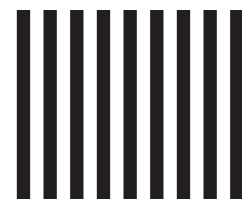


We appreciate your interest in Urologix.

To request additional investor or Targis™ information, please visit our web site at www.urologix.com. Or fill out and return the attached postcard.

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UROLOGIX, INC.

14405 21ST AVE N

MINNEAPOLIS, MN 55447-9895



Urologix, Inc.

14405 Twenty-First Avenue North
Minneapolis, Minnesota 55447-4685

Phone: 612-475-1400

Fax: 612-475-1443

Customer Service: 888-229-0772

Web site: www.urologix.com

Urologix, Europe

Gaetano Martinolaan 95
6229 GS Maastricht, The Netherlands

Phone: +31 (0)43.3566.345

Fax: +31 (0)43.3566.349

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Urologix 1999 Annual Report



Partnerships to Improve Quality of Life

Urologix: The Issue is Quality of Life

Urologix, Inc. (Nasdaq: ULGX) develops, manufactures and markets minimally invasive medical devices for the treatment of urological disorders. Urologix' primary product offering is the Targis™ System, a one-time, non-surgical, catheter-based treatment that uses a proprietary microwave technology to treat benign prostatic hyperplasia (BPH), a noncancerous enlargement of the prostate.

Targis treatment is less costly than conventional interventions, including drug therapy and surgery. BPH currently affects 23 million men worldwide with treatment costs exceeding \$8 billion annually, representing one of the largest medical device opportunities in the world today. Urologix offers a clinically superior and cost-effective technology for the treatment of BPH that is improving the health and quality of life for men around the world.

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Michael M. Selzer Jr.
President and Chief Executive Officer

As a **patient-focused** company, **Urologix**' mission is to become a leader in the treatment of BPH and other urological disorders.

We all work for the well-being of the patient, our ultimate customer and beneficiary of our technology. I joined Urologix in January 1999 because I saw an organization poised for success. Several factors make Urologix an attractive opportunity for our shareholders and employees:

- Benign prostatic hyperplasia (BPH) is a large market of under-served medical need;
- Our Targis™ System has been shown to provide clinically durable, efficacious outcomes;
- The Targis treatment is less costly than other BPH treatment options;
- Urologix has proprietary, well-protected technology; and
- Urologix is at the cutting edge of where medicine is going – minimally invasive treatments.

I am pleased to report our progress over the past year. We have worked with our physician and business partners to make Targis treatment, a one-time, minimally invasive solution, the preferred BPH treatment. We remain committed to creating value that our employees and our shareholders are proud of.

Financial Results

For the 1999 fiscal year ended June 30, 1999, revenues were \$6.1 million vs. \$11.2 million in the previous year. Net loss for the year was \$11.1 million, excluding non-recurring charges of \$2.9 million, vs. a net loss of \$15.0 million a year ago. The reduction in sales to our international distribution partners was the primary cause of lower revenues. This was offset by excellent growth of our U.S. business.

Our revenues come from the installation of Targis control units, either through direct purchase or a recently established per-procedure payment program, and the sale of disposable procedure kits used with each Targis treatment. During the past year, we increased our worldwide control unit installations to 92 from 54, including an increase in the United States to 56 units from 27. Procedure kit sales reached \$3.4 million in fiscal 1999 compared to \$1.3 million in the previous year, a 162 percent increase. In the fiscal 1999 fourth quarter, we recorded sales of more than 1,000 procedure kits, bringing annual sales to 3,300 kits vs. 1,500 kits a year ago. As a treatment company, growth in procedure kits is a clear indication of the long-term health of our business.

We aggressively managed operating expenses, particularly in the last half of the year. We reduced our workforce to 90 from 140, while maintaining our core competencies, allowing us to execute our strategic plan.

At fiscal year-end, we had a strong cash position of \$28.0 million. We believe our cash reserves are sufficient to execute our business plan.

U.S. Market Development

Much of our attention over the past year has been on developing the U.S. market. I am happy to report that U.S. sales reached \$5.6 million in fiscal 1999 vs. \$3.0 million

a year ago, an 87 percent increase. This year we trained more than 300 U.S. physicians in the use of the Targis System through our Quality Outcomes Training Program. To date, more than 500 physicians have completed this program.

Urologix launched a program in February 1999 to make the Targis System available to physicians on a per-procedure basis. This approach eliminates the capital investment barrier for many urologists. We believe this program will accelerate the growth of our installed base of Targis Systems.

To support our U.S. physician partners, we have organized our sales force into two groups, each with distinct competencies and responsibilities. One group focuses on the sale, installation and support of our control units. Their objective is to ensure that patients have easy access to Targis treatment, wherever they live. The other group supports our installed sites by encouraging trained physicians to incorporate Targis treatment in their practices, attracting physicians to Targis training and creating local awareness and informational programs for patients and their primary care physicians. Our relationship with the Boston Scientific urology sales force in the United States is generating additional interest in Targis treatment.

In addition to our investment in our sales organization, we have updated our web site and are launching patient education programs and additional internet tools. These programs are designed to provide patients and their primary care physicians with sufficient information to comfortably recommend our treatment.

Developing the European Market

In March 1999, we revised our international marketing agreement with Boston Scientific and began to take a more active role in developing the European market. Boston Scientific Corporation remains our distribution partner and is funding the development of the European market. We have initiated studies with many of the key European academic centers to advance our treatment's acceptance in Europe.

Reimbursement Progress

Medicare routinely reimburses for Targis treatment in hospitals, the most expensive place to treat patients, and private payors cover the treatment in a variety of settings, including the physician's office. We have made significant progress in encouraging Medicare to reimburse this treatment when it is performed in less expensive venues, such as the urologist's office.

In June 1999, Medicare received comments from the American Urological Association and the American Medical Association Practice Expense Advisory Committee recommending reimbursement of the Targis treatment in the physician's office. Medicare will most likely consider Targis treatment for office based reimbursement in 2000, with implementation possible in 2001. In the fall of 1999, Medicare is expected to comment on reimbursement for Targis treatment in the ambulatory surgical center, another less expensive venue for our treatment.

Superior Clinical Outcomes

Over the year, numerous clinical papers were published and presented showing that Targis treatment offers significant advantages over drug therapy and surgery. Two highlights were articles in the December 1998 issue of *Urology*, comparing and reviewing alternative treatments for BPH, and the January 1999 issue of *The Journal of Urology*, showing the superiority of Targis treatment over a lifetime of drug therapy. At the annual meeting of the American Urological Association in May 1999, we were pleased with the quality of the presentations made by our physician partners concerning the long-term durability of Targis treatment.

Research and Development Update

With the wide acceptance of the clinical efficacy of the Targis System, we are shifting R&D resources toward refinement of our product and treatment. For example, in June 1999, we completed enrollment in a clinical trial to evaluate reducing the treatment time to less than 30 minutes, compared to the current one hour treatment time. A shorter treatment time will enhance physician efficiency and patient comfort.

In May 1999, we received U.S. Food and Drug Administration (FDA) marketing clearance to launch Cruise Control software for operating the Targis System during a procedure. The software manages temperature more effectively to reduce treatment time by 10 percent and improve treatment consistency.

Other initiatives are under way to drive product cost down, improve treatment outcomes and post-treatment patient recovery while maintaining the reliability of the Targis treatment. We are also evaluating our technology for treating other medical conditions, such as prostatitis, where there are significant unmet medical needs.

Directors Elected to Board

This year, we welcomed two new directors to our board – Bobby I. Griffin and Susan Bartlett Foote. Their insights and wide-ranging experience in the medical industry will support our strategic planning. Jack E. Meyer and Buzz Benson decided to step down from the board. We thank them for their service and their contributions to Urologix.

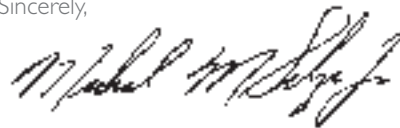
FY2000: A Focus on Growth

The Urologix management team understands that shareholder value comes from therapeutic success, high revenue growth and predictable earnings growth. Toward this end, we are focusing our efforts on:

- Building a revenue line that comes from physician and patient acceptance;
- Improving gross margins;
- Making the business profitable; and
- Evaluating new opportunities that help us leverage our unique skills.

These are the keys to establishing value. We look forward to sharing our progress with you and thank you for your continued support.

Sincerely,



Michael M. Selzer Jr.
President and Chief Executive Officer

I'm back in control of my life, which brings me enormous peace of mind.

BPH was drastically diminishing my quality of life. It didn't matter what I was doing, I felt uncomfortable nearly all of the time. The frequent urge to urinate prevented me from sleeping through the night. Often, I would feel the need to make several trips to the bathroom. BPH was making it difficult for me to participate in my usual activities. As my condition gradually worsened, I knew that I had to do something about it.

I tried various pharmaceuticals, but was not happy with their results or their side effects. Not only were the drugs expensive, but I would have had to take them every day for the rest of my life. Undergoing surgery posed the risk of serious and permanent complications, including impotence. It was not a chance that I was willing to take.

I researched and discussed other available options with my physician. He told me about Targis™ treatment, and I attended an informational seminar and read the literature.

What I found was that Targis treatment was a solution on my terms: a simple one-time, non-surgical treatment. The outpatient treatment only took an hour to perform, and it carried limited risks of serious complications. I was back at work the next day.

Since I underwent the Targis treatment, I feel better, I can sleep through the night and I enjoy my normal activities again. I'm back in control of my life, which brings me enormous peace of mind. – Ike Heflen, Targis Patient, Dallas, Texas



UROLOGIX
AND PATIENT

PARTNERSHIP

The Targis System was developed from the patient's point of view. Targis treatment provides superior symptomatic relief in a one-time, non-surgical treatment without the risks and downtime of surgery, or side effects and limited efficacy associated with drug therapy. We provide comprehensive information to patients so that they can make an informed decision with their physicians.

– Julie Skerry
Customer Service Manager



I now have a treatment solution to offer my BPH patients who are seeking a one-time, non-surgical option.

I strive to provide the best medical care possible for my patients. Those suffering from enlarged prostate disease, known as BPH, represent a significant portion of my practice. My patients' well-being depends on my success in treating their BPH symptoms.

Many patients are reluctant to consider surgery as a treatment option, despite its effectiveness. The recovery period is long and the risk of impotence is a strong deterrent.

A lifetime of drug therapy also has its

drawbacks. For those seeking other, proven treatment options, I recommend Targis™ treatment.

The Targis treatment is the best new approach I've seen in years. While other approaches have had mixed results, I believe that Targis treatment offers a solution that is superior to other therapies in terms of outcomes, minimal complications and convenience. I've found the system's four years of clinical data very persuasive. And, Urologix has been very helpful in providing information, training, reimbursement services and clinical support.

Because I'm able to offer the Targis System, certain changes have taken place in my practice. I now have a treatment solution to offer my BPH patients who are seeking a one-time, non-surgical option. Those who have undergone the procedure are satisfied with the results. Today, patients recognize me as a leader in BPH treatment, and consequently, my practice is growing. – Dr. Michael Cupp, Associated Urologists, P.C., Columbia, Missouri



UROLOGIX
AND PHYSICIAN

PARTNERSHIP

Our goal is to provide physicians with the information they need to make a decision about the Targis System. Urologix provides training, local marketing and reimbursement support to ensure a smooth adoption of Targis treatment into physicians' practices.

– Bryan Shingleton
Account Development Specialist

– Charmaine Munt
Reimbursement Manager



We chose the Targis™ System because it offered long-term BPH symptom relief.

In a cost-conscious health care environment, medical groups must carefully assess any new technology before investing in it. Evaluation criteria include factors such as:

- Demonstrated efficacy of treatment;
- Reasonable reimbursement rates;
- Service and support; and
- A company committed to the evolution and development of its system.

At Florida Medical Development (FMD), we determined that the Targis treatment met all of these requirements, in addition to offering a superior treatment solution for BPH.

Prior to adopting the Targis System, we worked with Urologix throughout the decision-making process to develop cost, return-on-investment and cash flow models, and marketing plans. Treatment information was provided to our physicians as well as our patients.

A critical issue in the adoption of any new therapy is reimbursement. Urologix presented a case for reimbursement to local payors and offered us continuing administrative support and a database of reimbursement decisions across the nation.

The bottom line in FMD's decision was the need to satisfy our urologists' and hospitals' needs. In the end, we chose the Targis System because it offered long-term BPH symptom relief through a one-time, minimally invasive treatment. And Urologix continues to provide wide-ranging services and support, particularly in the areas of marketing and reimbursement.

Today, having used the Targis System for several months, the number of procedures we perform has risen significantly, indicating strong patient satisfaction and urologist approval. – Scott Green and Cary Kresge, Florida Medical Development, Orlando, Florida



UROLOGIX
AND MEDICAL GROUP

PARTNERSHIP

Our alignment with strategic business partners helps us develop local markets in a timely and cost-effective manner. The Urologix market development team harnesses our partners' local knowledge and understanding and combines it with Urologix clinical, reimbursement and marketing capabilities. Our collaborative approach creates results.

– Bill Schmitt
Market Development Manager

