Advancing Healthcare through Total Radiation Therapy Solutions

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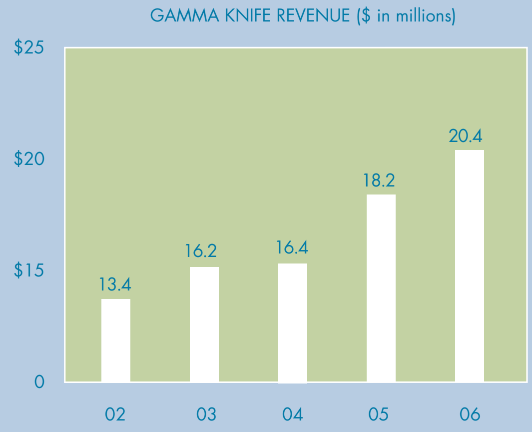
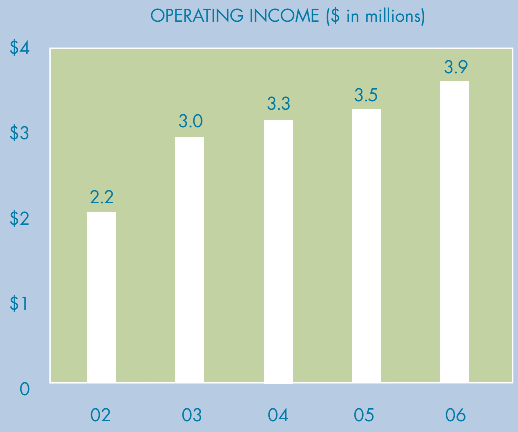
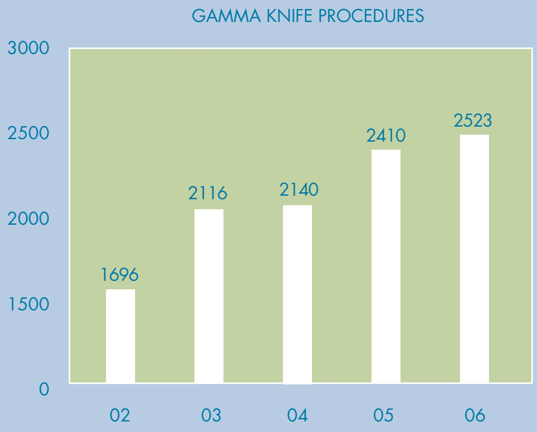
American Shared's vision is to advance the quality of healthcare by providing a full range of radiation therapy solutions for our clinical partners – from diagnostic imaging, to treatment simulation and planning, to treatment delivery. Today, we are making this vision a reality through new technologies and partnerships.







TO OUR SHAREHOLDERS

During fiscal 2006, American Shared made significant strides toward implementing an exciting new business model – providing a full range of radiation therapy solutions for our business partners. We believe this new direction will strongly enhance our opportunities for long-term growth.

At the same time, we continued to deliver record financial results. Our revenues climbed $2.2 million – a 12% gain over fiscal 2005. Further, our operating income grew 11% over 2005 to $3.9 million. Our annual dividend payment increased from 18 1/2 cents to 19 cents, and our common share price rose from $6.28 to $6.65 – resulting in an 8.9% total shareholder return.

Our first step toward implementing this model was last year's equity investment in Still River Systems, Inc., the manufacturer of a new, single-room Proton Beam Radiation Therapy (PBRT) system. In recent months, we have signed contracts to provide this new PBRT system for both Tufts-New England Medical Center (Tufts-NEMC) and Orlando Regional Healthcare System, Inc. M.D. Anderson Cancer Center Orlando. We expect to deliver these systems in 2009, pending FDA approval.

In addition, we have signed a contract with Tufts-NEMC for a complete radiation therapy department upgrade. We expect this initiative to favorably impact our operating results beginning in fall 2007.

As we transition into a new era for our business, American Shared has much to be excited about. Our 21 Gamma Knife facilities continue to provide strong revenues and operating income. One of our lease agreements will expire in fall 2007. We are actively pursing opportunities with our clinical partners as well as a larger pool of community-based hospitals for additional near-term revenue generation through radiation therapy department upgrades. These agreements often involve readily available technologies, such as Intensity Modulated Radiation Therapy (IMRT) and Image-Guided Radiation Therapy (IGRT) systems and the new Leksell Gamma Knife Perfexion.

Finally, we are taking advantage of an unprecedented window of opportunity to help our partners obtain PBRT systems – which we expect will provide far greater revenues over the long term.

I look forward to sharing our continuing progress with you.

Ernest A. Bates

Ernest A. Bates, M.D.
Chairman & Chief Executive Officer
April 7, 2006

American Shared believes that PBRT will be the next major advance in radiation oncology, ultimately replacing conventional x-rays. And we're not alone.

According to Jerry D. Slater, chair of the Department of Radiation Medicine at Loma Linda University Medical Center, "With high-energy x-rays, 3-D-CRT, and IMRT, we're really just squeezing out the last bit of what we're able to do with photon x-rays. Protons provide the next step up and will carry us into the upcoming decades."

PBRT has long been regarded as the optimal radiation treatment for a broad variety of cancers. Protons deliver less entry dose and virtually no exit dose, sparing normal tissue while delivering much higher radiation to tumors than photon x-rays. But at a cost of over $100 million per center for a multiple-story, multiple-room facility, only a few PBRT systems have been built in the U.S.

With the advent of the Clinatron™ 250, designed by Still River Systems Inc. in collaboration with MIT's Plasma Science and Fusion Center, the time is right for American Shared to help its clinical partners and other hospitals make PBRT available to many more cancer patients.

A Window of Opportunity: Proton Beam Radiation Therapy

A single-treatment-room system, the Clinatron 250 is expected to dramatically reduce the cost of PBRT implementation. However, the approximately $20 million project pricetag will mean that many hospitals still need financing assistance. Interest is so great that American Shared has already obtained contracts for this system with both Tufts-New England Medical Center and Orlando Regional Healthcare System, Inc. M.D. Anderson Cancer Center Orlando. And opportunities are on the horizon for both single- and multiple-room PBRT systems with other clinical partners

We are a key player in making PBRT available to many more cancer patients.

Since our founding in 1980, American Shared has been dedicated to providing creative financing solutions to help our clinical partners obtain state-of-the-art radiation therapy technology. Our primary focus has been on developing Gamma Knife centers – and we are the world leader in this arena.

As the Gamma Knife business matures and the needs of our partners evolve, we have recognized the need to transition to a new business model: developing total radiation therapy solutions designed to meet individual customer needs – including multiple products and vendors.

Expanding Our Relationships: the Total Solutions Approach

As part of this concept, we provide the financing to help our 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.

In October 2006, we signed our first agreement under this new model: to provide Tufts-NEMC with a complete, state-of-the-art radiation oncology department package, including an IGRT system, CT simulator, and related support and maintenance services. This agreement is a model for the type of transactions we hope to complete with leading medical institutions across the country.

Additionally, we are expanding our customer base to smaller, community-based hospitals – which represent a larger pool of potential clinical partners. Our targets are institutions who want to differentiate themselves from the competition and provide the best possible care for their patients.

We provide total radiation therapy solutions designed to meet individual customer needs.

American Shared functions as a total business partner, helping customers plan, fund, launch, operate, and market advanced radiation therapy solutions. Our fee-per-use financing model can be applied to many different products. Through this innovative approach, our clinical partners can upgrade quickly – without the worry of capital investment, fixed monthly payments, or technological obsolescence.

Advancing Healthcare Products to Meet Every Need

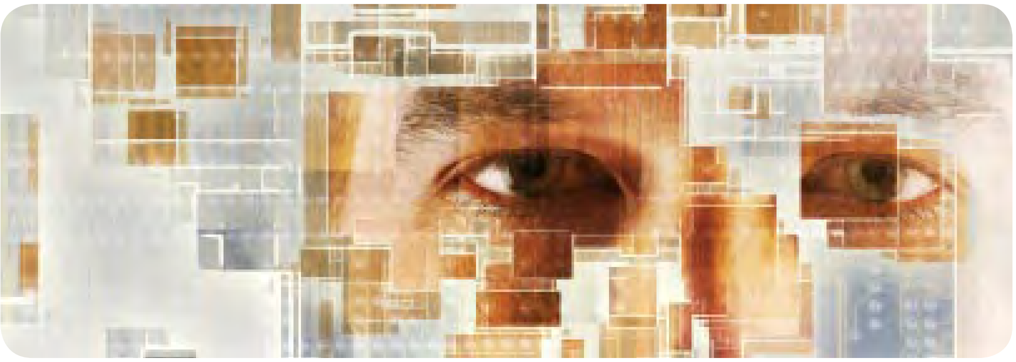
Upgrade paths can take many directions. For some customers, the new Clinatron PBRT system may be an affordable option. For others, a different solution may be best, such as:

- Leksell Perfexion: This technological breakthrough expands the Gamma Knife product line with a completely new system that takes stereotactic radiosurgery to the next level – offering expanded cranial reach, faster treatment time, improved dose performance, and increased safety and comfort for patients. It also provides a platform for further refinement and expansion of radiosurgery procedures in the brain, skull, cervical spine, and head and neck regions.

- IMRT/IGRT: IMRT delivers radiation doses to selected parts of the body with great precision, aggressively targeting tumors while minimizing risk to normal organs and tissues. IGRT takes IMRT to the next level by integrating tumor imaging and detection components into a linear accelerator, allowing clinicians to plan treatment, verify positioning, and deliver therapy with a single device.

- Other radiation therapy equipment and services: American Shared also provides the financing for other devices such as CT simulators, as well as support and maintenance services for all of the products we offer.

From diagnostic imaging, to treatment simulation and planning, to treatment delivery, we offer the products and flexibility to best meet our clinical partners' needs.



We help our clinical partners obtain a diversity of radiation therapy products – including the latest technologies.

2006

FINANCIAL REVIEW

American Shared Hospital Services

SELECTED FINANCIAL DATA

SUMMARY OF OPERATIONS

	Year Ended December 31, (Amounts in thousands excet per share data)				
	2006	2005	2004	2003	2002
Medical services revenue	$20,385	$18,231	$16,389	$16,178	$13,366
Costs of operations	10,365	9,072	7,887	7,400	5,399
Selling and administrative expense	3,995	3,613	2,963	3,255	3,313
Interest expense	2,161	2,075	2,261	2,547	2,437
Total costs and expenses	16,521	14,760	13,111	13,202	11,149
Income from operations	3,864	3,471	3,278	2,976	2,217
Interest and other income	308	202	102	121	171
Minority interest expense	(1,314)	(1,126)	(983)	(928)	(831)
Income before income taxes	2,858	2,547	2,397	2,169	1,557
Income tax expense	(1,202)	(780)	(412)	(787)	(455)
Net income	$ 1,656	$ 1,767	$ 1,985	$ 1,382	$ 1,102
Net income per common share:					
Basic	$ 0.33	$ 0.36	$ 0.46	$ 0.36	$ 0.30
Diluted	$ 0.33	$ 0.35	$ 0.39	$ 0.27	$ 0.22
Cash dividend declared per common share	$0.1900	$0.1875	$0.1725	$0.2000	$0.1200
Dividend payout ratio (paid and declared)	0.58	0.54	0.44	0.74	0.55

See accompanying note[1]

BALANCE SHEET DATA

	As of December 31, (Amounts in thousands)				
	2006	2005	2004	2003	2002
Cash and cash equivalents	$ 3,952	$ 1,298	$ 8,121	$10,312	$ 9,924
Securities—current	1,574	4,537	957	—	—
Restricted cash	50	50	50	50	50
Working capital	(541)	2,423	4,978	5,268	7,175
Securities—long-term	3,380	2,797	—	—	—
Total assets	50,905	48,668	47,367	46,304	44,830
Advances on line of credit	4,000	—	—	—	—
Current portion of long-term debt/capital leases	5,876	6,377	6,562	6,803	5,490
Long-term debt/capital leases, less current portion	15,189	18,705	18,924	20,114	22,006
Shareholders' equity	$19,009	$18,320	$17,546	$15,329	$14,540

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 2002 through 2006.

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 financial review, 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 to 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 only one revenue-generating activity, which is the operation of Gamma Knife units by GK Financing, LLC ("GKF"), an 81% owned subsidiary of the Company.

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 16 fee per use hospitals and five 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 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. Revenues under fee per use agreements are recorded on a gross basis.

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 the 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 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 GKF for the capital investment to acquire and install the Gamma Knife. Unlike our turn-key arrangement, GKF's 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 the procedure is performed, and is determined based on the net reimbursement amount that GKF expects to receive from the hospital for each Gamma Knife procedure. Under the net revenue sharing arrangement, the percent of revenue received by GKF is recorded net of costs to provide a Gamma Knife 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 34%, 29% and 25% of revenue for the years ended December 31 2006, 2005 and 2004, 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, 2006 changed by as much as 10% based on actual collection information, it would have the effect of increasing or decreasing revenue by approximately $235,000.

GENERAL

During the years ended December 31, 2006, 2005 and 2004, 100% of the Company's medical services revenue was derived from its Gamma Knife business.

TOTAL REVENUE

	2006	Increase (Decrease)	2005	Increase (Decrease)	2004
Medical services revenue (in thousands)	$20,385	11.8%	$18,231	11.2%	$16,389
Number of Gamma Knife procedures	2,563	6.3%	2,410	12.6%	2,140
Average revenue per procedure	$ 7,954	5.1%	$ 7,565	(1.2)%	$ 7,658

Gamma Knife revenue increased $2,154,000 and $1,842,000 in 2006 and 2005, respectively, compared to the prior years. 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 2005 increase was due to three new Gamma Knife units that began operation during 2005 and the full year inclusion of one new Gamma Knife unit that began operation during 2004, which offset a 4% decrease in revenue from

Gamma Knife units in operation more than one year. The Company had twenty-one, twenty-one and eighteen Gamma Knife units in operation at December 31, 2006, 2005 and 2004, respectively.

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. The number of Gamma Knife procedures in 2005 increased by 270 compared to 2004 due to the increase in the number of Gamma Knife units in operation, as well as a 3% increase in procedures from Gamma Knife units in operation more than one year.

Revenue per procedure increased $389 in 2006 and decreased $93 in 2005 compared to the prior years. 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. 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. The decrease in 2005 was primarily due to lower average procedure rates collected at two of the Company's retail sites.

COSTS OF OPERATIONS

(In thousands)	2006	Increase (Decrease)	2005	Increase (Decrease)	2004
Costs of operations	$10,365	14.3%	$9,072	15.0%	$7,887
Percentage of revenue	50.8%		49.8%		48.1%

The Company's costs of operations, consisting of 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 $1,293,000 in 2006 compared to 2005, and increased $1,185,000 in 2005 compared to 2004.

The Company's maintenance and supplies costs were 6%, 6% and 5% of medical service revenue in 2006, 2005 and 2004, respectively. Maintenance and supplies costs increased $260,000 in 2006 compared to 2005, and increased $150,000 in 2005 compared to 2004. 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. The increase in 2005 compared to 2004 was primarily due to the expiration of the warranty period on one Gamma Knife unit and the full year inclusion of maintenance on two Gamma Knife units where the warranty period expired during the previous year.

Depreciation and amortization increased $470,000 in 2006 compared to 2005, and increased $593,000 in 2005 compared to 2004. 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. The increase in 2005 was primarily due to the addition of three new Gamma Knife units that commenced operation during first, second and third quarters of 2005 and a full year of depreciation on one new Gamma Knife unit that started operation during 2004.

Other direct operating costs as a percentage of medical services revenue were 16%, 14% and 13% in 2006, 2005 and 2004, respectively. 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. The increase of $442,000 in 2005 compared to 2004 was primarily due to increased operating costs related to the Company's two additional retail Gamma Knife units that started operation during 2005 and higher insurance costs due to additional Gamma Knife units in operation, which were partially offset by lower marketing and promotion costs.

SELLING AND ADMINISTRATIVE

(In thousands)	2006	Increase (Decrease)	2005	Increase (Decrease)	2004
Selling and administrative costs	$3,995	10.6%	$3,613	21.9%	$2,963
Percentage of revenue	19.6%		19.8%		18.1%

The Company's selling and administrative costs increased $382,000 in 2006 compared to 2005, and increased $650,000 in 2005 compared to 2004. 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 meeting. The increase in 2005 compared to 2004 was primarily due to increased payroll and business development costs of approximately $441,000, which included costs of the Company's second Gamma Knife User's Meeting of approximately $42,000 and OR21 business development costs of approximately $151,000. In addition, legal, accounting and consulting fees increased approximately $119,000 and contributions increased approximately $55,000 over the prior year.

INTEREST EXPENSE

(In thousands)	2006	Increase (Decrease)	2005	Increase (Decrease)	2004
Interest expense	$2,161	4.1%	$2,075	(8.2)%	$2,261
Percentage of revenue	10.6%		11.4%		13.8%

The Company's interest expense increased $86,000 in 2006 compared to 2005, and decreased $186,000 in 2005 compared to 2004. The increase in 2006 was primarily due to interest expense from borrowing under the Company's line of credit with a bank which offset lower interest expense from financing on the Company's Gamma Knife units. The decrease in 2005 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 on the financing of the Company's three new Gamma Knife units that started operation during 2005, and the refinancing of one Gamma Knife unit that had previously been paid off. 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)	2006	Increase (Decrease)	2005	Increase (Decrease)	2004
Interest and other income	$308	52.5%	$202	98.0%	$102
Percentage of revenue	1.5%		1.1%		0.6%
Minority interest expense	$(1,314)	16.7%	$(1,126)	14.5%	$(983)
Percentage of revenue	(6.4)%		(6.2)%		(6.0)%

Interest and other income increased $106,000 in 2006 compared to 2005 and increased $100,000 in 2005 compared to 2004. The increases in both 2006 and 2005 were primarily due to investment in longer term holdings with higher interest rates available compared to prior years.

Minority interest increased $188,000 in 2006 and $143,000 in 2005 compared to the prior year, respectively. Minority interest represents the pre-tax income earned by the minority partner's 19% interest in GKF. The increase in minority interest reflects the increased profitability of GKF.

INCOME TAXES

(In thousands)	2006	Increase (Decrease)	2005	Increase (Decrease)	2004
Income tax expense	$1,202	54.1%	$780	89.3%	$412
Percentage of revenue	5.9%		4.3%		2.5%

Income tax expense increased $422,000 in 2006 compared to 2005, and increased $368,000 in 2005 compared to 2004. 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 and net operating loss carryforwards cannot be applied. The Company's estimated 37% 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 Company's estimated 40% income tax provision for 2004 was reduced to an effective rate of approximately 17% by a $547,000 income tax benefit from the exercise of options to purchase 846,000 common shares. The income tax benefits are a 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. However there are minimal 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, 2006 of approximately $9,498,000.

NET INCOME

(In thousands, except per share amounts)	2006	Increase (Decrease)	2005	Increase (Decrease)	2004
Net income	$1,656	(6.3)%	$1,767	(11.0)%	$1,985
Net income per share, diluted	$ 0.33	(5.7)%	$ 0.35	(10.3)%	$ 0.39

The Company had net income of $1,656,000 in 2006 compared to $1,767,000 in 2005 and $1,985,000 in 2004. 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. Net income for 2005 included increased operating income of $193,000 compared to 2004, which was primarily due to the addition of three new Gamma Knife units during 2005. This was offset by an increase in income tax expense of $368,000 due to reduced income tax benefits available on the exercise of options to purchase common stock.

LIQUIDITY AND CAPITAL RESOURCES

The Company had cash and cash equivalents of $3,952,000 at December 31, 2006 compared to $1,298,000 at December 31, 2005. The increase in cash resulted primarily from a $2,953,000 reduction in short term securities as of December 31, 2006 compared to the prior year. The Company's expected primary cash needs on both a short and long-term basis are for capital expenditures, business expansion, working capital, payment of quarterly dividends 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 $1,574,000 are classified as current assets. Securities in the amount of $3,380,000 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, 2006 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, 2006, there was $4,000,000 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 2007.

Operating activities provided cash of $9,164,000 in 2006. Net income of $1,656,000, depreciation and amortization of $5,963,000 and an increase in the minority interest of $1,314,000 were the primary reasons for the increase in operating cash flow. The Company's trade accounts receivable increased to $4,248,000 at December 31, 2006 from $3,832,000 at December 31, 2005, primarily due to additional revenue from some of the Company's retail sites which have a longer collection period than fee per use sites. This resulted in an increase in the number of days revenue (sales) outstanding ("DSO") in accounts receivable to 81 days from 76 days as of December 31, 2006 compared to the prior year. 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 $4,746,000 of cash in 2006 primarily due to the acquisition of property and equipment of $5,146,000, which included upgrades to two Gamma Knife units, an option to purchase two proton beam units, and deposits on three Gamma Knife units and an IGRT system.

Financing activities used $1,764,000 of cash during 2006, primarily due to principal payments on long-term debt and capital leases of $6,549,000, distributions to minority owners of $798,000 and the payment of dividends of $954,000. This was partially offset by financing on the acquisition of property and equipment of $2,532,000, and borrowing on the Company's line of credit with a bank in the amount of $4,000,000, which was used primarily for the Company's investment in Still River and its option to purchase two proton beam systems.

The Company had negative working capital at December 31, 2006 of $541,000 compared to working capital of $2,423,000 at December 31, 2005 primarily due to borrowing $4,000,000 on its line of credit with a bank. Borrowing under the line of credit is considered a current liability because the line is renewable annually. The borrowed funds were used to invest in equipment and other non-current assets.

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 2006.

The Company finances all of its Gamma Knife 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 balance of notes held by DVI were transferred to a third party lender as successor servicer, and the Company continues to make payments on the 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, 2006, 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 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.

	Payments Due by Period				
Contractual Obligations	Total amounts committed	Less than 1 year	1–3 years	4–5 years	After 5 years
Long-term debt	$16,245,000	$ 4,867,000	$10,734,000	$ 644,000	$—
Capital leases	4,820,000	1,009,000	2,725,000	1,086,000	—
Line of credit	4,000,000	4,000,000	—	—	—
Future equipment purchases[1]	36,678,000	—	36,678,000	—	—
Operating leases	1,256,000	287,000	853,000	116,000	—
Total contractual obligations	$62,999,000	$10,163,000	$50,990,000	$1,846,000	$—

[1] The Company has deposits toward the purchase of Gamma Knife Perfexion units, an IGRT system and two Clinatron 250 proton beam units, for which the total estimated purchase price is included above. For the two Clinatron 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 committed for $1,000,000 per machine towards these purchases. For the Perfexion and IGRT systems, financing commitments are in place, or are pending final site selection. For all equipment in this classification, term financing for these purchases will not be finalized until 2007 or later, and therefore an accurate determination of payments by period cannot be made as of December 31, 2006. 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 4, capital leases in Note 5, and operating leases in Note 10 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, 2006. 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.

	Maturity Date, Year ending December 31							
(amounts in thousands)	2007	2008	2009	2010	2011	Thereafter	Total	Fair Value
Fixed-rate long-term debt and present value of capital leases	$5,876	$5,944	$4,782	$2,734	$1,281	$448	$21,065	$21,038
Average interest rates	8.4%	8.2%	8.1%	8.0%	7.9%	7.9%	8.2%	

At December 31, 2006, 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, 2006	December 31, 2005
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 3,952,000	$ 1,298,000
Securities	1,574,000	4,537,000
Restricted cash	50,000	50,000
Trade accounts receivable, net of allowance for doubtful accounts of $170,000 in 2006 and 2005	4,248,000	3,832,000
Other receivables	102,000	187,000
Prepaid expenses and other current assets	598,000	464,000
Current deferred tax assets	601,000	341,000
Total current assets	11,125,000	10,709,000
PROPERTY AND EQUIPMENT, net	34,166,000	34,990,000
SECURITIES	3,380,000	2,797,000
INVESTMENT IN PREFERRED STOCK	2,000,000	—
OTHER ASSETS	234,000	172,000
	$50,905,000	$48,668,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 340,000	$ 555,000
Accrued interest and other liabilities	1,095,000	996,000
Employee compensation and benefits	116,000	120,000
Accrued dividends	239,000	238,000
Advances on line of credit	4,000,000	—
Current portion of long-term debt	4,867,000	5,631,000
Current portion of capital leases	1,009,000	746,000
Total current liabilities	11,666,000	8,286,000
LONG-TERM DEBT, less current portion	11,378,000	15,253,000
LONG-TERM CAPITAL LEASES, less current portion	3,811,000	3,452,000
DEFERRED INCOME TAXES	1,996,000	828,000
MINORITY INTEREST	3,045,000	2,529,000
SHAREHOLDERS' EQUITY		
Common stock, no par value		
Authorized—10,000,000 shares; Issued and outstanding shares—5,023,000 in 2006 and 5,019,000 in 2005	9,317,000	9,306,000
Additional paid-in capital	4,251,000	4,274,000
Retained earnings	5,441,000	4,740,000
Total shareholders' equity	19,009,000	18,320,000
	$50,905,000	$48,668,000

See accompanying notes

American Shared Hospital Services

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
	2006	2005	2004
REVENUE:			
Medical services	$20,385,000	$18,231,000	$16,389,000
COSTS AND EXPENSES:			
Costs of revenue:			
Maintenance and supplies	1,295,000	1,035,000	885,000
Depreciation and amortization	5,865,000	5,395,000	4,802,000
Other direct operating costs	3,205,000	2,642,000	2,200,000
	10,365,000	9,072,000	7,887,000
Gross margin	10,020,000	9,159,000	8,502,000
Selling and administrative expense	3,995,000	3,613,000	2,963,000
Interest expense	2,161,000	2,075,000	2,261,000
Operating income	3,864,000	3,471,000	3,278,000
Interest and other income	308,000	202,000	102,000
Minority interest expense	(1,314,000)	(1,126,000)	(983,000)
Income before income taxes	2,858,000	2,547,000	2,397,000
Income tax expense	(1,202,000)	(780,000)	(412,000)
NET INCOME	$ 1,656,000	$ 1,767,000	$ 1,985,000
Earnings per common share—basic	$ 0.33	$ 0.36	$ 0.46
Earnings per common share—diluted	$ 0.33	$ 0.35	$ 0.39

See accompanying notes

American Shared Hospital Services

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	Three Years Ended December 31, 2006				
	Common Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Total
Balances at January 1, 2004	3,918,000	$9,198,000	$3,461,000	$2,670,000	$15,329,000
Options exercised	858,000	40,000	994,000	—	1,034,000
Repurchase of stock options	—	—	(45,000)	—	(45,000)
Dividends	—	—	—	(757,000)	(757,000)
Net income	—	—	—	1,985,000	1,985,000
Balances at December 31, 2004	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

American Shared Hospital Services

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2006	2005	2004
OPERATING ACTIVITIES			
Net income	$ 1,656,000	$ 1,767,000	$ 1,985,000
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	5,963,000	5,502,000	4,892,000
Loss on disposal of assets	3,000	—	—
Deferred income tax	852,000	121,000	264,000
Stock-based compensation expense	39,000	—	—
Minority interest in consolidated subsidiaries	1,314,000	1,126,000	983,000
Changes in operating assets and liabilities:			
Receivables	(331,000)	(1,069,000)	(483,000)
Prepaid expenses and other assets	(212,000)	95,000	(137,000)
Accounts payable and accrued liabilities	(120,000)	938,000	104,000
Net cash from operating activities	9,164,000	8,480,000	7,608,000
INVESTING ACTIVITIES			
Payment for purchase of property and equipment	(5,146,000)	(6,195,000)	(6,308,000)
Proceeds from sales and maturities of marketable securities	7,728,000	957,000	—
Investment in marketable securities	(7,348,000)	(7,334,000)	(957,000)
Proceeds from sale of assets	20,000	—	—
Net cash from investing activities	(4,746,000)	(12,572,000)	(7,265,000)
FINANCING ACTIVITIES			
Principal payments on long-term debt	(5,631,000)	(7,122,000)	(7,371,000)
Principal payments on capital leases	(918,000)	(297,000)	—
Long term debt financing on purchase of property and equipment	992,000	5,275,000	5,940,000
Capital lease financing	1,540,000	1,740,000	—
Advances on line of credit	4,000,000	—	—
Payment of dividends	(954,000)	(902,000)	(699,000)
Distributions to minority owners	(798,000)	(912,000)	(399,000)
Proceeds from exercise of stock options	5,000	157,000	40,000
Repurchase of stock options	—	(670,000)	(45,000)
Net cash from financing activities	(1,764,000)	(2,731,000)	(2,534,000)
Net increase (decrease) in cash and cash equivalents	2,654,000	(6,823,000)	(2,191,000)
CASH AND CASH EQUIVALENTS, beginning of year	1,298,000	8,121,000	10,312,000
CASH AND CASH EQUIVALENTS, end of year	$ 3,952,000	$ 1,298,000	$ 8,121,000
SUPPLEMENTAL CASH FLOW DISCLOSURE			
Interest paid	$ 2,161,000	$ 2,075,000	$ 2,500,000
Income taxes paid	$ 350,000	$ 229,000	$ 129,000
SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Accrued dividends	$ 239,000	$ 238,000	$ 215,000
Income tax benefit from stock option exercise recorded to Additional paid-in capital	$ (56,000)	$ 445,000	$ 994,000

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-one 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 (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 Eletka 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, 2006, the cost of these securities approximated fair market value, and they ranged in maturity up to approximately eighteen 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.

All of the Company's revenue is provided by twenty-one customers. These customers constitute accounts receivable at December 31, 2006. 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 $53,000 and $17,000 in 2006 and 2005, respectively, as costs of medical equipment.

The Company leases Gamma Knife equipment to its customers under arrangements accounted for as operating leases. 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. At December 31, 2005, the Company held equipment under operating lease contracts with customers with an original cost of $55,348,000 and accumulated depreciation of $24,074,000.

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 in accordance with SFAS No 109, *Accounting for Income Taxes.* 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 following table illustrates the computations of basic and diluted earnings per share for the years ended December 31, 2006, 2005 and 2004.

	2006	2005	2004
Numerator for basic and diluted earnings per share	$1,656,000	$1,767,000	$1,985,000
Denominator:			
Denominator for basic earnings per share—weighted-average shares	5,022,000	4,931,000	4,351,000
Effect of dilutive securities Employee stock options	28,000	160,000	750,000
Denominator for diluted earnings per share—adjusted weighted-average shares	5,050,000	5,091,000	5,101,000
Earning per share—basic	$ 0.33	$ 0.36	$ 0.46
Earning per share—diluted	$ 0.33	$ 0.35	$ 0.39

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 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.

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 149,000 options granted, of which approximately 76,000 options are vested, as of December 31, 2006.

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 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 third quarter 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 8. 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 $39,000 is reflected in 2006 net income.

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 17,000 options issued during 2006.

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 and 2004. 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,		
	2006	2005	2004
Net income, as reported	$1,656,000	$1,767,000	$1,985,000
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards (Note 8), net of related tax effects	—	(36,000)	(9,000)
Proforma net income	$1,656,000	$1,731,000	$1,976,000
Earnings per share:			
Basic—as reported	$ 0.33	$ 0.36	$ 0.46
Basic—pro forma	$ 0.33	$ 0.35	$ 0.45
Diluted—as reported	$ 0.33	$ 0.35	$ 0.39
Diluted—pro forma	$ 0.33	$ 0.34	$ 0.39

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, 2006 and 2005 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 $21,038,000 and $25,088,000 at December 31, 2006 and 2005, respectively.

Business segment information The Company, which engages in the business of leasing equipment to health care providers, has one reportable segment, the Gamma Knife that non-invasively treats malignant and benign brain tumors, vascular malformations and trigeminal neuralgia.

Recent accounting pronouncements In December 2003, the FASB issued FIN 46(R): *Consolidation of Variable Interest Entities, an interpretation of ARB No. 51,* which replaces FASB Interpretation No. 46, *Consolidation of Variable Interest Entities* (VIE). This Interpretation addresses consolidation by business enterprises of Variable Interest Entities. It defines a VIE as a corporation, partnership, trust, or any other legal structure used for the business purpose that either: a) the equity investment is not sufficient to allow the entity to finance its activities without additional financial support, b) the equity investors lack one or more of the following: 1. the ability to make decisions; 2. the obligation to absorb expected losses of the entity; or 3. the right to receive any returns of the entity, and, c) the equity investors have voting rights disproportionate to their economic interest, and the activities of the entity are conducted on behalf of an investor with a disproportionately small voting interest. This interpretation requires that existing unconsolidated VIE's be consolidated by their primary beneficiaries. The Company does not have any VIE entities and accordingly the implementation of the Interpretation did not result in an impact on its financial statements.

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48")—an interpretation of FASB Statement No. 109. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006 and, as such, the Company must adopt FIN 48 at January 1, 2007. The Company is currently evaluating the impact of adopting FIN 48 with respect to its net operating losses which total $9,498,000 at December 31, 2006, of which the tax effect was $3,289,000. The potential impact of adopting FIN 48 has not yet been determined by the Company. The impact, if any, would affect deferred tax assets and additional paid in capital.

NOTE 3—PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	December 31,	
	2006	2005
Medical equipment and facilities	$61,828,000	$59,147,000
Office equipment	515,000	549,000
Deposits and construction in progress	3,137,000	703,000
	65,480,000	60,399,000
Accumulated depreciation	(31,314,000)	(25,409,000)
Net property and equipment	$34,166,000	$34,990,000

As of December 31, 2006, 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 $4,928,000.

NOTE 4—LONG-TERM DEBT

Long-term debt consists primarily of 16 notes with financing companies, related to Gamma Knife and radiation therapy equipment construction and installation, totaling $16,245,000. These notes accrue interest at fixed annual rates between 7.79% and 10.95%, are payable in 60 to 84 monthly installments, mature between March 2006 and April 2012, and are collateralized by the respective Gamma Knife units and radiation therapy equipment. As of December 31, 2006 and December 31, 2005 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, 2006:

Year ending December 31,	
2007	$ 4,867,000
2008	4,851,000
2009	3,893,000
2010	1,990,000
2011	477,000
Thereafter	167,000
	$16,245,000

NOTE 5—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 $5,157,000 at December 31, 2006. These obligations have stated 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, 2006, are summarized as follows:

	Net Present Value of Minimum Lease Payments
Year ending December 31,	
2007	$1,355,000
2008	1,355,000
2009	1,067,000
2010	862,000
2011	862,000
Thereafter	289,000
Total capital lease payments	5,790,000
Less imputed interest	970,000
	4,820,000
Less current portion	1,009,000
	$3,811,000

NOTE 6—INCOME TAXES

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

	December 31,	
	2006	2005
Deferred tax liabilities:		
Fixed assets	$(5,658,000)	$(5,641,000)
Total deferred tax liabilities	(5,658,000)	(5,641,000)
Deferred tax assets:		
Net operating loss carryforwards	3,289,000	4,307,000
Accrued reserves	323,000	276,000
Other—net	651,000	571,000
Total deferred tax assets	4,263,000	5,154,000
Net deferred tax liabilities	$(1,395,000)	$ (487,000)

These amounts are presented in the financial statements as follows:

	December 31,	
	2006	2005
Current deferred tax assets	$ 601,000	$ 341,000
Deferred income taxes (non-current)	(1,996,000)	(828,000)
	$(1,395,000)	$ (487,000)

The 2005 tax provision reflects the deduction for tax purposes of non-qualified stock options exercised by the Company's Chairman and Chief Executive Officer. The benefit of the tax deduction in 2005 is reflected as a direct increase to equity and an increase in the deferred tax asset of $616,000, which is described more fully in Note 8.

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

	Years Ended December 31,		
	2006	2005	2004
Current:			
Federal	$ (8,000)	$449,000	$ —
State	357,000	210,000	47,000
Total current	349,000	659,000	47,000
Deferred:			
Federal	810,000	(74,000)	296,000
State	43,000	195,000	69,000
Total deferred	853,000	121,000	365,000
	$1,202,000	$780,000	$412,000

The provision for income taxes differs from the amount computed by applying the U.S. federal statutory tax rate (34% in 2006, 2005 and 2004) to income before taxes as follows:

	Years Ended December 31,		
	2006	2005	2004
Computed expected federal income tax	$ 972,000	$866,000	$815,000
State income taxes, net of federal benefit	400,000	167,000	144,000
Stock options	—	(193,000)	(547,000)
Other	(170,000)	(60,000)	—
	$1,202,000	$780,000	$412,000

At December 31, 2006, the Company had net operating loss carryforwards for federal income tax return purposes of approximately $9,498,000 which expire between 2012 and 2024, and net operating loss carryforwards for California franchise/income tax return purposes of approximately $1,026,000 which expire between 2011 and 2014. For state purposes, a substantial part of net operating loss carryforwards are subject to separate return limitations. 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 7—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,		
	2006	2005	2004
Beginning balance	$2,529,000	$2,315,000	$1,731,000
Minority interest in GKF net income	1,314,000	1,126,000	983,000
Less: cash distributions	(798,000)	(912,000)	(399,000)
Minority interest	$3,045,000	$2,529,000	$2,315,000

NOTE 8— 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, 2006, 2,000 restricted stock units have been granted and approximately 149,000 stock options are issued and outstanding under the 2006 Plan, of which approximately 133,000 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, 2004 to December 31, 2006 are as follows :

Options	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Balance at January 1, 2004	179,000	$2.16		
Granted	26,000	$5.48		
Exercised	(15,000)	$2.48		
Forfeited	(10,000)	$5.72		
Repurchased	(12,000)	$3.49		
Balance at December 31, 2004	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	6.85	$780,000
Exercisable at December 31, 2006	76,000	$4.36	5.04	$333,000

The weighted average grant-date fair value of the options granted during the years 2006, 2005 and 2004 was $2.61, $1.52 and $1.88, respectively. The total intrinsic value of options exercised during the years ended December 31, 2006, 2005 and 2004 was $11,000, $154,000 and $36,000, respectively.

Cash received from options exercised under all share-based payment arrangements for the years ended December 31, 2006, 2005 and 2004 was $11,000, $157,000 and $40,000, respectively. The actual tax benefit realized for the tax deductions from option exercise of the share-based payment arrangements totaled $0, $193,000 and $547,000, respectively for the years ended December 31, 2006, 2005 and 2004.

A summary of the status of the Company's non-vested shares as of December 31, 2006, and changes during the year ended 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 December 31, 2006	73,000	$1.80

At December 31, 2006 there was approximately $83,000 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 four 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 and 846,000 during 2005 and 2004. The exercise in 2005 resulted in a $445,000 increase in paid in capital and a $616,000 increase in deferred tax assets. The exercise in 2004 resulted in a $994,000 increase to additional paid in capital and a $1,540,000 increase in deferred tax assets.

The following table summarizes information about all options outstanding at December 31, 2006:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
1.688–1.688	2,000	0.67	$1.69	2,000	$1.69
3.000–4.100	39,000	2.81	3.21	39,000	3.21
4.570–5.500	21,000	7.05	5.29	15,000	5.23
6.160–6.450	87,000	8.75	6.20	20,000	6.18
$1.688–6.450	149,000	6.85	$5.23	76,000	$4.36

At December 31, 2006 and 2005, 76,000 and 60,000 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 2006 and 2005 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 2006 and the 1995 and 2001 Plans in 2005 and 2004 was estimated assuming the following weighted-average assumptions:

	2006	2005	2004
Expected life (years)	10.0	10.0	10.0
Expected forfeiture rate	5.0–8.5%	0.0%	0.0%
Expected volatility	25.0–72.5%	25.0%	37.0%
Dividend yield	3.0%	3.1%	3.0%
Risk-free interest rate	4.9–5.1%	4.3%	4.5%

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.

During 2006 and 2005, the Company withheld 1,000 shares and 114,000 shares upon the exercise of options respectively 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.

In 2004 the Company repurchased 12,000 options under the 1995 stock option plan from former employees. The repurchase of the options is recorded as a reduction in additional paid-in-capital.

Dividends

In December 2006 the Company declared dividends of $0.0475 per share, payable in January 2007. 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. In January, April, July and October of 2004 the Company paid dividends of $0.04, $0.04, $0.0425 and $0.045 per share respectively.

NOTE 9—RETIREMENT PLAN

The Company has a defined-contribution retirement plan (the "Plan") that allows for a matching safe harbor contribution. For 2006, 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 and $33,000 to the Plan for the safe harbor match for each of the years ended December 31, 2005 and December 31, 2004, respectively. The Company has accrued $50,000 for the estimated safe harbor matching contribution for the year ended December 31, 2006.

NOTE 10—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, 2006:

Year ending December 31,	
2007	287,000
2008	287,000
2009	287,000
2010	279,000
2011	116,000
	$1,256,000

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 $360,000, $386,000, and $323,000 for the years ended December 31, 2006, 2005 and 2004, 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 11—COMMITMENTS AND CONTINGENCIES

The Company has commitments to purchase four Gamma Knife units and other medical equipment for approximately $18,000,000. At December 31, 2006 the Company has made deposits totaling approximately $1,922,000 towards the purchase of this equipment, which is projected to be delivered during 2007. The Company has also purchased for $1,000,000 an option to acquire two Clinatron 250™ PBRT systems from Still River Systems Inc. for anticipated delivery in 2009. The deposits and purchase option are classified as construction in progress.

NOTE 12—MAJOR CUSTOMERS

Revenues from the Company's Gamma Knife segment were provided by twenty-one customers in 2006, twenty-one customers in 2005, and eighteen customers in 2004. In 2006 one customer accounted for approximately 13% of total revenue. No individual customer exceeded 10% of the Company's total revenue in 2005 or 2004.

NOTE 13—SUBSEQUENT EVENTS

In January 2007 the Company made a deposit of $310,000 towards the fourth Gamma Knife Perfexion™ unit the Company committed to purchase. As of March 16, 2007 the Company had obtained commitments from customers to place two of the units.

In February 2007, the Company exercised its option to purchase two Clinatron 250 proton beam units, and an additional $500,000 per unit was paid in accordance with this purchase option. The Company obtained interim financing to fund 100% of these deposits plus the $1,000,000 initial deposit. The financing company reimbursed the $1,000,000 the Company had paid in its initial deposits and funded the additional $1,000,000 required to exercise its purchase of the two Clinatron 250 units. The Company used the $1,000,000 received from the finance company to pay down its line of credit.

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, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. 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 purposed 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, 2006 and 2005, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2006 in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the 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 30, 2007

The Company's common shares, no par value (the "Common Shares"), are currently traded on the American Stock Exchange and the NYSE Arca Exchange. The Company requested to withdraw from the NYSE Arca exchange in March 2007 and has filed a Form 25 with the Securities and Exchange Commission with respect to this withdrawal request. 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, 2005	$6.23	$5.40
June 30, 2005	$6.28	$5.23
September 30, 2005	$6.17	$5.71
December 31, 2005	$7.35	$5.80
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

The Company estimates that there were approximately 2,500 beneficial holders of its Common Shares at December 31, 2006.

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 2006 holders of options to acquire the Company's common stock exercised their respective rights pursuant to such securities, resulting in the Company issuing 4,000 new shares of common stock for approximately $5,000.

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, 2006 the Company had 5,023,418 issued and outstanding common shares, 149,180 common shares reserved for options, 2,000 restricted stock units issued and 5,175 shares reserved pursuant to the Company's Shareholder Rights Plan.

In fourth quarter 2006, the Board of Directors declared a quarterly dividend of $.0475 per common share to shareholders of record on January 2, 2007, paid on January 15, 2007. 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. During 2005, shareholders of record as of January 3, 2005, April 4, 2005, July 1, 2005 and October 3, 2005 were paid quarterly dividends respectively as follows: $0.045 on January 14, 2005 and April 15, 2005, and $0.0475 on July 15, 2005 and October 17, 2005. 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

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Independent Auditors
Moss Adams LLP
Stockton, CA

Counsel
Davis Polk & Wardwell
Menlo Park, CA

Annual Shareholders' Meeting
June 14, 2007
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
Salzburg Seminar
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, 2006, and the definitive Proxy Statement for the Annual Meeting of Shareholders held on June 14, 2007.

DESIGN: HEINEY & CRAIG, INC., SAN FRANCISCO

American Shared Hospital Services

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