

The cover features a blue rectangular bar at the top containing the text 'ASHS' in white. Below this bar, the year '2007' is written in blue. The background is a gradient from yellow at the top to orange at the bottom. A central 3D graphic consists of a vertical blue prism with a triangular top, from which several other blue prisms extend outwards, creating a star-like or branching structure.

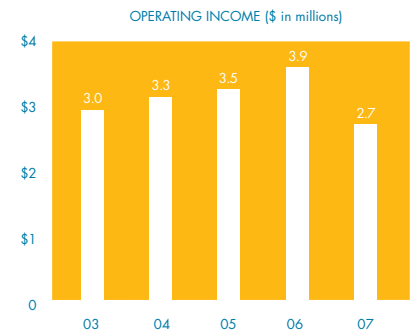
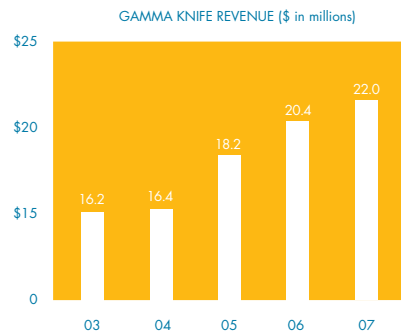
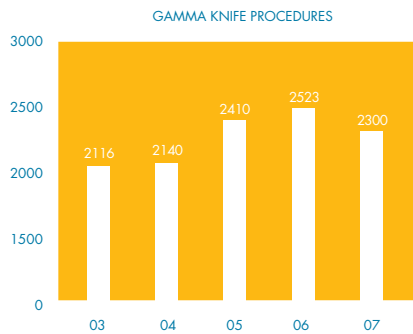
ASHS

2007

Making the Best Healthcare Technology Accessible

Helping Our Clinical Partners Lead the Way

American Shared makes the full spectrum of radiation therapy solutions available and accessible — helping our clinical partners take the lead with breakthrough technologies. Through our proven business model, we advance the quality of healthcare for patients nationwide.



Making the Best Healthcare Technology Accessible

To Our Shareholders

American Shared is on the forefront of a major clinical transition. New radiation oncology modalities are emerging with the potential to significantly improve patient outcomes in treating many formerly intractable cancers and other life-threatening conditions. We are helping to drive this transition by making revolutionary technology accessible and affordable to our clinical partners.

With over a decade of focusing on radiosurgery and cancer care, we are already positioned as the leader in creative financing for state-of-the-art technologies. Hence this shift gives us a huge long-term growth opportunity—with no need to change our existing business model.

Additionally, our interim position is strong. We have been profitable for 11 consecutive years, our cash flow is solid, and our cash position is substantial. For fiscal 2007, we did experience decreases of 5% in medical services revenue and 31% in operating income. However, these results were impacted by the expiration of one of our Gamma Knife contracts and downtime while upgrading another site.

Also last year, we suspended our cash dividend and used the resulting financial resources to take greater advantage of radiosurgery, radiation therapy and proton beam radiation therapy (PBRT) opportunities. Currently, 1,000 U.S. cancer centers have linear accelerators with advanced treatment capability, making them likely candidates for further advancement to PBRT. We have already obtained single-room PBRT contracts with Tufts Medical Center and Orlando Regional Healthcare System, Inc., M.D. Anderson Cancer Center Orlando (subject to FDA clearance).

2008 will be a transitional year for us, with some of our long-standing Gamma Knife contracts expiring and two units going out of service for upgrades. However, we anticipate strong results in the future as we build on our core Gamma Knife business with the following additional elements of our growth strategy:

- **New Gamma Knife projects:** We recently welcomed back our former clinical partner, USC University Hospital, for an upgrade to the new Gamma Knife Perfexion™ system.
- **Other Gamma Knife upgrades:** We anticipate additional upgrades by many of our existing sites to the new Perfexion system, yielding higher revenues.
- **South America expansion:** We have just signed a letter of intent to place a Gamma Knife system with Anglo-Americana Hospital in Peru and are exploring additional possibilities in the region.
- **Radiation therapy department upgrades:** The upgrade we recently completed for Tufts Medical Center is the first of many opportunities in this segment of our business.

I am confident that American Shared will emerge as the leader in the transition to PBRT and other groundbreaking radiation modalities, resulting in years of sustained growth. Thank you for your continued trust and support.



Ernest A. Bates, M.D. • Chairman & Chief Executive Officer

April 7, 2008

“Because we had such a positive experience when we originally leased our Gamma Knife from American Shared, we’ve returned for an upgrade to the new Perfexion system. We’re confident that American Shared will again bring us the capital and support we need to realize our goals.”

— Michael L.J. Apuzzo, M.D., Edwin M. Todd/Trent H. Wells, Jr. Professor, Neurological Surgery and Radiation Oncology, Biology and Physics; Neurosurgical Director of Radiosurgery Programs at Keck School of Medicine; Director, Gamma Knife Unit Facility, USC University Hospital

As the U.S. population ages, demand is increasing for the latest cancer treatment modalities. By 2020, the number of Americans diagnosed with cancer both currently in treatment and post-treatment will jump to 18.2 million, up from 11.7 million in 2005. An estimated \$75 billion will be spent for cancer treatment in 2007 alone, with radiation therapy prescribed in 60% of these cases.

At the same time these diagnoses are increasing, a new era is beginning in radiation oncology, with well-publicized breakthroughs that promise to dramatically improve treatment for many cancer patients. Recently, new technologies such as IMRT and IGRT have substantially improved the results of linear accelerator-generated radiation therapy. Now, the next major advance in radiation oncology is on the horizon: PBRT, which uses protons to deliver higher radiation doses to cancerous tumors while minimizing radiation of healthy tissue.

Medical centers are anxious to offer this and other groundbreaking technologies to remain state of the art and provide the best possible care for their patients. However, they face the challenge of extremely competitive market conditions and cost-containment pressures.

Through our creative financing solutions, American Shared is turning this challenge into an opportunity. We are helping our clinical partners upgrade to a full range of advanced medical devices, including radiation therapy equipment, treatment simulation and planning equipment and software, and diagnostic imaging equipment. The upgrade we recently completed at Tufts Medical Center—including an IGRT system and a planned introduction of PBRT in 2009 (pending FDA approval)—is a model for these types of transactions.

The image is a vertical collage of four panels. The top panel shows a close-up of a woman's face, smiling and looking upwards. The middle panel shows a healthcare professional in a blue uniform, also smiling. The bottom panel shows a close-up of hands, one in a white coat and one in a blue uniform, suggesting a medical or caregiving interaction. The overall color palette is dominated by blues and whites, with a focus on human connection and care.

IMPROVED
PATIENT
OUTCOMES:

*the Challenge
and the
Opportunity*

DRIVING
THE
TRANSITION:

*Making
Advanced
Modalities
Available*

“We operate in a highly competitive market. Having exceptional technology is a necessity. American Shared helped us offer the Gamma Knife, image-guided and stereotactic technology and, most importantly, helped us secure one of the country’s first newly advanced proton beams. American Shared has been a great partner in helping us reach our goals.”

—David Wazer, M.D., Radiation Oncologist-in-Chief, Tufts Medical Center

Introduced in the 1950s, PBRT has long been considered the clinical “gold” standard for radiation therapy, but at a huge cost: over \$100 million per multi-story, multi-room center. Now, single-room PBRT systems are being developed by Still River Systems Inc. and other manufacturers, with a pricetag of about \$20 million which means many more medical centers can consider this technology but will still require financing assistance.

American Shared is fast becoming a key player in this emerging market. To further capitalize on this opportunity, we increased our equity interest in Still River in 2007.

In addition, we are forming a new subsidiary, American Shared Proton Beam Services, to acquire PBRT systems from a variety of manufacturers and lease them to leading medical centers, tailoring the financial arrangements to meet individual requirements. This replicates the business model we have used since 1991 to become the leader in Gamma Knife ownership, with a current U.S. market share of approximately 20%.

We also offer an extensive slate of other “gold standard” radiation therapy solutions from a variety of manufacturers. Customers choose the equipment that best meets their individual needs.

Because the magnitude of expansion into PBRT and other breakthrough radiation modalities is significantly affected by validation of superior patient outcomes, American Shared supports clinical outcome studies at several of its major academic centers.

“We were convinced that we could not afford to allocate the capital costs to acquire the proton beam radiation therapy equipment our patients were demanding. American Shared changed all that. Their innovative financing packages gave us the flexibility and support to reach our goals.”

—Wayne Jenkins, M.D., MPH, Medical Director, M.D. Anderson Cancer Center Orlando

Since 1991, American Shared’s fee-per-use financing model has been the gateway to advanced therapeutic technologies. Under this model, we provide the capital and our clinical partners pay only when patients are treated. This enables them to quickly obtain desired technology and upgrades—without the worry of capital investment, fixed monthly payments, or technological obsolescence. As a result, they have the funds to address other pressing needs.

To ensure each partner has the best financing for their situation, we tailor financial arrangements to meet individual requirements. Typically, we acquire the equipment and pay maintenance costs, with the medical center paying for installation, professional and support staff, and other operational costs. However, we also offer other creative revenue sharing and turnkey solutions as needed.

At every step of the way, we function as a total business partner, including:

- Researching the full range of technology available from various manufacturers and helping our partners make the right equipment decisions
- Performing feasibility analyses to maximize success
- Helping to develop and execute customized marketing strategies

The relationships we have forged with our clinical partners—coupled with our distinctive financing packages—place us in an unmatched position to drive the transition to the newest modalities.



DRIVING
THE
TRANSITION:

*Making
Advanced
Radiation
Technology
Affordable*

FINANCIAL REVIEW

2007

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AMERICAN SHARED HOSPITAL SERVICES

Selected Financial Data

Summary of Operations

	Year Ended December 31,				
	(Amounts in thousands except per share data)				
	2007	2006	2005	2004	2003
Revenue	\$22,622	\$20,385	\$18,231	\$16,389	\$16,178
Costs of operations	13,354	10,365	9,072	7,887	7,400
Selling and administrative expense	4,646	3,995	3,613	2,963	3,255
Interest expense	1,946	2,161	2,075	2,261	2,547
Total expenses	19,946	16,521	14,760	13,111	13,202
Income from operations	2,676	3,864	3,471	3,278	2,976
Interest and other income	328	308	202	102	121
Minority interest expense	(1,134)	(1,314)	(1,126)	(983)	(928)
Income before income taxes	1,870	2,858	2,547	2,397	2,169
Income tax expense	919	1,202	780	412	787
Net income	\$ 951	\$ 1,656	\$ 1,767	\$ 1,985	\$ 1,382
Net income per common share:					
Basic	\$ 0.19	\$ 0.33	\$ 0.36	\$ 0.46	\$ 0.36
Diluted	\$ 0.19	\$ 0.33	\$ 0.35	\$ 0.39	\$ 0.27
Cash dividend declared					
per common share	\$0.0950	\$0.1900	\$0.1875	\$0.1725	\$0.2000
Dividend payout ratio (paid and declared)	0.50	0.58	0.54	0.44	0.74

See accompanying note⁽¹⁾

Balance Sheet Data

	As of December 31,				
	(Amounts in thousands)				
	2007	2006	2005	2004	2003
Cash and cash equivalents	\$ 6,340	\$ 3,952	\$ 1,298	\$ 8,121	\$ 10,312
Securities- current	2,605	1,574	4,537	957	—
Restricted cash	50	50	50	50	50
Working capital (deficit)	747	(541)	2,423	4,978	5,268
Securities- long-term	1,065	3,380	2,797	—	—
Total assets	63,044	50,905	48,668	47,367	46,304
Advances on line of credit	4,100	4,000	—	—	—
Current portion of long-term debt/capital leases	8,272	5,876	6,377	6,562	6,803
Long-term debt/capital leases, less current portion	24,004	15,189	18,705	18,924	20,114
Shareholders' equity	\$19,540	\$19,009	\$18,320	\$17,546	\$15,329

See accompanying note⁽¹⁾

⁽¹⁾ In October 1995, the Company entered into an operating agreement granting to American Shared Radiosurgery Services (a California corporation and a wholly-owned subsidiary of the Company) an 81% ownership interest in GK Financing, LLC. ASHS incorporated a new wholly-owned subsidiary, OR21, Inc. ("OR21") in November 1999, and a new wholly-owned subsidiary, MedLeader.com, Inc. ("MedLeader") in April 2000. Accordingly, the financial data for the Company presented above include the results of GKF, OR21 and MedLeader for 2003 through 2007.

AMERICAN SHARED HOSPITAL SERVICES

Management's Discussion and Analysis of Financial Condition and Results of Operations

Application of Critical Accounting Policies

The Company's consolidated financial statements are prepared in accordance with generally accepted accounting principles and follow general practices within the industry in which it operates. Application of these principles requires management to make estimates, assumptions and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions and judgments are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates, assumptions and judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. Estimates, assumptions and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by other third-party sources when available. When third-party information is not available, valuation adjustments are estimated in good faith by management primarily through the use of internal cash flow modeling techniques.

The most significant accounting policies followed by the Company are presented in Note 2 to the consolidated financial statements. These policies along with the disclosures presented in the other financial statement notes and in this discussion and analysis, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts, and the methods, assumptions and estimates underlying those amounts, management has identified the determination of the allowance for doubtful accounts and revenue recognition to be two areas that required the most subjective or complex judgments, and as such could be most subject to revision as new information becomes available. The following are our critical accounting policies in which management's estimates, assumptions and judgments most directly and materially affect the financial statements:

Revenue Recognition

The Company has one revenue-generating activity, which consists of equipment leasing to hospitals, and includes the operation of Gamma Knife units by GKF and the operation of an IGRT site by ASHS.

Revenue is recognized when services have been rendered and collectibility is reasonably assured, on either a fee per use or revenue sharing basis. The Company has contracts with fourteen fee per use hospitals and six retail hospitals. Under both of these types of agreements, the hospital is responsible for billing patients and collection of fees for services performed. Revenue associated with installation of the Gamma Knife and IGRT units, if any, is a part of the negotiated lease amount and not a distinctly identifiable amount. The costs, if any, associated with installation of the units are amortized over the period of the related lease to match revenue recognition of these costs.

For fee per use agreements, revenue is not estimated because these contracts provide for a fixed fee per procedure, and are typically for a ten year term. Revenue is recognized at the time the procedures are performed, based on each hospital's contracted rate. There is no guaranteed minimum payment. Costs related to operating the units are charged to costs of operations as incurred, which approximates the recognition of the related revenue. Revenue under fee per use agreements is recorded on a gross basis.

ASHS has one agreement and GKF has five agreements that are based on revenue sharing. These can be further classified as either "turn-key" arrangements or "net revenue sharing" arrangements. For GKF's four turn-key sites, GKF is solely responsible for the costs to acquire and install the Gamma Knife. In return, GKF receives payment from the hospital in the amount of its

AMERICAN SHARED HOSPITAL SERVICES

Management's Discussion and Analysis of Financial Condition and Results of Operations

reimbursement from third party payors. Revenue is recognized by the Company during the period in which the procedure is performed, and is estimated based on what can be reasonably expected to be paid by the third party payor to the hospital. The estimate is primarily determined from historical experience and hospital contracts with third party payors. These estimates are reviewed on a regular basis and adjusted as necessary to more accurately reflect the expected payment amount. The Company also records an estimate of operating costs associated with each procedure during the period in which the procedure is performed. Costs are determined primarily based on historical treatment protocols and cost schedules with the hospital. The Company's estimated operating costs are reviewed on a regular basis and adjusted as necessary to more accurately reflect the actual operating costs. Revenue for turn-key sites is recorded on a gross basis, and the operating expenses the Company reimburses to the hospital are recorded in other operating costs.

Under net revenue sharing arrangements the hospital shares in the responsibility and risk with the Company for the capital investment to acquire and install the equipment. Unlike our turn-key arrangement, the lease payment under a net revenue sharing arrangement is a percentage of revenue less operating costs. Payments are made by the hospital, generally on a monthly basis, to GKF based on an agreed upon percentage allocation of income remaining after all operating expenses are deducted from cash collected. Revenue is recognized during the period in which procedures are performed, and is determined based on the net reimbursement amount that the Company expects to receive from the hospital for those procedures. Under the net revenue sharing arrangement, the percent of revenue received is recorded net of costs to provide the treatment. This estimate is reviewed on a regular basis and adjusted as necessary to more accurately reflect the expected payment amount.

Revenue from retail arrangements amounted to approximately 32%, 34% and 29% of revenue for the years ended December 31 2007, 2006 and 2005, respectively.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is estimated based on possible losses relating to the Company's revenue sharing customers. The Company receives reimbursement from the customer based on the customer's collections from individuals and third-party payors such as insurance companies and Medicare. Receivables are charged against the allowance in the period that they are deemed uncollectible.

If the Company's net accounts receivable estimates for revenue sharing customers as of December 31, 2007 changed by as much as 10% based on actual collection information, it would have the effect of increasing or decreasing revenue by approximately \$289,000.

General

For the year ended December 31, 2007, 97% of the Company's revenue was derived from its Gamma Knife business, and the remaining 3% from its IGRT business. For the years ended December 31, 2006 and 2005, 100% of the Company's revenue was derived from its Gamma Knife business.

Total Revenue

(in thousands)	2007	Increase (Decrease)	2006	Increase (Decrease)	2005
Total revenue	\$22,622	11.0%	\$20,385	11.8%	\$18,231

Total revenue increased 11% in 2007 compared to 2006, primarily due to \$3,200,000 of equipment sales revenue, which was generated by the sale of a new Gamma Knife unit to an existing Gamma Knife customer in fourth quarter 2007 near the end of the Company's lease with the customer. The revenue increase was also partially due to the addition of the Company's first contract to provide IGRT services in third quarter 2007, which was partially offset by the termination of another Gamma Knife contract at the end of its term in third quarter 2007.

AMERICAN SHARED HOSPITAL SERVICES

Management's Discussion and Analysis of Financial Condition and Results of Operations

IGRT Revenue

In September 2007, the equipment provided under the Company's contract for IGRT services at an existing Gamma Knife customer became operational, and medical services revenue for IGRT services provided \$566,000 in revenue for the year.

Gamma Knife Revenue

Total Gamma Knife revenue for 2007 increased 8.2% to \$22,056,000 compared to \$20,835,000 in 2006. The revenue for 2007 includes \$3,200,000 of equipment sales revenue, which was generated by the sale of a new Gamma Knife unit to an existing Gamma Knife customer in fourth quarter 2007 near the end of the Company's lease with the customer. Revenue from this equipment sale is not considered medical services revenue, and is not included in the table below.

	2007	Increase (Decrease)	2006	Increase (Decrease)	2005
Medical services revenue (in thousands)	\$18,856	(7.5%)	\$20,385	11.8%	\$18,231
Number of Gamma Knife procedures	2,335	(8.9%)	2,563	6.3%	2,410
Average revenue per procedure	\$ 8,075	1.5%	\$ 7,954	5.1%	\$ 7,565

Medical services revenue from Gamma Knife operations decreased \$1,529,000 in 2007 compared to 2006, and increased \$2,154,000 in 2006 compared to 2005. The 2007 decrease was due to the termination of one Gamma Knife contract at the end of its term in third quarter 2007 and a 6% decrease in revenue from Gamma Knife units in operation more than one year. The 2006 increase compared to 2005 was primarily due to the full year inclusion of three new Gamma Knife units that began operation during 2005 and an increase in the average revenue per procedure, primarily at some of the Company's revenue sharing sites. The Company had twenty, twenty-one and twenty-one Gamma Knife units in operation at December 31, 2007, 2006 and 2005, respectively.

The number of Gamma Knife procedures in 2007 decreased by 228 compared to 2006 due to the termination of one Gamma Knife contract at the end of its term in third quarter 2007 and a 7% decrease in procedures from Gamma Knife units in operation more than one year. The number of Gamma Knife procedures in 2006 increased by 153 compared to 2005 primarily due to the full year inclusion of three Gamma Knife units that began operation during 2005 and a 2% increase in procedures from Gamma Knife units in operation more than one year.

Revenue per procedure increased by \$121 in 2007 and increased by \$389 in 2006 compared to the prior years, respectively. The Company's contracts generally have different procedure rates because their investment basis varies, so revenue per procedure can vary year to year depending primarily on the mix of procedures performed at certain locations. In addition to this normal variation in the procedure mix, the increase in 2007 was also due to the termination of a Gamma Knife contract during 2007 that had a lower than average per procedure rate. The increase per procedure in 2006 was primarily due to higher average procedure rates at the Company's turn-key retail sites and a higher mix of revenue generated by the retail sites compared to fee per use sites.

Costs of Operations

(in thousands)	2007	Increase (Decrease)	2006	Increase (Decrease)	2005
Costs of operations	\$13,354	28.8%	\$10,365	14.3%	\$9,072
Percentage of total revenue	59.0%		50.8%		49.8%

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Management's Discussion and Analysis of Financial Condition and Results of Operations

The Company's costs of operations, consisting of cost of equipment sales, maintenance and supplies, depreciation and amortization, and other operating expenses (such as insurance, property taxes, sales taxes, marketing costs and operating costs from the Company's retail sites) increased \$2,989,000 in 2007 compared to 2006, and increased \$1,293,000 in 2006 compared to 2005.

In 2007 costs of operations included \$3,394,000 in cost of equipment sales, compared to no cost in 2006 and 2005. Cost of equipment sales is specific to equipment sales revenue, and represents approximately 15% of total revenue in 2007.

The Company's maintenance and supplies costs were 6% of total revenue in each of the years 2007, 2006 and 2005. Maintenance and supplies costs decreased \$11,000 in 2007 compared to 2006, and increased \$260,000 in 2006 compared to 2005. The decrease in 2007 compared to 2006 was primarily caused by the end of one maintenance contract due to the termination of the customer lease, and the discontinuance of another maintenance contract where the equipment came under warranty due to a Perfexion Gamma Knife upgrade. These decreases were partially offset by contract price increases at several other sites. The increase in 2006 compared to 2005 was primarily due to the expiration of the warranty period on three Gamma Knife units and the full year inclusion of one Gamma Knife unit where the warranty period expired during 2005.

Depreciation and amortization increased \$128,000 in 2007 compared to 2006, and increased \$470,000 in 2006 compared to 2005. The increase in 2007 was primarily due to the addition of one IGRT system in the third quarter, the replacement of one Gamma Knife unit to a Perfexion unit in the fourth quarter, and the cobalt reload of another Gamma Knife unit in the third quarter. The increase was partially offset by depreciation ending on one Gamma Knife unit due to the end of lease termination of a customer contract. The increase in 2006 was primarily due to the full year's inclusion of depreciation from three Gamma Knife units that started operation during 2005, and the upgrade and/or cobalt reload on two existing Gamma Knife units in 2006.

Other direct operating costs as a percentage of medical services revenue were 12%, 16% and 14% in 2007, 2006 and 2005, respectively. The decrease of \$522,000 in 2007 compared to 2006 was primarily due to reduced marketing and promotion costs at the operations level and lower property tax, sales/use tax and other local tax expense. The increase of \$563,000 in 2006 compared to 2005 was primarily due to higher operating costs related to an increase in the number of procedures performed at two of the Company's turn-key retail locations.

Selling and Administrative

(in thousands)	2007	Increase (Decrease)	2006	Increase (Decrease)	2005
Selling and administrative costs	\$4,646	16.3%	\$3,995	10.6%	\$3,613
Percentage of revenue	20.5%		19.6%		19.8%

The Company's selling and administrative costs increased \$651,000 in 2007 compared to 2006, and increased \$382,000 in 2006 compared to 2005. The increase in 2007 compared to 2006 was primarily due to increased payroll related costs of approximately \$227,000 and business development costs of approximately \$178,000. The Company increased spending in these areas primarily due to its attempt to develop the PBRT business. In addition, audit and accounting fees increased approximately \$190,000, and consulting and other fees increased approximately \$211,000. These increases were partially offset by reduced legal fees and contributions of approximately \$79,000 and \$72,000, respectively, compared to the prior year. The increase in 2006 compared to 2005 was due to increased legal, accounting and consulting fees of approximately \$234,000 and payroll related costs of approximately \$346,000, primarily bonuses paid for the development of the proton beam business. These increases were partially offset by lower business meeting and other business development costs. Costs to develop the Company's OR21 business decreased \$82,000, and there was no Gamma Knife User's Meeting in 2006, unlike 2005 when the Company spent \$42,000 for its second such meeting.

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Management's Discussion and Analysis of Financial Condition and Results of Operations

Interest Expense

(in thousands)	2007	Increase (Decrease)	2006	Increase (Decrease)	2005
Interest expense	\$1,946	(9.9%)	\$2,161	4.1%	\$2,075
Percentage of revenue	8.6%		10.6%		11.4%

The Company's interest expense decreased \$215,000 in 2007 compared to 2006, and increased \$86,000 in 2006 compared to 2005. The decrease in 2007 was due to lower interest expense on the Company's more mature Gamma Knife units and the completion of debt service on two Gamma Knife units. This was partially offset by additional interest expense from financing a Perfexion Gamma Knife unit at one site, financing the IGRT system at another site, and increased interest expense on borrowing under the Company's line of credit with a bank. The increase in 2006 was primarily due to interest expense from borrowing under the Company's line of credit which offset lower interest expense from financing on the Company's Gamma Knife units. Interest expense on the more mature units is lower than newer units because interest expense decreases with each principal payment.

Other Income and Expense

(in thousands)	2007	Increase (Decrease)	2006	Increase (Decrease)	2005
Interest and other income	\$ 328	6.5%	\$ 308	52.5%	\$ 202
Percentage of revenue	1.4%		1.5%		1.1%
Minority interest expense	\$(1,134)	(13.7%)	\$(1,314)	16.7%	\$(1,126)
Percentage of revenue	(5.0)%		(6.4)%		(6.2)%

Interest and other income increased \$20,000 in 2007 compared to 2006 and increased \$106,000 in 2006 compared to 2005. The increase in 2007 was primarily due to higher invested cash balances and higher interest rates on those investments. The increase was partially offset by a loss on disposal of assets of \$186,000 upon the termination of a customer contract. The increase in 2006 compared to 2005 was primarily due to investment in longer term holdings with higher interest rates available compared to prior years.

Minority interest decreased \$180,000 in 2007 and increased \$188,000 in 2006 compared to the prior year, respectively. Minority interest represents the pre-tax income earned by the minority partner's 19% interest in GKF. The decrease or increase in minority interest reflects the relative profitability of GKF.

Income Taxes

(in thousands)	2007	Increase (Decrease)	2006	Increase (Decrease)	2005
Income tax expense	\$919	(23.5%)	\$1,202	54.1%	\$780
Percentage of revenue	4.1%		5.9%		4.3%

Income tax expense decreased \$283,000 in 2007 compared to 2006, and increased \$422,000 in 2006 compared to 2005. The Company's income tax expense decreased in 2007 compared to 2006 primarily because of reduced income before income taxes, although the effective income tax rate increased to an estimated 49% for 2007 compared to 42% in 2006. The increase in the effective rate is primarily due to higher state income taxes at the subsidiary level where separate state returns are required and net operating loss carryforwards cannot be applied. The Company recorded an estimated 42% effective income tax provision for 2006, a 5% increase over the estimated income tax provision for 2005. The increase is primarily due to an increase in estimated state income taxes in those states where separate state returns are required. The

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Management's Discussion and Analysis of Financial Condition and Results of Operations

Company's estimated 37% estimated income tax provision for 2005 was reduced to an effective rate of 31% by a \$193,000 income tax benefit from the exercise of options to purchase 264,000 common shares. The income tax benefit was the result of compensation expense that was recognized when these options for common shares were granted in 1995.

The Company anticipates that it will continue to record income tax expense if it operates profitably in the future. Currently there are state income tax payments required for most states in which the Company operates. However there are minimal current federal income tax payments required due to net operating loss carryforwards and other deferred tax assets available for tax purposes.

The Company had a net operating loss carryforward for federal income tax return purposes at December 31, 2007 of approximately \$7,461,000.

Net Income

(In thousands, except per share amounts)	2007	Increase (Decrease)	2006	Increase (Decrease)	2005
Net income	\$ 951	(42.6)%	\$1,656	(6.3)%	\$1,767
Net income per share, diluted	\$0.19	(42.4)%	\$ 0.33	(5.7)%	\$ 0.35

The Company had net income of \$951,000 in 2007 compared to \$1,656,000 in 2006 and \$1,767,000 in 2005. Net income for 2007 was lower than 2006 primarily because of reduced medical services revenue, partially due to the loss of one Gamma Knife customer in late third quarter 2007. It was also partially due to a loss on the sale of equipment and higher selling and administrative costs primarily from increased payroll, business developments costs, accounting and consulting fees. Net income for 2006 included increased operating income of \$393,000, an 11.3% increase compared to 2005, which was generated primarily by a revenue increase of 11.8%. An increase of \$422,000 in the income tax provision for 2006 compared to 2005 more than offset the operating income increase, causing a decrease in net income of \$111,000.

Liquidity and Capital Resources

The Company had cash and cash equivalents of \$6,340,000 at December 31, 2007 compared to \$3,952,000 at December 31, 2006. A large part of the increase in cash is due to a \$1,284,000 reduction in the Company's position in marketable securities, which it converted to cash. This is reflected on the balance sheet as a decrease of \$2,315,000 in long term securities partially offset by an increase of \$1,031,000 in short term securities as of December 31, 2007, compared to the prior year. The increase is also due to cash generated from operations and financing on cash deposits the Company made in the prior year towards the purchase of new equipment. The Company's expected primary cash needs on both a short and long-term basis are for capital expenditures, business expansion, working capital and other general corporate purposes.

Securities represents a portion of the Company's cash that is invested in high-quality short to long-term fixed income marketable securities in order to maximize income on its available cash. Securities with maturity dates between three and twelve months in the amount of \$2,605,000 are classified as current assets. Securities in the amount of \$1,065,000 have maturities in excess of one year and are classified as long-term. It is the Company's intent to hold these securities until maturity.

Restricted cash of \$50,000 at December 31, 2007 reflects cash that may only be used for the operations of GKF.

The Company has a \$6,000,000 line of credit with a bank, secured by its cash and securities. The line of credit has been in place since June 2004 and is renewable annually. As of December 31, 2007, there was \$4,100,000 borrowed against the line of credit. The Company believes it has the ability, and it is the Company's intention, to renew the line of credit at its maturity in 2008.

AMERICAN SHARED HOSPITAL SERVICES

Management's Discussion and Analysis of Financial Condition and Results of Operations

Operating activities provided cash of \$8,484,000 in 2007, which is primarily due to net income of \$951,000, depreciation and amortization of \$6,111,000 and an increase in the minority interest of \$1,134,000. The Company's trade accounts receivable increased to \$4,486,000 at December 31, 2007 from \$4,248,000 at December 31, 2006, primarily due to additional revenue from the Company's new IGRT site, which is a retail site. Retail sites generally have longer collection periods than fee per use sites. This is the primary reason there is an increase to 98 days in the number of days revenue (sales) outstanding ("DSO") in accounts receivable as of December 31, 2007 compared to 81 days as of December 31, 2006. We expect DSO to fluctuate in the future depending on timing of customer payments received and the mix of fee per use versus retail customers.

Investing activities used \$15,666,000 of cash in 2007 primarily due to the Company's acquisition of property and equipment of \$16,333,000, which included the installation of a Perfexion Gamma Knife unit, progress payments towards two additional Perfexion units scheduled for installation in 2008, an upgrade and cobalt reload at another existing Gamma Knife site, the installation of an IGRT system, and additional progress payments towards the purchase of two proton beam units.

Financing activities provided \$9,570,000 of cash during 2007, primarily due to long term debt financing on the purchase of property and equipment of \$16,997,000. This was partially offset by principal payments on long-term debt of \$4,777,000, principal payments towards capital leases of \$1,009,000, distributions to minority owners of \$1,096,000 and the payment of dividends of \$715,000.

The Company had working capital at December 31, 2007 of \$747,000 compared to a working capital deficit of \$541,000 at December 31, 2006 primarily due to increased cash, securities and accounts receivable, which more than offset a \$2,313,000 increase in current portion of long-term debt.

The Company primarily invests its cash in money market or similar funds and high quality short to long-term securities in order to minimize the potential for principal erosion. Cash is invested in these funds pending use in the Company's operations. The Company believes its cash position is adequate to service the Company's cash requirements in 2008.

The Company finances all of its Gamma Knife and radiation therapy units, and anticipates that it will continue to do so with future contracts. During 2003 the Company's primary lender, DVI, filed for Chapter 11 bankruptcy protection. The principal balances of notes held by DVI were transferred to a third party lender as successor servicer, and the Company continues to make payments on several outstanding note balances serviced by this third party lender. Since that time, the Company has secured financing for its projects from other lenders and anticipates that it will be able to secure financing on future projects from these or other lending sources, but there can be no assurance that financing will continue to be available on acceptable terms. The Company meets all debt covenants required under notes with its lenders, and expects that any covenants required by future lenders will be acceptable to the Company.

Impact of Inflation and Changing Prices

The Company does not believe that inflation has had a significant impact on operations because a substantial majority of the costs that it incurs under its customer contracts are fixed through the term of the contract.

Contractual Obligations, Commitments, Contingent Liabilities and Off Balance Sheet Arrangements

The following table presents, as of December 31, 2007, the Company's significant fixed and determinable contractual obligations by payment date. The payment amounts represent those amounts contractually due to the recipient and do not

AMERICAN SHARED HOSPITAL SERVICES

Management's Discussion and Analysis of Financial Condition and Results of Operations

include any unamortized premiums or discounts, hedge basis adjustments, or other similar carrying value adjustments. Further discussion of the nature of each obligation is included in the referenced note to the consolidated financial statements.

Contractual Obligations	Payments Due by Period				
	Total amounts committed	Less than 1 year	1–3 years	4–5 years	After 5 years
Long-term debt (includes interest)	\$32,712,000	\$ 8,685,000	\$19,109,000	\$3,536,000	\$1,382,000
Capital leases (includes interest)	4,435,000	1,355,000	2,791,000	289,000	—
Line of credit	4,100,000	4,100,000	—	—	—
Future equipment purchases ⁽¹⁾	22,400,000	—	22,400,000	—	—
Operating leases	978,000	289,000	688,000	1,000	—
Total contractual obligations	\$64,625,000	\$14,429,000	\$44,988,000	\$3,826,000	\$1,382,000

⁽¹⁾ The Company has deposits toward the purchase of three Gamma Knife units and two Monarch^{250™} proton beam units as of December 31, 2007. Funding from interim financing has been obtained for approximately \$7,600,000 of the \$30,000,000 total equipment purchase commitments, and is included in long term debt. For the two Monarch^{250™} units specifically, the Company has a commitment to total deposits of \$3,000,000 per machine until FDA approval is received, at which time the remaining balance is committed. Interim financing has been obtained for \$1,000,000 per machine towards these purchases. For two of the Gamma Knife units, financing commitments are in place. Financing has not yet been obtained for the third Gamma Knife unit, but is anticipated pending final site selection. For all equipment in this classification, term financing for these purchases will not be finalized until 2008 or later, and therefore an accurate determination of payments by period cannot be made as of December 31, 2007. For purposes of this table, these commitments are listed in the 1-3 year category.

Further discussion of the long-term debt commitment is included in Note 5, capital leases in Note 6, and operating leases in Note 12 of the consolidated financial statements.

The Company has no significant off-balance sheet arrangements.

Quantitative and Qualitative Disclosures About Market Risk

The table below presents information about certain market-sensitive financial instruments as of December 31, 2007. The fair values were determined based on quoted market prices for the same or similar instruments.

We do not hold or issue derivative instruments for trading purposes and are not a party to any instruments with leverage or prepayment features.

(amounts in thousands)	Maturity Date, Year ending December 31						Total	Fair Value
	2008	2009	2010	2011	2012	Thereafter		
Fixed-rate long-term debt and present value of capital leases	\$8,273	\$12,109	\$4,475	\$2,733	\$1,869	\$2,817	\$32,276	\$32,288
Average interest rates	8.1%	8.1%	8.0%	8.0%	8.0%	8.0%	8.0%	

At December 31, 2007, we had no significant long-term, market-sensitive investments.

We have no affiliation with partnerships, trust or other entities whose purpose is to facilitate off-balance sheet financial transactions or similar arrangements, and therefore have no exposure to the financing, liquidity, market or credit risks associated with such entities.

AMERICAN SHARED HOSPITAL SERVICES

Consolidated Balance Sheets

	December 31,	
	2007	2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,340,000	\$ 3,952,000
Securities	2,605,000	1,574,000
Restricted cash	50,000	50,000
Trade accounts receivable, net of allowance for doubtful accounts of \$170,000 in 2007 and 2006	4,886,000	4,248,000
Other receivables	250,000	102,000
Prepaid expenses and other current assets	417,000	598,000
Current deferred tax assets	301,000	601,000
Total current assets	14,849,000	11,125,000
PROPERTY AND EQUIPMENT, net	44,226,000	34,166,000
SECURITIES	1,065,000	3,380,000
INVESTMENT IN PREFERRED STOCK	2,617,000	2,000,000
OTHER ASSETS	287,000	234,000
	\$63,044,000	\$50,905,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 795,000	\$ 340,000
Accrued interest and other liabilities	793,000	1,095,000
Employee compensation and benefits	142,000	116,000
Accrued dividends	—	239,000
Advances on line of credit	4,100,000	4,000,000
Current portion of long-term debt	7,180,000	4,867,000
Current portion of capital leases	1,092,000	1,009,000
Total current liabilities	14,102,000	11,666,000
LONG-TERM DEBT, less current portion	21,285,000	11,378,000
LONG-TERM CAPITAL LEASES, less current portion	2,719,000	3,811,000
DEFERRED INCOME TAXES	2,245,000	1,996,000
MINORITY INTEREST	3,153,000	3,045,000
SHAREHOLDERS' EQUITY		
Common stock, no par value		
Authorized—10,000,000 shares; Issued and outstanding shares—5,026,000 in 2007 and 5,023,000 in 2006	9,320,000	9,317,000
Additional paid-in capital	4,304,000	4,251,000
Retained earnings	5,916,000	5,441,000
Total shareholders' equity	19,540,000	19,009,000
	\$63,044,000	\$50,905,000

See accompanying notes

AMERICAN SHARED HOSPITAL SERVICES

Consolidated Statements of Income

	Years Ended December 31,		
	2007	2006	2005
Revenue:			
Medical services	\$19,422,000	\$20,385,000	\$18,231,000
Equipment sales	3,200,000	—	—
	22,622,000	20,385,000	18,231,000
Costs of revenue:			
Cost of equipment sales	3,394,000	—	—
Maintenance and supplies	1,284,000	1,295,000	1,035,000
Depreciation and amortization	5,993,000	5,865,000	5,395,000
Other direct operating costs	2,683,000	3,205,000	2,642,000
	13,354,000	10,365,000	9,072,000
Gross margin	9,268,000	10,020,000	9,159,000
Selling and administrative expense	4,646,000	3,995,000	3,613,000
Interest expense	1,946,000	2,161,000	2,075,000
Operating income	2,676,000	3,864,000	3,471,000
Interest and other income	328,000	308,000	202,000
Minority interest expense	(1,134,000)	(1,314,000)	(1,126,000)
Income before income taxes	1,870,000	2,858,000	2,547,000
Income tax expense	919,000	1,202,000	780,000
Net Income	\$ 951,000	\$ 1,656,000	\$ 1,767,000
Earnings per common share—basic	\$ 0.19	\$ 0.33	\$ 0.36
Earnings per common share—diluted	\$ 0.19	\$ 0.33	\$ 0.35

See accompanying notes

AMERICAN SHARED HOSPITAL SERVICES

Consolidated Statement of Shareholders' Equity

Three Years Ended December 31, 2007

	Common Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Total
Balances at January 1, 2005	4,776,000	\$9,238,000	\$4,410,000	\$3,898,000	\$17,546,000
Options exercised	357,000	157,000	445,000	—	602,000
Repurchase of stock options	(114,000)	(89,000)	(581,000)	—	(670,000)
Dividends	—	—	—	(925,000)	(925,000)
Net income	—	—	—	1,767,000	1,767,000
Balances at December 31, 2005	5,019,000	9,306,000	4,274,000	4,740,000	18,320,000
Options exercised	5,000	11,000	—	—	11,000
Common stock withheld on option exercises	(1,000)	—	(6,000)	—	(6,000)
Stock based compensation expense	—	—	39,000	—	39,000
Excess tax benefit from share-based payment arrangements	—	—	(56,000)	—	(56,000)
Dividends	—	—	—	(955,000)	(955,000)
Net income	—	—	—	1,656,000	1,656,000
Balances at December 31, 2006	5,023,000	9,317,000	4,251,000	5,441,000	19,009,000
Options exercised	2,000	3,000	—	—	3,000
Common stock withheld on option exercises	(1,000)	—	(3,000)	—	(3,000)
Stock based compensation expense	2,000	—	69,000	—	69,000
Excess tax benefit from share-based payment arrangements	—	—	(13,000)	—	(13,000)
Dividends	—	—	—	(476,000)	(476,000)
Net income	—	—	—	951,000	951,000
Balances at December 31, 2007	5,026,000	\$9,320,000	\$4,304,000	\$5,916,000	\$19,540,000

See accompanying notes

AMERICAN SHARED HOSPITAL SERVICES

Consolidated Statements of Cash Flows

	Years Ended December 31,		
	2007	2006	2005
OPERATING ACTIVITIES			
Net income	\$ 951,000	\$ 1,656,000	\$ 1,767,000
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	6,111,000	5,963,000	5,502,000
Loss on disposal of assets	186,000	3,000	—
Deferred income tax	536,000	852,000	121,000
Stock-based compensation expense	69,000	39,000	—
Minority interest in consolidated subsidiaries	1,134,000	1,314,000	1,126,000
Changes in operating assets and liabilities:			
Receivables	(786,000)	(331,000)	(1,069,000)
Prepaid expenses and other assets	104,000	(212,000)	95,000
Accounts payable and accrued liabilities	179,000	(120,000)	938,000
Net cash from operating activities	8,484,000	9,164,000	8,480,000
INVESTING ACTIVITIES			
Payment for purchase of property and equipment	(16,333,000)	(3,606,000)	(4,455,000)
Proceeds from sales and maturities of marketable securities	3,023,000	7,728,000	957,000
Investment in marketable securities	(1,739,000)	(5,348,000)	(7,334,000)
Investment in convertible preferred stock	(617,000)	(2,000,000)	—
Proceeds from sale of assets	—	20,000	—
Net cash from investing activities	(15,666,000)	(3,206,000)	(10,832,000)
FINANCING ACTIVITIES			
Principal payments on long-term debt	(4,777,000)	(5,631,000)	(7,122,000)
Principal payments on capital leases	(1,009,000)	(918,000)	(297,000)
Long term debt financing on purchase of property and equipment	16,997,000	992,000	5,275,000
Advances on line of credit	2,725,000	5,100,000	—
Payments on line of credit	(2,625,000)	(1,100,000)	—
Payment of dividends	(715,000)	(954,000)	(902,000)
Distributions to minority owners	(1,026,000)	(798,000)	(912,000)
Proceeds from exercise of stock options	—	5,000	157,000
Repurchase of stock options	—	—	(670,000)
Net cash from financing activities	9,570,000	(3,304,000)	(4,471,000)
Net change in cash and cash equivalents	2,388,000	2,654,000	(6,823,000)
CASH AND CASH EQUIVALENTS, beginning of year	3,952,000	1,298,000	8,121,000
CASH AND CASH EQUIVALENTS, end of year	\$ 6,340,000	\$ 3,952,000	\$ 1,298,000
SUPPLEMENTAL CASH FLOW DISCLOSURE			
Interest paid	\$ 2,431,000	\$ 2,161,000	\$ 2,075,000
Income taxes paid	\$ 504,000	\$ 350,000	\$ 229,000
SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Accrued dividends	\$ —	\$ 239,000	\$ 238,000
Income tax benefit from stock option exercise recorded to Additional paid-in capital	\$ (13,000)	\$ (56,000)	\$ 445,000
Acquisition of equipment with capital lease financing	\$ —	\$ 1,540,000	\$ 1,740,000

See accompanying notes

AMERICAN SHARED HOSPITAL SERVICES

Notes to Consolidated Financial Statements

Note 1—Business and Basis of Presentation

Business American Shared Hospital Services (the “Company”), a California corporation, provides Leksell Gamma Knife® (“Gamma Knife”) units to twenty medical centers in Arkansas, California, Connecticut, Florida, Illinois, Maryland, Massachusetts, Mississippi, Nevada, New Jersey, New Mexico, New York, Ohio, Oklahoma, Pennsylvania, Tennessee, Texas and Wisconsin. The Company also provides Image Guided Radiation Therapy and related equipment to one medical center in Massachusetts.

The Company (through American Shared Radiosurgery Services (“ASRS”)) and Elekta AB, the manufacturer of the Gamma Knife (through its wholly owned United States subsidiary GKV Investments, Inc. (“GKV”)), entered into an operating agreement and formed GK Financing, LLC (“GKF”). GKF is a non-exclusive provider of alternative financing services for Elekta Gamma Knife units in the United States and Brazil.

OR21, Inc., is a wholly-owned subsidiary of the Company that will provide the product “The Operating Room for the 21st Century®”, which is currently under development.

MedLeader.com, Inc., is a wholly-owned subsidiary of the Company that will provide continuing medical education online and through videos for doctors, nurses and other healthcare workers. This subsidiary is not operational at this time.

The consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries, OR21, Inc., MedLeader.com, Inc., ASRS and its majority-owned subsidiary, GK Financing, LLC.

All significant intercompany accounts and transactions have been eliminated in consolidation.

Note 2—Accounting Policies

Use of estimates in the preparation of financial statements In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents The Company considers all liquid investments with original maturities of three months or less at the date of purchase to be cash equivalents. Restricted cash is not considered a cash equivalent for purposes of the consolidated statements of cash flows.

Securities The Company invests excess cash in short to long term fixed income marketable securities. It is the Company’s intent and ability to hold these securities until maturity and they are therefore regarded as *held-to-maturity* investments. As of December 31, 2007, the cost of these securities approximated fair market value, and they ranged in maturity up to approximately thirteen months. The value of those securities with maturity dates greater than one year are considered long-term securities and are classified accordingly on the balance sheet.

Restricted cash Restricted cash represents the minimum cash that, by agreement, must be maintained in GKF to fund operations.

Business and credit risk The Company maintains its cash balances, which exceed federally insured limits, in financial institutions. Additionally the Company’s securities are invested in short to long term fixed income securities that are not insured. The Company has not experienced any losses and believes it is not exposed to any significant credit risk on cash, cash equivalents and securities.

AMERICAN SHARED HOSPITAL SERVICES

Notes to Consolidated Financial Statements

All of the Company's revenue is provided by twenty customers. These customers constitute accounts receivable at December 31, 2007. The Company performs credit evaluations of its customers and generally does not require collateral. The Company has not experienced significant losses related to receivables from individual customers or groups of customers in any particular geographic area.

Accounts receivable and doubtful accounts Accounts receivable are recorded at net realizable value. An allowance for doubtful accounts is estimated based on historical collections plus an allowance for probable losses. Receivables are considered past due based on contractual terms and are charged off in the period that they are deemed uncollectible. Recoveries of receivables previously charged off are recorded when received.

Accounting for majority-owned subsidiary The Company accounts for GKF as a consolidated entity due to its 81% majority-equity interest.

Property and equipment Property and equipment are stated at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives of the assets, which for medical and office equipment is generally 3–15 years. The Company capitalized interest of \$457,000 and \$53,000 in 2007 and 2006, respectively, as costs of medical equipment.

The Company leases Gamma Knife and radiation therapy equipment to its customers under arrangements accounted for as operating leases. At December 31, 2007, the Company held equipment under operating lease contracts with customers with an original cost of \$62,749,000 and accumulated depreciation of \$29,996,000. At December 31, 2006, the Company held equipment under operating lease contracts with customers with an original cost of \$57,628,000 and accumulated depreciation of \$29,493,000.

Investment in convertible preferred stock The Company has convertible preferred stock representing a 7.6% interest in Still River Systems, Inc., and accounts for this investment under the cost method. The Company reviews its investment in Still River for impairment on a quarterly basis, or as events or circumstances might indicate that the carrying value of the investment may not be recoverable.

Revenue recognition Revenue is recognized when services have been rendered and collectibility is reasonably assured. There are no guaranteed minimum payments. The Company's contracts are typically for a ten year term and are classified as either fee per use or retail. Retail arrangements are further classified as either turn-key or net revenue sharing. Revenue from fee per use contracts is recorded on a gross basis as determined by each hospital's contracted rate. Under turn-key arrangements, the Company receives payment from the hospital in the amount of its reimbursement from third party payors, and is responsible for paying all the operating costs of the Gamma Knife. Revenue is recorded on a gross basis and estimated based on historical experience and hospital contracts with third party payors. For net revenue sharing arrangements the Company receives a contracted percentage of the reimbursement received by the hospital less the operating expenses of the Gamma Knife. Revenue is recorded on a net basis and estimated based on historical experience. Any revenue estimates are reviewed periodically and adjusted as necessary. Revenue recognition is consistent with guidelines provided under EITF 99-19.

Income taxes The Company accounts for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Earnings per share Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the year. Diluted earnings per share reflect the potential dilution that could occur if common shares were issued pursuant to the exercise of options or warrants. The

AMERICAN SHARED HOSPITAL SERVICES

Notes to Consolidated Financial Statements

following table illustrates the computations of basic and diluted earnings per share for the years ended December 31, 2007, 2006 and 2005.

	2007	2006	2005
Numerator for basic and diluted earnings per share	\$ 951,000	\$1,656,000	\$1,767,000
Denominator:			
Denominator for basic earnings per share— weighted-average shares	5,025,000	5,022,000	4,931,000
Effect of dilutive securities			
Employee stock options	17,000	28,000	160,000
Denominator for diluted earnings per share—adjusted weighted-average shares	5,042,000	5,050,000	5,091,000
Earning per share—basic	\$ 0.19	\$ 0.33	\$ 0.36
Earning per share—diluted	\$ 0.19	\$ 0.33	\$ 0.35

In 2007 options outstanding to purchase 436,000 shares of common stock at an exercise price range of \$2.76—\$6.50 per share were not included in the calculation of diluted earnings per share as the exercise price of the options was greater than the average market price of common stock during the year.

In 2006 options outstanding to purchase 6,500 shares of common stock at an exercise price of \$6.45 per share were not included in the calculation of diluted earnings per share as the exercise price of the options was greater than the average market price of common stock during the year.

In 2005, options outstanding to purchase 76,000 shares of common stock at an exercise price range of \$6.16—\$6.45 per share were not included in the calculation of diluted earnings per share as the exercise price of the options was greater than the average market price of common stock during the year.

Reclassifications Certain reclassifications have been made to the 2006 balances to conform with the 2007 presentation.

Stock-based compensation On June 28, 2006, the Company's shareholders approved the 2006 Stock Incentive Plan (the "2006 Plan") under which 750,000 shares of the Company's common stock are reserved for issuance of shares to officers of the Company, other key employees, non-employee directors, and advisors. The 2006 Plan serves as successor to the Company's previous two stock-based employee compensation plans, the 1995 and 2001 Stock Option Plans. The share reserve under those two plans, including the shares of common stock subject to currently outstanding options under the plans, were transferred to the 2006 Plan, and no further grants or share issuances will be made under the 1995 Plan or 2001 Plans. Under the 2006 Plan, there are 2,000 restricted stock units granted, consisting of annual automatic grants to non-employee directors, and approximately 568,000 options granted, of which approximately 96,000 options are vested, as of December 31, 2007.

Through 2005, the Company accounted for these plans using the intrinsic value method prescribed by APB Opinion No. 25, Accounting for Stock Issued to employees, and related Interpretations. No stock-based employee compensation cost was reflected in net income as all options granted under those plans had an exercise price greater than or equal to the market value of the underlying common stock on the date of grant.

On January 1, 2006, in accordance with Statement of Financial Accounting Standards No. 123(R), *Share-Based Payments* ("SFAS123(R)"), the Company began expensing the fair value of its stock options issued, using the modified prospective

AMERICAN SHARED HOSPITAL SERVICES

Notes to Consolidated Financial Statements

format. The Company's stock-based awards to employees are calculated using the Black-Scholes valuation model. The Company's stock-based awards have characteristics significantly different from those of traded options, and changes in the subjective input assumptions can materially affect the present value estimates. The fair value of the Company's option grants issued during 2007 and 2006 were estimated using weighted-average assumptions for expected life, volatility, dividend yield, forfeiture rate, and risk-free interest rate which are specific to each award as summarized in the table in Note 9. The estimated fair value of the Company's options is amortized over the period during which the optionee is required to provide service in exchange for the award, usually the vesting period. Accordingly, stock-based compensation cost before income tax effect in the amount of approximately \$69,000 and \$39,000 is reflected in 2007 and 2006 net income, respectively.

SFAS123(R) requires that excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid. There were approximately 426,000 options issued during 2007.

Pro forma information regarding net income and earnings per share was required by SFAS 123 for awards granted after December 31, 1995 through December 31, 2005, as if the Company had accounted for its stock-based awards to employees under the fair value method of SFAS 123. The fair value of the Company's stock-based awards to employees was estimated using a Black-Scholes option pricing model.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS123(R) to stock-based employee compensation in 2005. For pro forma purposes, the estimated fair value of the Company's options is amortized over the options' vesting period, which is generally from one to five years.

	Years Ended December 31,		
	2007	2006	2005
Net income, as reported	\$ 951,000	\$ 1,656,000	\$ 1,767,000
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards (Note 9), net of related tax effects	—	—	(36,000)
Proforma net income	\$ 951,000	\$ 1,656,000	\$ 1,731,000
Earnings per share:			
Basic—as reported	\$ 0.19	\$ 0.33	\$ 0.36
Basic—pro forma	\$ 0.19	\$ 0.33	\$ 0.35
Diluted—as reported	\$ 0.19	\$ 0.33	\$ 0.35
Diluted—pro forma	\$ 0.19	\$ 0.33	\$ 0.34

Fair value of financial instruments The carrying amounts of financial instruments, including cash and cash equivalents, securities, restricted cash, accounts receivable, accounts payable, and other accrued liabilities approximated their fair value as of December 31, 2007 and 2006 because of the relatively short maturity of these instruments. The fair value of the Company's various debt obligations, discounted at currently available interest rates was approximately \$32,288,000 and \$21,038,000 at December 31, 2007 and 2006, respectively.

Business segment information The Company, which engages in the business of leasing radiosurgery and radiation therapy equipment to health care providers, has one reportable segment, Medical Services Revenue.

Recent accounting pronouncements Effective January 1, 2007, the Company adopted Financial Accounting Standards Interpretation, No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109" (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement

AMERICAN SHARED HOSPITAL SERVICES

Notes to Consolidated Financial Statements

of uncertain tax positions taken or expected to be taken in a company's income tax return, and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

The cumulative effect of adopting FIN 48 is recognized as a change in accounting principle, and any adjustment required as the result of adoption would be recorded as an adjustment to the opening balance of retained earnings on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized no change in the liability for unrecognized tax benefits related to tax positions taken in prior periods, and no corresponding change in retained earnings.

Additionally, FIN 48 specifies that tax positions for which the timing of the ultimate resolution is uncertain should be recognized as long-term liabilities. The Company made no reclassifications between current taxes payable and long term taxes payable upon adoption of FIN 48. Also, the Company had no amounts of unrecognized tax benefits that, if recognized, would affect its effective income tax rate for January 1, 2007 and December 31, 2007.

The Company's policy for deducting interest and penalties is to treat interest as interest expense and penalties as taxes. As of December 31, 2007 the Company had no amount accrued for the payment of interest and penalties related to unrecognized tax benefits and no amounts as of the adoption date of FIN 48.

The tax return years 2003 through 2007 remain open to examination by the major domestic taxing jurisdictions to which the Company is subject. Net operating losses generated on a tax return basis by the Company in 1995 through 1997 and 1999 through 2004 remain open to examination by the major domestic taxing jurisdictions.

Note 3—Property and Equipment

Property and equipment consists of the following:

	December 31,	
	2007	2006
Medical equipment and facilities	\$66,562,000	\$61,828,000
Office equipment	699,000	515,000
Deposits and construction in progress	6,947,000	2,137,000
Deposits towards purchase of proton beam systems	2,000,000	1,000,000
	76,208,000	65,480,000
Accumulated depreciation	(31,982,000)	(31,314,000)
Net property and equipment	\$44,226,000	\$34,166,000

As of December 31, 2007, the Company has equipment that is secured under capitalized leases with a total cost of approximately \$10,085,000, which is included in Medical equipment and facilities, and associated accumulated depreciation totaling approximately \$5,829,000.

As of December 31, 2007, the Company has \$2,000,000 in deposits toward the purchase of two Monarch²⁵⁰ proton beam radiation therapy (PBRT) systems from Still River Systems, a development-stage company. The Company has a commitment to total deposits of \$3,000,000 per machine until FDA approval is received, at which time the remaining balance is committed. The Still River PBRT system is not commercially proven and there is no assurance FDA approval will be received. The Company reviews the carrying value of these deposits for impairment on a quarterly basis, or as events or circumstances might indicate that the carrying value may not be recoverable.

AMERICAN SHARED HOSPITAL SERVICES

Notes to Consolidated Financial Statements

Note 4—Convertible Preferred Stock Investment

On April 10, 2006 the Company invested \$2,000,000 for a convertible preferred stock interest in Still River Systems, Inc. ("Still River"), a development-stage company based in Littleton, Massachusetts, which in collaboration with scientists from MIT's Plasma Science and Fusion Center, is developing a medical device for the treatment of cancer patients using proton beam radiation therapy ("PBRT"). The Company also purchased for \$1,000,000 an option to acquire two Monarch^{250T} PBRT systems from Still River for anticipated delivery in 2009. The PBRT systems are not currently FDA approved.

The Company's initial investment in Still River consisted of approximately 2,353,000 shares of Series B Convertible Preferred Stock. The Series B Convertible Preferred Stock is considered pari passu with previously issued Series A Convertible Preferred Stock.

On September 5, 2007 the Company invested approximately \$617,000 for an additional equity interest in Still River Systems, Inc. This investment represents approximately 588,000 shares of Series C Convertible Preferred Stock, which is considered pari passu with the previously issued Series A and Series B Convertible Preferred Stock (all issues together "Preferred Stock"). Upon conversion, the investments increases the Company's common stock interest in Still River to approximately 7.6%.

The Preferred Stock is convertible at any time at the option of the holder into shares of common stock of Still River at a conversion price, subject to certain adjustments, but initially set at the original purchase price. The Preferred Stock has voting rights equivalent to the number of common stock shares into which it is convertible, and holders of the Preferred Stock, subject to certain exceptions, have a pro-rata right to participate in subsequent stock offerings. In the event of liquidation, dissolution, or winding up of Still River, the Preferred Stock holders have preference to the holders of common stock, and any other class or series of stock that is junior to the Preferred Stock. The Company does not have a Board of Directors seat with Still River.

The Company accounts for its investment in Still River under the cost method.

Note 5—Long-Term Debt

Long-term debt consists primarily of 21 notes with financing companies, related to Gamma Knife and radiation therapy equipment construction and installation, totaling \$28,465,000. These notes accrue interest at fixed annual rates between 7.79% and 9.95%, are payable in 60 to 84 monthly installments, mature between June 2008 and October 2014, and are collateralized by the respective Gamma Knife units and radiation therapy equipment. As of December 31, 2007 and December 31, 2006 the Company was in compliance with all debt covenants required under notes with its lenders. The following are contractual maturities of long-term debt by year at December 31, 2007:

Year ending December 31,	
2008	\$ 7,180,000
2009	11,220,000
2010	3,732,000
2011	1,928,000
2012	1,587,000
Thereafter	2,818,000
	<hr/>
	\$28,465,000

Note 6—Obligations Under Capital Leases

The Company has four capital lease obligations with three financing companies, collateralized by Gamma Knife equipment having an aggregate net book value of approximately \$4,256,000 at December 31, 2007. These obligations have stated

AMERICAN SHARED HOSPITAL SERVICES

Notes to Consolidated Financial Statements

interest rates ranging between 7.74% and 8.04%, are payable in 42 to 84 monthly installments, and mature between June 2009 and September 2012.

Future minimum lease payments, together with the present value of the net minimum lease payments under capital leases at December 31, 2007, are summarized as follows:

Year ending December 31,	Net Present Value of Minimum Lease Payments
2008	\$1,355,000
2009	1,067,000
2010	862,000
2011	862,000
2012	289,000
Total capital lease payments	4,435,000
Less imputed interest	624,000
	3,811,000
Less current portion	1,092,000
	\$2,719,000

Note 7—Income Taxes

Significant components of the Company's deferred tax liabilities and assets as of December 31, 2007 and 2006 are as follows:

	December 31,	
	2007	2006
Deferred tax liabilities:		
Fixed assets	\$(5,231,000)	\$(5,658,000)
Total deferred tax liabilities	(5,231,000)	(5,658,000)
Deferred tax assets:		
Net operating loss carryforwards	2,531,000	3,289,000
Accrued reserves	209,000	323,000
Other—net	547,000	651,000
Total deferred tax assets	3,287,000	4,263,000
Net deferred tax liabilities	\$(1,944,000)	\$(1,395,000)

These amounts are presented in the financial statements as follows:

	December 31,	
	2007	2006
Current deferred tax assets	\$ 301,000	\$ 601,000
Deferred income taxes (non-current)	(2,245,000)	(1,996,000)
	\$(1,944,000)	\$(1,395,000)

AMERICAN SHARED HOSPITAL SERVICES

Notes to Consolidated Financial Statements

The components of the provision for income taxes consist of the following:

	Years Ended December 31,		
	2007	2006	2005
Current:			
Federal	\$ 82,000	\$ (8,000)	\$449,000
State	379,000	357,000	210,000
Total current	461,000	349,000	659,000
Deferred:			
Federal	469,000	810,000	(74,000)
State	(11,000)	43,000	195,000
Total deferred	458,000	853,000	121,000
	\$919,000	\$1,202,000	\$780,000

The provision for income taxes differs from the amount computed by applying the U.S. federal statutory tax rate (34% in 2007, 2006 and 2005) to income before taxes as follows:

	Years Ended December 31,		
	2007	2006	2005
Computed expected federal income tax	\$630,000	\$ 972,000	\$866,000
State income taxes, net of federal benefit	216,000	400,000	167,000
Stock options	—	—	(193,000)
Other	73,000	(170,000)	(60,000)
	\$919,000	\$1,202,000	\$780,000

At December 31, 2007, the Company had net operating loss carryforwards for federal income tax return purposes of approximately \$7,461,000 which expire between 2019 and 2024. Net operating loss carryforwards for California franchise/income tax return purposes are negligible. The Company's ability to utilize its net operating loss carryforwards and other deferred tax assets may be limited in the event of a 50% or more ownership change within any three-year period.

Note 8—Minority Interest

The Minority interest liability reflects the 19% interest by the minority partner in the Company's GK Financing, LLC subsidiary. The balance increases (decreases) by the minority partner's share of the earnings (losses) in GK Financing, LLC, and is reduced by any cash distributions made to the minority partner, per the following table:

	Years Ended December 31,		
	2007	2006	2005
Beginning balance	\$3,045,000	\$2,529,000	\$2,315,000
Minority interest in GKF net income	1,134,000	1,314,000	1,126,000
Less: cash distributions	(1,026,000)	(798,000)	(912,000)
Minority interest	\$3,153,000	\$3,045,000	\$2,529,000

AMERICAN SHARED HOSPITAL SERVICES

Notes to Consolidated Financial Statements

Note 9—Shareholders' Equity

2006 Stock Incentive Plan

The Company's 2006 Stock Incentive Plan (the "2006 Plan"), provides for nonqualified stock options, qualified (or incentive stock options) and stock grants. Under the 2006 Plan, 750,000 common shares are reserved for awards to employees, non-employee members of the board of directors, and consultants and advisors to the Company. The Company had two previous stock option plans under which active options had been granted, the 1995 Stock Option Plan and the 2001 Stock Option Plan. Shares reserved under these two plans were transferred to the 2006 Plan upon its approval by the shareholders in June 2006, and those two plans are no longer active. Provisions of the 2006 Plan include an automatic annual grant to each non-employee director of options to purchase up to 2,000 shares on the date of the Company's Annual Shareholder Meeting, at an exercise price equal to the market price of the Company's common shares on that date, and an automatic annual grant of 500 restricted stock units of the Company's common shares. Options and restricted stock units awarded under the automatic annual grant program for non-employee directors vest after one year. Other options may vest fully and immediately, or over periods of time as determined by the Plan Administrator, but no longer than seven years from the grant date. Options currently awarded under the 2006 Plan vest over a period of 5 years.

As of December 31, 2007, 4,000 restricted stock units have been granted and approximately 568,000 stock options are issued and outstanding under the 2006 Plan, of which approximately 126,000 shares were transferred from the previous plans. There have been no restricted stock units awarded outside the automatic grant program for non-employee directors.

Changes in options outstanding under the Stock Option Plans from January 1, 2005 to December 31, 2007 are as follows:

Options	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Balance at January 1, 2005	168,000	\$2.27		
Granted	83,000	\$6.12		
Exercised	(93,000)	\$1.67		
Forfeited	(11,000)	\$4.07		
Balance at December 31, 2005	147,000	\$5.03		
Granted	17,000	\$6.23		
Exercised	(6,000)	\$2.00		
Forfeited	(9,000)	\$5.88		
Balance at December 31, 2006	149,000	\$5.23		
Granted	426,000	\$3.34		
Exercised	(2,000)	\$1.69		
Forfeited	(5,000)	\$6.45		
Balance at December 31, 2007	568,000	\$3.82	6.51	\$ —
Exercisable at December 31, 2007	96,000	\$4.81	6.85	\$ —

The weighted average grant-date fair value of the options granted during the years 2007, 2006 and 2005 was \$1.24, \$2.61 and \$1.52, respectively. The total intrinsic value of options exercised during the years ended December 31, 2007, 2006 and 2005 was \$3,000, \$11,000 and \$154,000, respectively.

AMERICAN SHARED HOSPITAL SERVICES

Notes to Consolidated Financial Statements

Cash received from options exercised under all share-based payment arrangements for the years ended December 31, 2007, 2006 and 2005 was \$0, \$11,000 and \$157,000, respectively. The actual tax benefit realized for the tax deductions from option exercise of the share-based payment arrangements totaled \$0, \$0 and \$193,000, respectively for the years ended December 31, 2007, 2006 and 2005.

A summary of the status of the Company's non-vested shares as of December 31, 2007, and changes during the years ended December 31, 2007 and December 31, 2006 is presented below:

Nonvested Shares	Number of Options	Weighted Average Grant-Date Fair Value
Nonvested at January 1, 2006	87,000	\$1.45
Granted	17,000	\$2.61
Vested	(22,000)	\$1.53
Forfeited	(9,000)	\$1.47
Nonvested at January 1, 2007	73,000	\$1.80
Granted	426,000	\$1.24
Vested	(23,000)	\$1.75
Forfeited	(4,000)	\$1.65
Nonvested at December 31, 2007	472,000	\$1.30

At December 31, 2007 there was approximately \$479,000 of unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the 2006 Plan. This cost is expected to be recognized over a period of approximately five years.

Shares and Options Issued to Officer

On August 15, 1995, the Company's Chairman and Chief Executive Officer was granted a ten-year, immediately exercisable option to purchase 1,495,000 common shares for an exercise price of \$.01 per share for which the Company recorded compensation expense of \$2,414,000. These options were granted to the officer as final consideration for personal guarantees of credit facilities and for continued employment with the Company. All options granted under the plan were exercised prior to the termination of the plan according to its terms on August 15, 2005. The officer exercised 264,000 during 2005. The exercise in 2005 resulted in a \$445,000 increase in paid in capital and a \$616,000 increase in deferred tax assets.

The following table summarizes information about all options outstanding at December 31, 2007:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
2.760—3.036	370,000	6.92	2.87	—	—
3.000—4.100	39,000	1.92	3.21	39,000	3.21
4.570—5.500	21,000	6.46	5.29	16,000	5.25
6.160—6.500	138,000	6.72	6.29	41,000	6.17
\$1.688—6.500	568,000	6.85	\$3.82	96,000	\$4.81

AMERICAN SHARED HOSPITAL SERVICES

Notes to Consolidated Financial Statements

At December 31, 2007 and 2006, 96,000 and 76,000 options, respectively, were vested and exercisable. Automatic option awards issued to non-employee directors vest one year after their issuance. The vesting period for all other options issued under the Company's plans is determined by the Board of Directors at the time the options are issued. Discretionary options awarded during 2007 and 2006 vest over a five year period.

The Black-Scholes options valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, the Black-Scholes model requires the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock-based awards to employees have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock-based awards to employees.

The fair value of the Company's option grants under the 2006 Plan in 2007 and 2006 and the 1995 and 2001 Plans in 2005 was estimated assuming the following weighted-average assumptions:

	2007	2006	2005
Expected life (years)	7.0	10.0	10.0
Expected forfeiture rate	0.0—8.5%	5.0—8.5%	
Expected volatility	25.0—72.5%	25.0—72.5%	25.0%
Dividend yield	3.4%	3.0%	3.1%
Risk-free interest rate	4.9—5.4%	4.9—5.1%	4.3%

Repurchase of Common Stock, Common Stock Warrants and Stock Options

In 1999 and 2001, the Board of Directors approved resolutions authorizing the Company to repurchase up to a total of 1,000,000 shares of its own stock on the open market. There have been no shares repurchased on the open market since the year ending December 31, 2001.

The Company withheld 1,000 shares during each of 2007 and 2006 upon the exercise of options by corporate officers to pay the exercise price of the shares and the withholding taxes associated with the exercises. The value of the exercise price is recorded as a reduction to common stock, and the difference between the exercise price and the market price at the time of exercise is recorded as a reduction to paid-in-capital.

Dividends

In 2007 the Company paid quarterly dividends of \$0.0475 per share in January, April and July, after which time the Board of Directors suspended payment of dividends to conserve cash for growth. During 2006, the Company paid quarterly dividends of \$0.0475 per share in January, April, July and October. In January, April, July and October of 2005 the Company paid dividends of \$0.045, \$0.045, \$0.0475 and \$0.0475 per share respectively.

Note 10—Retirement Plan

The Company has a defined-contribution retirement plan (the "Plan") that allows for a matching safe harbor contribution. For 2007, the Board of Directors elected to match participant deferred salary contributions up to a maximum of 4% of the participant's annual compensation. Matching contributions must be invested initially in shares of the Company's stock. Discretionary profit sharing contributions are allowed under the Plan in years that the Board does not elect a safe harbor match. The Company contributed \$42,000 to the Plan for the safe harbor match for each of the years ended December 31, 2006 and December 31, 2005. The Company has accrued approximately \$46,000 for the estimated safe harbor matching contribution for the year ended December 31, 2007.

AMERICAN SHARED HOSPITAL SERVICES

Notes to Consolidated Financial Statements

Note 11—Equipment Sales Revenue

In 2007 The Company agreed to sell to one of its existing Gamma Knife customers, one of the four Perfexion Gamma Knife units it had committed to purchase from the manufacturer, and this sale is recorded as Equipment sales revenue. The Company's lease with the customer was amended to allow for the sale of the equipment and also allow for the lease revenue to the Company to continue under similar terms until the lease expired in January 2008. The net cost of the equipment purchased and the remaining net book value of the equipment that was traded in was recorded in Cost of equipment sales.

Note 12—Operating Leases

The Company leases office space and equipment under operating leases expiring at various dates through 2011.

Future minimum payments under noncancelable operating leases having initial terms of more than one year consisted of the following at December 31, 2007:

Year ending December 31,	
2008	289,000
2009	289,000
2010	281,000
2011	118,000
2012	1,000
	<hr/>
	\$978,000

Payments for repair and maintenance agreements incorporated in operating lease agreements are included in the future minimum operating lease payments shown above.

Rent expense was \$381,000, \$360,000, and \$386,000 for the years ended December 31, 2007, 2006 and 2005, respectively, and includes the above operating leases as well as month-to-month rental and certain executory costs.

The Company subleases a portion of its office space to two third parties for approximately \$1,000 per month under month-to-month sublease agreements.

Note 13—Commitments and Contingencies

The Company has commitments to purchase three Gamma Knife units and two PBRT systems totaling approximately \$30,000,000. At December 31, 2007 the Company has made deposits and progress payments totaling approximately \$8,200,000 towards the purchase of this equipment. Two of the Gamma Knife units are expected to be installed in 2008, with the third one anticipated for 2008 or 2009. The two PBRT systems also have anticipated delivery in 2009, depending on FDA approval and other milestones. The deposits and progress payments are classified as deposits and construction in progress under Property and Equipment.

Note 14—Major Customers

Revenue from the Company's Gamma Knife segment were provided by twenty-one customers in each of the years 2007, 2006 and 2005. In each of the years 2007 and 2006 one customer accounted for approximately 13% of total revenue. No individual customer exceeded 10% of the Company's total revenue in 2005.

Note 15—Quarterly financial Data (unaudited)

AMERICAN SHARED HOSPITAL SERVICES

Notes to Consolidated Financial Statements

The following table sets forth the selected unaudited quarterly information for the Company's last eight fiscal quarters. This information has been prepared on the same basis as the Consolidated Financial Statements and all necessary adjustments (which consisted only of normal recurring adjustments) have been included in the amounts stated below to present fairly the results of such periods when read in conjunction with the Consolidated Financial Statements and related notes included elsewhere herein.

	Quarter Ended (in 000's, except per share data)			
	Mar. 31, 2006	Jun. 30, 2006	Sep. 30, 2006	Dec. 31, 2006
Revenue	\$5,045	\$5,309	\$5,238	\$4,793
Gross margin	2,423	2,634	2,649	2,314
Income before income taxes	720	734	708	696
Net income	436	448	425	347
Earnings per common share:				
Basic	\$ 0.09	\$ 0.09	\$ 0.08	\$ 0.07
Diluted	\$ 0.09	\$ 0.09	\$ 0.08	\$ 0.07

	Quarter Ended			
	Mar. 31, 2007	Jun. 30, 2007	Sep. 30, 2007	Dec. 31, 2007
Revenue	\$4,749	\$4,910	\$4,652	\$8,311
Gross margin	2,230	2,446	2,156	2,436
Income before income taxes	420	532	507	411
Net income	225	280	268	178
Earnings per common share:				
Basic	\$ 0.04	\$ 0.06	\$ 0.05	\$ 0.04
Diluted	\$ 0.04	\$ 0.06	\$ 0.05	\$ 0.04

Note 16—Subsequent Events

In March 2008, the Company entered into a new customer contract to provide Gamma Knife equipment under a fee per use leasing arrangement. The equipment is expected to be installed in 2008.

In March 2008, one existing Gamma Knife customer who has an early termination provision in its lease, chose to exercise that provision, which is effective as of March 25, 2008. A payment for the buyout and certain other matters are still being finalized as of the date of filing these financial statements.

In March 2008, Still River presented an additional offering of their convertible preferred stock, which is pari passu with its previous offerings. The Company chose not to participate in this offering, which reduced its interest in Still River convertible preferred stock to approximately 6.1%.

AMERICAN SHARED HOSPITAL SERVICES

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
American Shared Hospital Services

We have audited the accompanying consolidated balance sheets of American Shared Hospital Services as of December 31, 2007 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board of the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Shared Hospital Services at December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2007 in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2006, the Company changed its method of accounting for share-based payment agreements to conform to Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*.

/S/ MOSS ADAMS LLP

San Francisco, California
March 31, 2008

AMERICAN SHARED HOSPITAL SERVICES

Market for Registrant's Common Equity and Related Stockholder Matters

The Company's common shares, no par value (the "Common Shares"), are currently traded on the American Stock Exchange. During 2007 the Company was granted its request to withdraw from the NYSE Arca Exchange, following its filing a Form 25 with the Securities and Exchange Commission. The table below sets forth the high and low closing sale prices of the Common Shares of the Company on the American Stock Exchange Consolidated Reporting System for each full quarter for the last two fiscal years.

Prices for Common Shares

	Quarter Ending	
	High	Low
March 31, 2006	\$6.95	\$5.90
June 30, 2006	\$7.35	\$6.11
September 30, 2006	\$6.56	\$5.50
December 31, 2006	\$6.90	\$6.10
March 31, 2007	\$5.91	\$6.68
June 30, 2007	\$6.39	\$5.80
September 30, 2007	\$6.00	\$3.65
December 31, 2007	\$4.00	\$1.85

The Company estimates that there were approximately 2,500 beneficial holders of its Common Shares at December 31, 2007.

The Board of Directors authorized in March 1999 the repurchase of up to 500,000 shares of the Company's Common Stock in the open market from time to time at prevailing prices. Approximately 484,000 shares have been repurchased in the open market pursuant to that authorization at a cost of approximately \$1,213,000, although no shares have been repurchased in the open market since 2001. The Board of Directors on February 2, 2001 authorized the repurchase of up to another 500,000 shares of the Company's common stock in the open market from time to time at prevailing prices. No shares have been repurchased under this additional authorization.

During 2007 holders of options to acquire the Company's common stock exercised their respective rights pursuant to such securities, resulting in the Company issuing 1,000 new shares of common stock. In addition, 2,000 new shares of common stock were issued to the Company's board of directors, from stock grants that vested in 2007.

On March 22, 1999 the Company adopted a Shareholder Rights Plan ("Plan"). Under the Plan, the Company made a dividend distribution of one Right for each outstanding share of the Company's common stock as of the close of business on April 1, 1999. The Rights become exercisable only if any person or group, with certain exceptions, becomes an "acquiring person" (acquires 15 percent or more of the Company's outstanding common stock) or announces a tender or exchange offer to acquire 15 percent or more of the Company's outstanding common stock. The Company's Board of Directors adopted the Plan to protect shareholders against a coercive or inadequate takeover offer. The Board of Directors is not aware that any person or group intends to make a takeover offer for the Company.

At December 31, 2007 the Company had 5,026,587 issued and outstanding common shares, 568,180 common shares reserved for options, 1,500 restricted stock units issued and 5,596 shares reserved pursuant to the Company's Shareholder Rights Plan.

During 2007, shareholders of record on January 2, 2007, April 2, 2007 and July 2, 2007 were paid quarterly dividends of \$0.0475 per common share on January 15, 2007, April 16, 2007 and July 16, 2007, respectively. Subsequently, the Board of Directors suspended dividends for the purpose of preserving cash for the development of its PBRT business. During 2006, shareholders of record as of January 3, 2006, April 3, 2006, July 3, 2006 and October 2, 2006 were paid quarterly dividends of \$0.0475 per common share on January 18, 2006, April 17, 2006, July 14, 2006 and October 16, 2006. The Board of Directors evaluates the Company's level of earnings, balance sheet position, availability of cash and expected future cash requirements on a quarterly basis to determine its dividend policy. The Company did not pay cash dividends prior to 2001.

CORPORATE INFORMATION

Corporate Headquarters

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Registrar & Transfer Agent

American Stock Transfer &
Trust Company
59 Maiden Lane, Plaza Level
New York, NY 10038
Tel: 800.937.5449

Independent Auditors

Moss Adams LLP
Stockton, CA

Counsel

Davis Polk & Wardwell
Menlo Park, CA

Annual Shareholders' Meeting

June 20, 2008
9:00 AM Pacific Time
The Ritz Carlton
600 Stockton Street
San Francisco, CA 94108

Form 10-K

A copy of our annual report
on Form 10-K as filed with
the Securities and Exchange
Commission may be obtained
without charge by contacting
us at 415.788.5300.

Directors

Ernest A. Bates, M.D.
Chairman of the Board

Olin C. Robison
President Emeritus
Salzburg Seminar
President Emeritus
Middlebury College
Middlebury, VT

John F. Ruffle
Retired Former
Vice-Chairman of the Board
J.P. Morgan & Co. Inc.
New York, NY

Stanley S. Trotman, Jr.
Retired Former Managing Director
Healthcare Group
PaineWebber Incorporated
New York, NY

Officers

Ernest A. Bates, M.D.
Chief Executive Officer

Craig K. Tagawa
Chief Operating Officer
Chief Financial Officer

Ernest R. Bates
Vice President
Sales and Business Development

Norman A. Houck
Vice President
Controller

Willie R. Barnes
Corporate Secretary

This report may be deemed to contain certain forward-looking statements with respect to the financial condition, results of operations and future plans of American Shared Hospital Services, which involve risks and uncertainties including, but not limited to, the risks of the Gamma Knife business, the risks of developing the Company's IMRT and The Operating Room for the 21st Century[®] programs, and the risks of investing in a development-stage company, Still River Systems, without a proven commercial product. Further information on potential factors that could affect the financial condition, results of operations and future plans of American Shared Hospital Services is included in the Company's filings with the Securities and Exchange Commission, including the Company's Annual Report on Form 10-K for the year ended December 31, 2007, and the definitive Proxy Statement for the Annual Meeting of Shareholders held on June 20, 2008.

American Shared Hospital Services

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