see Note 7-5).

7-5 Stock-option plans

As of June 30, 2018, the 370,528 ordinary shares held as treasury stock were dedicated to serve stock purchase option plans as follows: 127,100 shares which may be purchased at a price of €2.38 per share pursuant to the exercise of options that were granted on June 25, 2010.

As of June 30 2018, the Company sponsored four stock purchase and subscription option plans:

On May 22, 2007, the shareholders of the Company authorized the Board of Directors to grant up to 600,000 options to subscribe to 600,000 new Shares. Conforming to this stock option plan, the Board of Directors granted 504,088 options to subscribe to new Shares to certain employees of EDAP TMS on October 29, 2007, and 95,912 options to subscribe to new Shares to certain employees of EDAP TMS on June 25, 2010. Under this plan, 50,000 options to subscribe to new shares were still in force on June 30, 2018.

On June 24, 2010, the shareholders of the Company authorized the Board of Directors to grant up to 229,100 options to purchase up to 229,100 Shares. Conforming to this stock option plan, the Board of Directors granted 229,100 options to purchase Shares to certain employees of EDAP TMS on June 25, 2010. Under this plan, 120,100 options were still in force on June 30, 2018.

On December 19, 2012, the shareholders authorized the Board of Directors to grant up to 500,000 options to subscribe to 500,000 new shares at a fixed price to be set by the Board of Directors. Conforming to this stock option plan, the Board of Directors granted 500,000 options to subscribe Shares to certain employees of EDAP TMS on January 18, 2013. Under this plan, 297,500 options were still in force on June 30, 2018.

On February 18, 2016, the shareholders authorized the Board of Directors to grant up to 1,000,000 options to subscribe to 1,000,000 new shares at a fixed price to be set by the Board of Directors. Conforming to this stock option plan, the Board of Directors granted 575,000 options to subscribe Shares to certain employees of EDAP TMS on April 26, 2016. Under this plan, 505,000 options were still in force on June 30, 2018. Conforming to this February 18, 2016 stock option plan, the Board of Directors granted 260,000 options to subscribe Shares to certain employees of EDAP TMS on April 25, 2017. Under this plan, 215,000 options were still in force on June 30, 2018.

As of June 30, 2018, a summary of stock option activity to purchase or to subscribe to Shares under these plans is as follows:

	June 30, 2018		December 31, 2017		December 31, 2016	
	Options	Weighted average exercise price (€)	Options	Weighted average exercise price (€)	Options	Weighted average exercise price (€)
Outstanding on January 1,	1,207,600	2.61	1,427,438	2.94	917,188	2.79
Granted	-	-	260,000	2.39	575,000	3.22
Exercised	-	-	(60,000)	1.91	-	-
Forfeited	(20,000)	3.22	(134,750)	3.11	(64,750)	3.30
Expired	-	-	(285,088)	3.99	-	-
Outstanding at the end of the period	1,187,600	2.60	1,207,600	2.61	1,427,438	2.94
Exercisable at the end of the period	773,850	2.44	598,850	2.29	774,938	2.87
Shares purchase options available for grant on at end of period	250,428		250,428		243,428	

22

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 June 30, 2018:

	Outstanding options				**Fully vested options (1)**		
Exercise price (€)	Options	Weighted average remaining contractual life	**Weighted average exercise price (€)**	**Aggregate Intrinsic Value (2)**	Options	**Weighted average exercise price (€)**	**Aggregate Intrinsic Value (2)**
3.22	505,000	7.8	3.22	-	252,500	3.22	-
2.39	215,000	8.8	2.39	44,964	53,750	2.39	13,104
2.38	120,100	2.0	2.38	26,318	120,100	2.38	26,318
1.91	297,500	4.5	1.91	205,017	297,500	1.91	205,017
1.88	50,000	2.0	1.88	35,957	50,000	1.88	35,957
1.88 to 3.22	1,187,600	5.0	2.96	312,256	773,850	2.44	280,396

(1) Fully vested options are all exercisable options

(2) The aggregate intrinsic value represents the total pre-tax intrinsic value, based on the Company's closing stock price of $3.03 at June 30, 2018, which would have been received by the option holders had all in-the-money option holders exercised their options as of that date.

8—FINANCIAL INCOME, NET

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

	6 months 2018	**6 months 2017**
Interest income	8	6

Interest expense	(26)	(18)
Warrants exercised or forfeited	-	625
Changes in fair value of the warrants [1]	545	795
Total	528	1,408

(1) For more details on the fair value of Financial Instruments, please refer to Notes 6.

9—SEGMENT INFORMATION

The Company currently has four reporting segments: the corporate activities of the holding Company, EDAP TMS S.A., the High Intensity Focused Ultrasound division, the Urological Devices and Services division and a reporting segment dedicated to the FDA approval for Ablatherm-HIFU activity. Following the Ablatherm FDA clearance received on November 9, 2015, there is no more cost recorded on the FDA segment in 2016 and 2017. The following tables set forth the key income statement figures, by segment for the first six months of 2018 and 2017 and the key balance sheet figures, by segment, for the first six months of 2018 and 2017.

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

Segment operating profit or loss and segment assets are determined in accordance with the same policies as those described in the summary of significant accounting policies. Interest income and expense, current and deferred income taxes are not allocated to individual segments. A reconciliation of segment operating profit or loss to consolidated net loss is as follows:

	6 months 2018	6 months 2017
Segment operating income (loss)	(1,482)	(848)
Financial income (expense), net	528	1,408
Foreign Currency exchange (losses) gains, net	456	(450)
Other income (expense), net	-	-
Income tax (expense) credit	(180)	(175)
Consolidated net profit (loss)	(679)	(65)

A summary of the Company's operations by business unit is presented below for periods ending June 30, 2018 and 2017:

	HIFU Division	**UDS Division**	EDAP TMS Corporate	Total consolidated
6 months 2018				
Sales of Goods (incl. consumables)	2,082	8,848	-	10,929
Sales of RPPs & Leases,	1,791	689	-	2,480
Sales of Spare Parts & Services	870	3,469	-	4,338
Total Net Sales	4,742	13,006	-	17,748
Other Revenues	14	-	-	14
Total Revenues	4,756	13,006	-	17,762
Gross Profit	2,326	5,236	-	7,561
Research & Development	(1,437)	(763)	-	(2,200)
SG&A + Depreciation	(2,798)	(3,405)	(640)	(6,843)
Operating income (loss)	(1,909)	1,068	(640)	(1,482)

	HIFU Division	**UDS Division**	EDAP TMS Corporate	Total consolidated
6 months 2017				
Sales of Goods (incl. consumables)	2,626	8,852	-	11,478
Sales of RPPs & Leases,	1,899	700	-	2,599

Sales of Spare Parts & Services	696	3,183	-	3,879
Total Net Sales	5,221	12,735	-	17,956
Other Revenues	8	32	-	40
Total Revenues	5,228	12,767	-	17,995
Gross Profit	2,794	4,774	-	7,568
Research & Development	(1,211)	(654)	-	(1,865)
SG&A + Depreciation	(2,468)	(3,316)	(768)	(6,551)
Operating income (loss)	(885)	804	(768)	(848)

24

10—SUBSEQUENT SIGNIFICANT EVENTS

There is no subsequent significant event to report after June 30, 2018.

25

SIGNATURES

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

Date: September 26, 2018

EDAP TMS S.A.

/S/ FRANCOIS DIETSCH

FRANCOIS DIETSCH

CHIEF FINANCIAL OFFICER

26