AMERICAN SHARED HOSPITAL SERVICES
Form 10-K
March 30, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(Mark One)

x	**Annual Report Pursuant To Section 13 or 15(d) Of The Securities Exchange Act of 1934 For The Fiscal Year Ended December 31, 2015**

or

..	**Transition Report Pursuant To Section 13 or 15(d) Of The Securities Exchange Act of 1934 For The Transition Period From _____ to _____ .**

Commission file number 1-08789

American Shared Hospital Services

(Exact name of registrant as specified in its charter)

California	**94-2918118**

(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
Four Embarcadero Center, Suite 3700, San Francisco, California	**94111-4107**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant's telephone number, including area code: (415) 788-5300

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock No Par Value	**NYSE MKT**

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “large accelerated filer”, “accelerated filer”, and “smaller reporting company” in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer ¨ Accelerated Filer ¨ Non-accelerated Filer ¨ Smaller reporting company x

Indicate by check mark if the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

As of June 30, 2015, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately $8,525,000.

Number of shares of common stock of the registrant outstanding as of March 25, 2016: 5,364,000.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive Proxy Statement for the 2016 Annual Meeting of Shareholders are incorporated by reference into Part III of this report.

TABLE OF CONTENTS **Page**

FORWARD-LOOKING STATEMENTS

Certain matters discussed in this Annual Report on Form 10-K other than statements of historical information are "forward-looking statements." The Private Securities Litigation Reform Act of 1995 has established that these statements qualify for safe harbors from liability. Forward-looking statements may include words like we "believe", "anticipate", "target", "expect", "pro forma", "estimate", "intend", "will", "is designed to", "plan" and words of similar meanin Forward-looking statements describe our future plans, objectives, expectations or goals. Such statements address future events and conditions concerning and include, but are not limited to, such things as:

- capital expenditures
- earnings
- liquidity and capital resources
- financing of our business
- government programs and regulations
- legislation affecting the health care industry
- the development of our proton beam therapy business
- accounting matters
- compliance with debt covenants
- competition
- technology
- interest rates

These forward-looking statements involve known and unknown risks that may cause our actual results in future periods to differ materially from those expressed in any forward-looking statement. Factors that would cause or contribute to such differences include, but are not limited to, such things as:

- our high level of debt
- the limited market for our capital intensive services
- the impact of lowered federal reimbursement rates
- the impact of recent U.S. health care reform legislation
- competition and alternatives to our services
- technological advances and the risk of equipment obsolescence
- our significant investment in development stage company in the proton beam therapy business
- the small and illiquid market for our stock

These lists are not all-inclusive because it is not possible to predict all factors. A discussion of some of these factors is included in this document under the headings "Risk Factors" and "Management's Discussion and Analysis" "–Summary of Critical Accounting Policies and Estimates" and "–Liquidity and Capital Resources." This report should be read in its entirety. No one section of this report deals with all aspects of the subject matter. Any forward-looking statement

speaks only as of the date such statement was made, and we are not obligated to update any forward-looking statement to reflect events or circumstances after the date on which such statement was made, except as required by applicable laws or regulations.

PART I

ITEM 1. BUSINESS

GENERAL

American Shared Hospital Services ("ASHS" and, together with its subsidiaries, the "Company") provides Gamma Knife stereotactic radiosurgery equipment and radiation therapy and related equipment to seventeen (17) medical centers in sixteen (16) states in the United States as of March 1, 2016. The Company provides Gamma Knife services through its 81% indirect interest in GK Financing, LLC, a California limited liability company ("GKF"). The remaining 19% of GKF is owned by GKV Investments, Inc., a wholly-owned U.S. subsidiary of Elekta AG, a Swedish company ("Elekta"). Elekta is the manufacturer of the Leksell Gamma Knifeâ (the "Gamma Knife"). GKF is a non-exclusive provider of alternative financing services for Elekta Gamma Knife units.

The Company wholly-owns the subsidiaries MedLeader.com, Inc. ("MedLeader") and American Shared Radiosurgery Services ("ASRS"). ASRS is the majority-owner of GKF.

GKF has established the wholly-owned subsidiaries, GK Financing U.K., Limited ("GKUK"), Instituto de Gamma Knife del Pacifico S.A.C. ("GKPeru"), and the 70% majority owned subsidiary EWRS, LLC ("EWRS") for the purpose of providing similar Gamma Knife services in England, Peru, and Turkey respectively. The remaining 30% of EWRS is owned by EMKA, LLC, a wholly, owned limited liability company owned by Mert Ozyurek, a Director of American Shared Hospital Services. EWRS owned 100% of EWRS Tibbi Cihazlar Ticaret Ltd Sti ("EWRS Turkey"). EWRS sold EWRS Turkey on June 10, 2014. GKUK is inactive.

GKF also owns a 51% interest in Albuquerque GK Equipment, LLC ("AGKE") and Jacksonville GK Equipment, LLC ("JGKE"). The remaining 49% in each of these two companies is owned by radiation oncologists.

The Company continues to develop its design and business model for "The Operating Room for the 21st Century"SM ("OR21"SM), through its 50% owned OR21, LLC. The remaining 50% is owned by an architectural design company. OR21 is not expected to generate significant revenue within the next two years.

The Company is also the sole owner of PBRT Orlando, LLC ("Orlando") and the majority owner of Long Beach Equipment, LLC ("LBE") formed to provide proton beam therapy services in Long Beach, California and Orlando, FL. A minority ownership in LBE is owned by radiation oncologists.

In April 2006, the Company invested $2,000,000 for a minority equity interest in Mevion Medical Systems, Inc. (formerly Still River Systems, Inc.) ("Mevion"), a Littleton, Massachusetts company which, in collaboration with scientists from MIT's Plasma Science and Fusion Center, was developing a medical device for the treatment of cancer patients using proton beam radiation therapy ("PBRT"). In September 2007, December 2011, and June 2012, the Company invested approximately $617,000, $70,000 and $31,000, respectively, for additional equity interests in Mevion. The Company has deposited an additional $5,000,000 towards the purchase of three MEVION S250 PBRT systems ("MEVION S250") from Mevion. As of December 31, 2015, the Company recorded an impairment loss of $2,140,000 on its common stock investment in Mevion. See Item 1A Risk Factors and Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations for more information. The first MEVION S250, located at Barnes-Jewish Hospital in St. Louis, MO ("Barnes-Jewish Hospital"), treated its first patient on December 19, 2013. The Company's first MEVION S250 system was delivered to UF Health Cancer Center at Orlando Health in November 2014 and anticipates patient treatment to begin in second quarter 2016.

The Company was incorporated in the State of California in 1983 and its predecessor, Ernest A. Bates, M.D., Ltd. (d/b/a American Shared Hospital Services), a California limited partnership, was formed in June 1980.

OPERATIONS

Gamma Knife Operations

Gamma Knife stereotactic radiosurgery, a non-invasive procedure, is an alternative to conventional brain surgery or can be an adjunct to conventional brain surgery, radiation therapy, or chemotherapy. Compared to conventional surgery, Gamma Knife radiosurgery usually is an out-patient procedure with lower risk of complications and can be provided at a lower cost. Typically, Gamma Knife patients resume their pre-surgical activities one or two days after treatment. The Gamma Knife treats patients with 201 single doses of gamma rays that are focused with great precision on small and medium sized, well circumscribed and critically located structures in the brain. During 2006, Elekta introduced a new Gamma Knife model, the Perfexion™ unit ("Perfexion"), which treats patients with 192 single doses of gamma rays. The Gamma Knife delivers a concentrated dose of gamma rays from Cobalt-60 sources housed in the Gamma Knife. The Cobalt-60 sources converge at the target area and deliver a dose that is high enough to destroy the diseased tissue without damaging surrounding healthy tissue.

The Gamma Knife treats selected malignant and benign brain tumors, arteriovenous malformations, and functional disorders including trigeminal neuralgia (facial pain). Research is being conducted to determine whether the Gamma Knife can be effective in the treatment of epilepsy, tremors, and other functional disorders.

As of December 31, 2015, there were approximately 130 Gamma Knife sites in the United States and more than 318 units in operation worldwide. Based on the most recent available data, an estimated percentage breakdown of Gamma Knife procedures performed in the U.S. by indications treated is as follows: malignant (49%) and benign (28%) brain tumors, vascular disorders (7%), and functional disorders (16%).

The Company, as of March 1, 2016, had seventeen (17) operating Gamma Knife units located in the United States. The Company's first Gamma Knife commenced operation in September 1991. The Company's Gamma Knife units performed approximately 1,947 procedures in 2015 for a cumulative total of approximately 35,000 procedures from commencement through December 31, 2015.

Revenue from Gamma Knife services for the Company during each of the last five (5) years ended December 31, and the percentage of total revenue of the Company represented by the Gamma Knife for each of the last five years, are set forth below:

Year Ended December 31,	Total Gamma Knife Revenue (in thousands)		Gamma Knife % of Total Revenue	
2015	$ 16,077		97.2	%
2014	$ 14,521		94.2	%
2013	$ 16,127		91.7	%
2012	$ 15,154		88.9	%
2011	$ 21,077	(1)	94.9	%

(1) includes $4,984,000 of equipment sales revenue from the sale of a Gamma Knife system to an existing Gamma Knife customer at the end of the contract term.

The Company conducts its Gamma Knife business through its 81% indirect interest in GKF. The remaining 19% interest is indirectly owned by Elekta. GKF, formed in October 1995, is managed by its policy committee. The policy committee is composed of one representative from the Company, Ernest A. Bates, M.D., ASHS's Chairman and CEO, and one representative from Elekta. The policy committee sets the operating policy for GKF. The policy committee may act only with the unanimous approval of both of its members. The policy committee selects a manager to handle GKF's daily operations. Craig K. Tagawa, Chief Executive Officer of GKF and Chief Operating and Financial Officer of ASHS, serves as GKF's manager.

GKF's profits and/or losses and any cash distributions are allocated based on membership interests. GKF's operating agreement requires that it have a cash reserve of at least $50,000 before cash distributions are made to its members. From inception to December 31, 2015, GKF has distributed $43,659,000 to the Company and $10,241,000 to the non-controlling member.

Image Guided Radiation Therapy Operations ("IGRT")

The Company's radiation therapy business currently consists of one IGRT system that began operation in September 2007 at an existing Gamma Knife customer site. A second IGRT system located in Turkey was sold in the second quarter of 2014. Revenue generated under IGRT services accounted for approximately 3% of the Company's total revenue in 2015.

IGRT technology integrates imaging and detection components into a state-of-the-art linear accelerator, allowing clinicians to plan treatment, verify positioning, and deliver treatment with a single device, providing faster, more effective radiation therapy with less damage to healthy tissue. IGRT captures cone beam imaging, fluoroscopic and/or x-ray images on a daily basis, creating three-dimensional images that pinpoint the exact size, location and coordinates of tumors. Once tumors are pinpointed, the system delivers ultra-precise doses of radiation which ultimately leads to improved patient outcomes.

Based on the most recently available information, there are approximately 4,000 linear accelerator based radiation therapy units installed in the United States, and it is estimated that a majority of these units provide Intensity-Modulated Radiation Therapy ("IMRT"), IGRT or a combination of this advanced radiation therapy capability. Radiation therapy services are provided through approximately 2,300 hospital based and free-standing oncology centers.

Additional information on our operations can be found in Item 6–"Selected Financial Data", Item 7–"Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 1 of our consolidated financial statements.

CUSTOMERS

The Company's current business is the outsourcing of stereotactic radiosurgery services and radiation therapy services. The Company typically provides the equipment, as well as planning, installation, reimbursement and marketing support services. The majority of the Company's customers pay the Company on a fee per use basis. The market for these services primarily consists of major urban medical centers. The business is capital intensive; the total cost of a Gamma Knife or IGRT facility usually ranges from $3.0 million to $5.5 million, including equipment, site construction and installation. The Company pays for the equipment and the medical center generally pays for site and installation costs. The following is a listing of the Company's sites as of March 1, 2016:

Customers (Gamma Knife except as noted)	**Original Term of Contract**	**Year Contract Began**	**Basis of Payment**
Southwest Texas Methodist Hospital San Antonio, Texas	10 years	1998	Fee per use
Yale New Haven Hospital New Haven, Connecticut	10 years	1998	Fee per use
Kettering Medical Center Kettering, Ohio	10 years	1999	Revenue sharing
Tufts Medical Center	10 years	1999	Fee per use

Boston, Massachusetts			
University of Arkansas for Medical Sciences	15 years	1999	Revenue sharing
Little Rock, Arkansas			
JFK Medical Center	10 years	2000	Fee per use
Edison, New Jersey			
Sunrise Hospital and Medical Center	10 years	2001	Fee per use
Las Vegas, Nevada			
Central Mississippi Medical Center	10 years	2001	Fee per use
Jackson, Mississippi			
OSF Saint Francis Medical Center	10 years	2001	Fee per use
Peoria, Illinois			
Albuquerque Regional Medical Center	10 years	2003	Fee per use
Albuquerque, New Mexico			
Northern Westchester Hospital	10 years	2005	Fee per use
Mt. Kisco, New York			
Mercy Health Center	10 years	2005	Revenue Sharing
Oklahoma City, Oklahoma			
Tufts Medical Center (IGRT)	10 years	2007	Revenue Sharing
Boston, Massachusetts			
USC University Hospital	10 years	2008	Fee per use
Los Angeles, California			
Ft. Sanders Regional Medical Center	10 years	2011	Revenue Sharing
Knoxville, Tennessee			
St. Vincent’s Medical Center	10 years	2011	Revenue Sharing
Jacksonville, Florida			
Sacred Heart Medical Center	10 years	2013	Revenue Sharing
Pensacola, Florida			
PeaceHealth Sacred Heart Medical Center at RiverBend	10 years	2014	Revenue Sharing
Eugene, Oregon			

The Company's typical fee per use agreement is for a ten year term. The fixed fee per use reimbursement amount that the Company receives from the customer is based on the Company's cost to provide the service and the anticipated volume of the customer. The Gamma Knife contracts signed by the Company typically call for a fee ranging from $6,000 to $9,300 per procedure. There are no minimum volume guarantees required of the customer. In most cases, GKF is responsible for providing the Gamma Knife and related ongoing Gamma Knife equipment expenses (i.e., personal property taxes, insurance, and equipment maintenance) and also helps fund the customer's Gamma Knife marketing. The customer generally is obligated to pay site and installation costs and the costs of operating the Gamma Knife. The customer can either renew the agreement or terminate the agreement at the end of the contractual term. If the customer chooses to terminate the agreement, then GKF removes the equipment from the medical center for possible placement at another site.

The Company's typical revenue sharing agreements ("retail") are for a period of ten years. Instead of receiving a fixed fee, the Company receives all or a percentage of the reimbursement (exclusive of physician fees) received by the customer. The Company is at risk for any reimbursement rate changes for radiosurgery or radiation therapy services by the government or other third party payors. There are no minimum volume guarantees required of the customer.

In 2015, one customer accounted for approximately 10% of the Company's total revenue. In 2014, no one customer accounted for more than 10% of the Company's total revenue. In 2013, two customers accounted for approximately 10%, each, of the Company's total revenue. At December 31, 2015 and 2014, three customers each accounted for more than 10% of total accounts receivable.

MARKETING

The Company markets its services through its preferred provider status with Elekta and a direct sales effort led by its Vice President of Sales and Business Development and its Chief Operating Officer. The major advantages to a health care provider in contracting with the Company for Gamma Knife services include:

- The medical center avoids the high cost of owning the equipment. By not acquiring the Gamma Knife unit or other medical equipment, the medical center is able to allocate the funds otherwise required to purchase and/or finance the Gamma Knife to other projects.

- The Company does not have minimum volume requirements, so the medical center avoids the risk of equipment under-utilization. The medical center pays the Company only for each procedure performed on a patient.

- For contracts under revenue sharing arrangements, the Company assumes all or a portion of the risk of reimbursement rate changes. The medical center pays the Company only the contracted portion of revenue received from each procedure.

- The medical center transfers the risk of technological obsolescence to the Company. The medical center and its physicians are not under any obligation to utilize technologically obsolete equipment.

- The Company provides planning, installation, operating and marketing assistance and support to its customers.

FINANCING

The Company's Gamma Knife business is operated through GKF. GKF generally finances its U.S. Gamma Knife units, upgrades and additions with loans or capital leases from various finance companies for typically 100% of the cost of each Gamma Knife, plus any sales tax, customs and duties. The financing is predominantly fully amortized over an 84 month period and is collateralized by the equipment, customer contracts and accounts receivable, and is generally without recourse to the Company and Elekta. In addition, the loan to finance the Company's unit in Peru is guaranteed by GKF and collateralized by the Company's stock in the subsidiary, IGKP.

COMPETITION

Conventional neurosurgery, radiation therapy and other radiosurgery devices are the primary competitors of Gamma Knife radiosurgery. Gamma Knife radiosurgery has gained acceptance as an alternative and/or adjunct to conventional surgery due to its more favorable morbidity outcomes for certain procedures as well as its non-invasiveness. Utilization of the Company's Gamma Knife units is contingent on the acceptance of Gamma Knife radiosurgery by the customer's neurosurgeons, radiation oncologists and referring physicians. In addition, the utilization of the Company's Gamma Knife units is impacted by the proximity of competing Gamma Knife centers and providers using other radiosurgery devices.

The Company's ability to secure additional customers for Gamma Knife services and other radiosurgery and radiation therapy services is dependent on its ability to effectively compete against (i) Elekta, the manufacturer of the Gamma Knife, (ii) manufacturers of other radiosurgery and radiation therapy devices, and (iii) other companies that outsource these services. The Company does not have an exclusive relationship with Elekta or other manufacturers and has previously lost sales to customers that chose to purchase equipment directly from manufacturers. The Company may continue to lose future sales to such customers and may also lose sales to the Company's competitors.

GOVERNMENT PROGRAMS

The Medicare program is administered by the Centers for Medicare and Medicaid Services ("CMS") of the U.S. Department of Health and Human Services ("DHHS"). Medicare is a health insurance program primarily for individuals 65 years of age and older, certain younger people with disabilities, and people with end-stage renal disease, and is provided without regard to income or assets.

The Medicare program is subject to statutory and regulatory changes, administrative rulings, interpretations and determinations, requirements for utilization review, and federal and state funding restrictions, all of which could materially increase or decrease payments from these government programs in the future, as well as affect the cost of providing services to patients and the timing of payments to our client hospitals.

The Company's Gamma Knife and radiation therapy customers receive payments for patient care from federal government and private insurer reimbursement programs. Currently in the United States, Gamma Knife services are performed primarily on an out-patient basis. Gamma Knife patients with Medicare as their primary insurer, treated on either an in-patient or out-patient basis, comprise an estimated 35-45% of the total Gamma Knife patients treated nationwide. Radiation therapy patients with Medicare as their primary insurer are treated primarily on an out-patient basis, and comprise an estimated 45% to 50% of the total radiation therapy patients treated. The Company estimates that its percentage of patients with Medicare as their primary insurer approximates these national averages.

Congress enacted legislation in 2013 that significantly reduced the Medicare reimbursement rate for outpatient Gamma Knife treatment by setting it at the same amount paid for linear accelerator-based radio surgery treatment. Prior to April 1, 2013, Medicare's reimbursement rate for Gamma Knife treatment had been relatively stable. Congress's enactment of the American Taxpayer Relief Act of 2012, however, reduced Medicare's Gamma Knife reimbursement rate from approximately $9,900 to $5,300, effective April 1, 2013. This change caused a substantial reduction in the Company's revenues during 2013 and 2014. Effective January 1, 2015, the Centers for Medicare and Medicaid (CMS) established a Comprehensive Ambulatory Payment Classification for single session radiosurgery treatments, which increased the reimbursement rate by approximately $4,100 to $9,700. CMS has established a 2016 total reimbursement rate of approximately $8,800 for a Medicare Gamma Knife treatment. The Company's IGRT services are reimbursed by CMS and other insurers. Reimbursement for these services has remained fairly stable. See additional discussion under Item 1A Risk Factors.

The hospital based Medicare delivery code reimbursement rate for PBRT established by CMS is $506 for simple without compensation and $1,051 for either simple with compensation, intermediate or complex treatments. Patients typically undergo 25-30 delivery sessions.

We are unable to predict the effect of future government health care funding policy changes on operations. If the rates paid by governmental payers are reduced, if the scope of services covered by governmental payers is limited, or if one or more of our hospital clients are excluded from participation in the Medicare program or any other government health care program, there could be a material adverse effect on our business.

Affordable Care Act

In March 2010, President Obama signed into law the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010, ("Affordable Care Act"), which has resulted in significant changes to the health care industry. The primary goal of the legislation was to extend health care coverage to approximately 32 million uninsured legal U.S. residents through both an expansion of public programs and reforms to private sector health insurance. The expansion of insurance coverage is expected to be funded in part by measures designed to promote quality and cost efficiency in health care delivery and by budgetary savings in the Medicare and Medicaid programs. Because the Company is not a health care provider, we are not directly affected by the law, but we could be indirectly affected principally as follows:

- An increase in the number of insured residents could potentially increase the number of patients seeking Gamma Knife or radiation therapy treatment.

- The Company's retail contracts are subject to reimbursement rate changes for radiosurgery or radiation therapy services by the government or other third party payors. Any changes to Medicare or Medicaid reimbursement through the implementation of the Affordable Care Act could affect revenue generated from these sites.

9

GOVERNMENT REGULATION

The payment of remuneration to induce the referral of health care business has been a subject of increasing governmental and regulatory focus in recent years. Section 1128B(b) of the Social Security Act (sometimes referred to as the "federal anti-kickback statute") provides criminal penalties for individuals or entities that offer, pay, solicit or receive remuneration in order to induce referrals for items or services for which payment may be made under the Medicare and Medicaid programs and certain other government funded programs. The Affordable Care Act amended the anti-kickback statute to eliminate the requirement of actual knowledge, or specific intent to commit a violation, of the anti-kickback statute. The Social Security Act provides authorizes the Office of Inspector General through civil proceedings to exclude an individual or entity from participation in the Medicare and state health programs if it is determined any such party has violated Section 1128B(b) of the Social Security Act. The Company believes that it is in compliance with the federal anti-kickback statute. Additionally, the Omnibus Budget Reconciliation Act of 1993, often referred to as "Stark II", bans physician self-referrals to providers of designated health services with which the physician has a financial relationship. On September 5, 2007, the third and final phase of the Stark regulations (Phase III) was published. The term "designated health services" includes, among others, radiation therapy services and in-patient and out-patient hospital services. On January 1, 1995, the Physician Ownership and Referral Act of 1993 became effective in California. This legislation prohibits physician self-referrals for covered goods and services, including radiation oncology, if the physician (or the physician's immediate family) concurrently has a financial interest in the entity receiving the referral. The Company believes that it is in compliance with these rules and regulations.

On August 19, 2008, the CMS published a final rule relating to inpatient hospital services paid under the Inpatient Prospective Payment System for discharges in the Fiscal Year 2009 (the “Final Rule”). Among other things, the Final Rule prohibits “per-click payments” to certain physician lessors for services rendered to patients who were referred by the physician lessor. This prohibition on per-click payments for leased equipment used in the treatment of a patient referred to a hospital lessee by a physician lessor applies regardless of whether the physician himself or herself is the lessor or whether the lessor is an entity in which the referring physician has an ownership or investment interest. The effective date of this prohibition was October 1, 2009. However, referrals made by a radiation oncologist for radiation therapy or ancillary services necessary for, and integral to, the provision of radiation therapy (such as Gamma Knife services) are not subject to this prohibition so long as certain conditions are met. GK Financing’s majority owned subsidiaries, Albuquerque GK Equipment, LLC (“AGKE”) and Jacksonville GK Equipment, LLC (“JGKE”) have minority ownership interests that are held solely by radiation oncologists, who are otherwise exempt from the referral prohibition under the Final Rule. The Company believes it is in compliance with the Final Rule.

A range of federal civil and criminal laws target false claims and fraudulent billing activities. One of the most significant is the Federal False Claims Act, which prohibits the submission of a false claim or the making of a false record or statement in order to secure a reimbursement from a government-sponsored program. In recent years, the federal government has launched several initiatives aimed at uncovering practices which violate false claims or fraudulent billing laws. Claims under these laws may be brought either by the government or by private individuals on behalf of the government, through a "whistleblower" or "qui tam" action. The Company believes that it is in compliance with the Federal False Claims Act; however, because such actions are filed under seal and may remain

secret for years, there can be no assurance that the Company or one of its affiliates is not named in a material qui tam action.

Legislation in various jurisdictions requires that health facilities obtain a Certificate of Need ("CON") prior to making expenditures for medical technology in excess of specified amounts. Four of the Company’s existing customers were required to obtain a CON or its equivalent. The CON procedure can be expensive and time consuming and may impact the length of time before Gamma Knife services commence. CON requirements vary from state to state in their application to the operations of both the Company and its customers. In some jurisdictions the Company is required to comply with CON procedures to provide its services and in other jurisdictions customers must comply with CON procedures before using the Company's services. The Company is unable to predict if any jurisdiction will eliminate or alter its CON requirements in a manner that will increase competition and, thereby, affect the Company's competitive position.

The Company's Gamma Knife units contain Cobalt 60 radioactive sources. The medical centers that house the Company's Gamma Knife units are responsible for obtaining possession and user's licenses for the Cobalt 60 source from the Nuclear Regulatory Commission.

Standard linear accelerator equipment utilized to treat patients is regulated by the FDA. The licensing is obtained by the individual medical center operating the equipment.

The Company believes it is in substantial compliance with the various rules and regulations that affect its businesses.

INSURANCE AND INDEMNIFICATION

The Company's contracts with equipment vendors generally do not contain indemnification provisions. The Company maintains a comprehensive insurance program covering the value of its property and equipment, subject to deductibles, which the Company believes are reasonable.

The Company's customer contracts generally contain mutual indemnification provisions. The Company maintains general and professional liability insurance. The Company is not involved in the practice of medicine and therefore believes its present insurance coverage and indemnification agreements are adequate for its business.

PROTON BEAM RADIATION THERAPY BUSINESS

PBRT is an alternative to traditional external beam, photon based radiation delivered by linear accelerators. PBRT, first clinically introduced in the 1950s, has physics advantages compared to photon based systems which allow PBRT to deliver higher radiation doses to the tumor with less radiation to healthy tissue. PBRT currently treats prostate, eye, cranial-spinal, head and neck, lung, liver and breast tumors. In excess of 130,000 patients have been treated with protons worldwide.

Introduction of PBRT in the United States, until recently, has been limited due to the high capital costs of these projects. The Company believes that the current development of one and two treatment room PBRT systems at lower capital costs and the level of reimbursement for PBRT from the CMS will help make this technology available to a larger segment of the market.

There are several competing manufacturers of proton beam systems, including Mevion, IBA Particle Therapy Inc., Hitachi Ltd., Varian Medical Systems, Inc. (Accel), Optivus Proton Therapy Inc., Sumitomo Heavy Industries, ProTom International, Inc. and Mitsubishi Electric. The Company has invested in Mevion and has made deposits towards the purchase of three MEVION S250 systems. The Mevion system potentially provides cancer centers the opportunity to introduce single treatment room PBRT services with cost in the range of approximately $25 to $35 million rather than four and five PBRT treatment room programs costing in excess of $120 million. The MEVION S250 system received FDA approval in the second quarter of 2012 and the first clinical treatment occurred in December 2013 at Barnes-Jewish Hospital. The Company's first MEVION S250 synchrocyclotron (a major component of the MEVION S250 system) was delivered to UF Health Cancer Center at Orlando Health in late 2014. During 2015, the synchrocyclotron was installed and tested and is expected to treat its first patient in second quarter 2016. In January 2016, the Company received financing for its remaining commitment related to the first Mevion S250 system. The Company's second and third PBRT units will not begin construction until the Company identifies satisfactory placement sites.

The Company believes the business model it has developed for use in its Gamma Knife and radiation therapy businesses can be tailored for the PBRT market segment. The Company is targeting large, hospital based cancer programs. The Company's ability to develop a successful PBRT financing entity depends on the decision of cancer centers to self-fund or to fund the PBRT through conventional financing vehicles, the Company's ability to capture market share from competing alternative PBRT financing entities, and the Company's ability to raise capital to fund PBRT projects.

EMPLOYEES

At December 31, 2015, the Company employed eight (8) people on a full-time basis and one (1) on a part-time basis. None of these employees is subject to a collective bargaining agreement and there is no union representation within the Company. The Company maintains various employee benefit plans and believes that its employee relations are good.

EXECUTIVE OFFICERS OF THE COMPANY

The following table provides current information concerning those persons who serve as executive officers of the Company. The executive officers were appointed by the Board of Directors and serve at the discretion of the Board of Directors.

Name:	Age:	Position:
Ernest A. Bates, M.D.	79	Chairman of the Board of Directors and Chief Executive Officer
Craig K. Tagawa	62	Senior Vice President - Chief Operating and Financial Officer
Ernest R. Bates	49	Vice President of Sales and Business Development

Ernest A. Bates, M.D., founder of the Company, has served in the positions listed above since the incorporation of the Company. A board-certified neurosurgeon, Dr. Bates is Emeritus Vice Chairman of the Board of Trustees at Johns Hopkins University and serves on the Johns Hopkins Neurosurgery Advisory Board. He also serves on the boards of Shared Imaging and FasterCures. Dr. Bates previously served on the California Commission for Jobs and Economic Growth and the Magistrate Judge Merit Selection Panel. From 1981-1987 he was a member of the Board of Governors of the California Community Colleges, and he served on the California High Speed Rail Authority from 1997 to 2003. Dr. Bates is a member of the Board of Overseers at the University of California, San Francisco, School of Nursing. He is a graduate of the School of Arts and Sciences of the Johns Hopkins University, and he earned his medical degree at the University of Rochester School of Medicine and Dentistry.

Craig K. Tagawa has served as Chief Operating Officer since February 1999 in addition to serving as Chief Financial Officer since May 1996. Mr. Tagawa also served as Chief Financial Officer from January 1992 through October 1995. Previously a Vice President in such capacity, Mr. Tagawa became a Senior Vice President on February 28, 1993. He is also the Chief Executive Officer of GKF. From September 1988 through January 1992, Mr. Tagawa served in various positions with the Company. He is a former Chair of the Industrial Policy Advisory Committee of the Engineering Research Center for Computer-Integrated Surgical Systems and Technology at The Johns Hopkins University. He received his undergraduate degree from the University of California at Berkeley and his M.B.A. from Cornell University.

Ernest R. Bates joined the Company in January 2007 as Vice President of Sales and Business Development. He was on the Board of Directors of the Company from 2004 through February 2007. Prior to joining the Company, he had been Managing Director, Institutional Fixed Income Sales of HSBC Securities (USA), Inc. since 2003. Mr. Bates has also served as Managing Director, Head of Asian Product for HSBC Securities (USA) Inc. from 1999 to 2003. From 1993 through 1999, Mr. Bates held various positions with Merrill Lynch, last serving as Vice President, European Syndicate for Merrill Lynch International. He received his undergraduate degree from Brown University and a M.B.A. degree from The Wharton Business School. Ernest R. Bates is the son of Chairman of the Board and Chief Executive Officer Dr. Ernest A. Bates.

AVAILABLE INFORMATION

Our Internet address is www.ashs.com. We make available free of charge, through our Internet website under the "Investor Center" tab in the "Corporate" section, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 ("Exchange Act") as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. The information contained on our Internet website is not part of this document.

ITEM 1A. RISK FACTORS

In addition to the other information in this report, the following factors could affect our future business, results of operations, cash flows or financial position, and could cause future results to differ materially from those expressed in any of the forward-looking statements contained in this report.

The Federal Reimbursement Rate for Gamma Knife Treatments Has Fluctuated

Congress enacted legislation in 2013 that significantly reduced the Medicare reimbursement rate for outpatient Gamma Knife treatment by setting it at the same amount paid for linear accelerator-based radiosurgery treatment. Prior to April 1, 2013, Medicare's reimbursement rate for Gamma Knife treatment had been relatively stable. In April 2013, the Medicare reimbursement rate for Gamma Knife treatment was lowered from approximately $9,900 to $5,300 per treatment session. This sudden reduction in a rate that had historically been stable resulted in a significant decrease in the Company's revenues from all of our revenue sharing and some of our fixed fee medical centers. The reimbursement rate was subsequently increased to approximately $5,600 in 2014. Effective January 1, 2015, CMS established a comprehensive Ambulatory Payment Classification (APC) for both Gamma Knife and LINAC one session cranial radiosurgery at a reimbursement rate of approximately $9,700. This represents an estimated increase of $4,100 per Medicare Gamma Knife treatment (exclusive of co-insurance and other adjustments) effective January 1, 2015 compared to the 2014 Medicare reimbursement rate. The 2016 reimbursement level was reduced by CMS to approximately $8,800. There can be no assurance that CMS reimbursement levels will be maintained at levels providing the Company an adequate return on its investment. Any future reductions in the reimbursement rate would adversely affect the Company's revenues and financial results.

The average Medicare reimbursement rate trends from 2012 to 2016 are outlined below:

Average Medicare Reimbursement Rate Trends

2012	2013	2014	2015	2016
$9,900	$5,300	$5,600	$9,700	$8,800

The Company's Capital Investment at Each Site is Substantial

Each radiosurgical or radiation therapy device requires a substantial capital investment. In some cases, we contribute additional funds for capital costs and/or annual operating and equipment related costs such as marketing, maintenance, insurance and property taxes. Due to the structure of our contracts with medical centers, there can be no assurance that these costs will be fully recovered or that we will earn a satisfactory return on our investment.

The Market for the Gamma Knife is Limited

There is a limited market for the Gamma Knife, and the market in the United States may be mature. The Company has begun operation at only four (4) new Gamma Knife sites in the United States since 2011. Due to the substantial costs of acquiring a Gamma Knife unit, we must identify medical centers that possess neurosurgery and radiation oncology departments capable of performing a large number of Gamma Knife procedures. As of December 31, 2015, there were approximately 130 operating Gamma Knife units in the United States, of which 17 units were owned by the Company. The Company has two idle Gamma Knife units with a cumulative net book value of $1,500,000. The Company plans to trade these units in for new units or place these units at new sites. There can be no assurance that we will be successful in placing these idle units or additional units at any sites in the future. The Company's existing contracts with its customers are fixed in length and there can be no assurance that the customers will wish to extend the contract beyond the end of the term.

The Company Has a High Level of Debt

The Company's business is capital intensive. The Company finances its Gamma Knife units through its GKF subsidiary. The amounts financed through GKF have been generally non-recourse to ASHS. The Company's combined long term debt and capital leases totaled $23,118,000 as of December 31, 2015 and is collateralized by the Gamma Knife and other assets, including accounts receivable and future proceeds from any contract between the Company and any end user of the financed equipment. This high level of debt may adversely affect the Company's ability to secure additional credit in the future, and as a result may affect operations and profitability. If default on debt occurs in the future, the Company's creditors would have the ability to accelerate the defaulted loan, to seize the Gamma Knife unit or other equipment with respect to which default has occurred, and to apply any collateral they may have at the time to cure the default.

A Small Number of Customers Account for a Major Portion of our Revenues

A limited number of customers have historically accounted for a substantial portion of the Company's total revenue, and the Company expects such customer concentration to continue for the foreseeable future. For example, in 2015, six (6) customers in total accounted for more than 50% of the Company's revenue. The loss of a significant customer or a significant decline in the business from the Company's largest customers could have a material adverse effect on the Company's business and results of operations.

The Market for the Company's Services is Competitive

The Company estimates that there are two other companies that actively provide alternative, non-conventional Gamma Knife financing to potential customers. We believe there are no competitor companies that currently have more than three (3) Gamma Knife units in operation. The Company's relationship with Elekta, the manufacturer of the Leksell Gamma Knife unit, is non-exclusive, and in the past the Company has lost sales to customers that chose to purchase a Gamma Knife unit directly from Elekta. In addition, the Company may continue to lose future sales to such customers and may also lose future sales to its competitors. There can be no assurance that the Company will be able to successfully compete against others in placing future units.

There are Alternatives to the Gamma Knife

Other radiosurgery devices and conventional neurosurgery compete against the Gamma Knife. Each of the medical centers targeted by the Company could decide to acquire another radiosurgery device instead of a Gamma Knife. In addition, neurosurgeons who are primarily responsible for referring patients for Gamma Knife surgery may not be willing to make such referrals for various reasons, instead opting for invasive surgery. There can be no assurance that the Company will be able to secure a sufficient number of future sites or Gamma Knife procedures to sustain its profitability and growth.

International Operations

The Company has plans to install, in 2016, a Gamma Knife in Peru. The Company sold its operations in Turkey on June 10, 2014. International operations can be subject to exchange rate volatility which could have an adverse effect on our financial results and cash flows. In addition, international operations can be subject to legal and regulatory uncertainty and political and economic instability, which could result in problems asserting property or contractual rights, potential tariffs, increased compliance costs, increased regulatory scrutiny, potential adverse tax consequences, the inability to repatriate funds to the United States, and the Company's inability to operate in those locations.

New Technology and Products Could Result in Equipment Obsolescence

There is constant change and innovation in the market for highly sophisticated medical equipment. New and improved medical equipment can be introduced that could make the Gamma Knife technology obsolete and that would make it uneconomical to operate. During 2000, Elekta introduced an upgraded Gamma Knife which cost approximately $3.6 million plus applicable tax and duties. This upgrade includes an Automatic Positioning System™ ("APS"), and therefore involved less health care provider intervention. In early 2005, Elekta introduced a new upgrade, the Gamma Knife Model 4C ("Model 4C"). The cost to upgrade existing units to the Model 4C with APS was approximately $200,000 to $1,000,000, depending on the current Gamma Knife configuration. In 2006 Elekta introduced a new model of the Gamma Knife, the Perfexion, which costs approximately $4.5 million plus applicable taxes and duties. The Perfexion can perform procedures faster than previous Gamma Knife models and it involves less health care personnel intervention. In 2015, Elekta introduced the Leksell Gamma Knife Icon ™. The Perfexion is upgradeable to the Icon platforms which has enhanced imaging capabilities allowing for treatment of larger tumors. Existing models of the

Gamma Knife are not upgradeable to the Perfexion model. As of March 1, 2016, 14 of the Company's Gamma Knife units are Perfexion models; of the Company's remaining Gamma Knife units, five (5) are Model 4C with APS and one is upgradeable to a more advanced Model 4C unit. The failure to acquire or use new technology and products could have a material adverse effect on our business and results of operations.

In addition, there are constant advances made in radiation therapy equipment. The Company purchased IGRT and CT Simulator systems in 2006 with a list price of approximately $8,300,000. As in the Gamma Knife business, new and improved IGRT equipment can be introduced that could make the existing technology obsolete and that would make it uneconomical to operate.

The Company Has Invested in a Proton Beam Business that is Developmental

We have committed a substantial amount of our financial resources to next-generation proton beam technology. The first MEVION S250 system began treating patients in December 2013. We have committed to purchase three (3) MEVION S250 systems, and have already made deposits of $5,000,000 towards this commitment. There can be no assurance that we will be able to finance these machines and if we do, that we will recover this investment or future investments, or our $2,709,000 common stock investment in Mevion, which was written down to approximately $579,000 as of December 31, 2015. As of January 2016, we have finalized financing for the Company's first MEVION S250 that is starting at UF Health Cancer Center at Orlando Health in the second quarter 2016.

The Trading Volume of Our Common Stock is Low

Although our common stock is listed on the NYSE MKT, our common stock has experienced low trading volume, both historically and recently. Reported average daily trading volume in our common stock for the three-month period ended December 31, 2015 was approximately 3,200 shares. There is no reason to think that a more active trading market in our common stock will develop in the future. Limited trading volume subjects our common stock to greater price volatility and may make it difficult for you to sell your shares in a quantity or at a price that is attractive to you.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company's corporate offices are located at Four Embarcadero Center, Suite 3700, San Francisco, California, where it leases approximately 4,640 square feet for $25,128 per month with a lease expiration date in May 2016. The Company has subleased approximately 3,500 rentable square feet of the office space for $16,042 per month. The sublease expires in May 2016. The Company is in the process of procuring new corporate office space and there will be future rent expense associated with this space. The Company also has a satellite office in Fairfield, California, where it leases 895 square feet for $2,505 per month with a lease expiration date in April 2018.

For the year ended December 31, 2015 the Company's aggregate net rental expenses for all properties were approximately $295,000, net of sublease income of $191,000.

ITEM 3. LEGAL PROCEEDINGS

There are no material pending legal proceedings involving the Company or any of its property. The Company knows of no legal or administrative proceedings against the Company contemplated by governmental authorities.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information and Dividend Policy

The Company's common shares, no par value (the "Common Shares"), are currently traded on the New York Stock Exchange. At December 31, 2015, the Company had 5,364,000 issued and outstanding common shares, 614,000 common shares reserved for options, 3,000 unvested restricted stock units issued, 176,000 vested restricted stock units reserved for issuance and warrants to issue 200,000 shares of common stock.

The following table sets forth the high and low closing sale prices of the Common Shares of the Company on the New York Stock Exchange for each full quarter for the last two fiscal years.

	Prices for Common Shares	
Quarter Ending	High	Low
March 31, 2014	$ 3.35	$ 2.64
June 30, 2014	$ 3.15	$ 2.40
September 30, 2014	$ 3.00	$ 2.09
December 31, 2014	$ 2.82	$ 2.01
March 31, 2015	$ 2.98	$ 2.26
June 30, 2015	$ 2.83	$ 2.36
September 30, 2015	$ 2.72	$ 1.86
December 31, 2015	$ 2.05	$ 1.51

The Company estimates that there were approximately 1,400 beneficial holders of its Common Shares at December 31, 2015.

There were no dividends declared or paid during 2015, 2014, or 2013. Dividends had been paid by the Company from 2001 to 2007, but during 2007 the Board of Directors suspended dividends for the purpose of preserving cash for the development of its PBRT business. The Company did not pay cash dividends prior to 2001.

Stock Repurchase Program

In 1999 and 2001, the Board of Directors approved resolutions authorized the Company to repurchase up to a total of 1,000,000 shares of its common stock on the open market from time to time at prevailing prices, and in 2008 the Board of Directors reaffirmed these authorizations. In 2015, there were no shares repurchased by the Company. In 2014, there were approximately 1,000 shares repurchased at a cost of approximately $2,000. There were no shares repurchased in 2013. A total of approximately 928,000 shares have been repurchased in the open market pursuant to these authorizations at a cost of approximately $1,957,000. As of December 31, 2015, there were approximately 72,000 shares remaining under the repurchase authorizations.

Shareholder Rights Plan

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% or more of the Company’s outstanding common stock) or announces a tender or exchange offer to acquire 15% 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. On March 12, 2009, the Board of Directors approved the First Amendment to the Plan which, among other things, extended the final date on which the Rights are exercisable until the close of business on April 1, 2019.

Equity Compensation Plans

During 2015, one holder of options to acquire 2,000 shares of the Company's common stock exercised his respective rights pursuant to such securities; additionally, 3,000 restricted stock units, 28,000 restricted stock units for deferred compensation and 20,000 options were issued during 2015. Additional information regarding our equity compensation plans is incorporated herein by reference from the 2016 Proxy Statement. Also, see Note 9-"Shareholders' Equity to the Consolidated Financial Statements".

Recent Sales of Unregistered Securities

The Company sold 750,000 shares of common stock to members of the Board of Directors in two private placement transactions in 2014 that were exempt under Section 4(a)(2) of the Securities Act.

ITEM 6. SELECTED FINANCIAL DATA

Summary of Operations	Year Ended December 31, (Amounts in thousands except per share data)				
	2015	2014	2013	2012	2011
Revenue	$16,548	$15,417	$17,584	$17,048	$22,221
Costs of revenue	9,833	10,138	10,640	10,118	14,224
Selling and administrative expense	3,496	3,630	4,025	4,045	4,041
Interest expense	1,239	1,699	1,799	2,155	2,367
Total expenses	14,568	15,467	16,464	16,318	20,632
Income (loss) from operations	1,980	(50)	1,120	730	1,589
(Loss) on write down investment in equity securities	(2,140)	0	0	0	0
(Loss) on sale of subsidiary	0	(572)	0	0	0
Gain (loss) foreign currency transactions	0	161	(1,174)	132	(27)
Interest and other income	18	28	25	58	135
(Loss) income before income taxes	(142)	(433)	(29)	920	1,697
Income tax expense	434	129	84	107	208
Net (loss) income	(576)	(562)	(113)	813	1,489
Less net income attributable to non-controlling interest	(946)	(390)	(199)	(775)	(983)
Net (loss) income attributable to ASHS	$(1,522)	$(952)	$(312)	$38	$506
Net (loss) income per common share attributable to ASHS:					
Basic	$(0.28)	$(0.19)	$(0.07)	$0.01	$0.11
Diluted	$(0.28)	$(0.19)	$(0.07)	$0.01	$0.11

See accompanying note (1)

Balance Sheet Data	As of December 31, (Amounts in thousands)				
	2015	2014	2013	2012	2011
Cash and cash equivalents	$2,209	$1,059	$1,909	$1,564	$2,580
Certificate of deposit and securities	-	9,000	9,000	9,000	9,000
Restricted cash	50	50	50	50	50
Working capital (deficit)	(2,691)	(2,004)	(4,079)	(2,697)	(1,329)
Total assets	54,114	67,528	71,742	73,323	74,535
Advances on line of credit	0	8,780	8,840	8,550	7,850
Current portion of long-term debt and capital leases	7,005	6,108	8,771	7,674	7,616
Long-term debt/capital leases, less current portion	16,113	20,776	23,690	27,010	28,135
Shareholders' equity	$25,180	$26,154	$24,055	$24,830	$25,171

See accompanying note (1)

(1) In 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 GKF. During 2010 and 2011, GKF established new operating subsidiaries, EWRS, EWRS Turkey, AGKE, and JGKE, and other subsidiaries that are not yet operational. On June 10, 2014, the Company sold EWRS Turkey. Accordingly, the financial data for the Company presented above include the results of GKF and its subsidiaries for the periods 2011 through 2015.

This financial data as of December 31, 2015, 2014 and 2013 and for the years ended December 31, 2015, 2014 and 2013 should be read in conjunction with our consolidated financial statements and the notes thereto beginning on page A-1 of this report and with Item 7–“Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

ITEM 7. 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.

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 revenue recognition and costs of sales for turn-key and revenue sharing arrangements, the determination of the allowance for doubtful accounts, and the carrying value of its Mevion investment to be the 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 one IGRT site by ASHS. During 2014, the Company entered into a lease agreement where the lessee gave the Company a piece of equipment for $1. The Company estimated and recorded the fair market value of the equipment received and recognized deferred revenue. As of December 31, 2014, the fair market value of the equipment received during the year was $700,000.

Revenue is recognized when services have been rendered and collectability is reasonably assured, on either a fee per use or revenue sharing basis. During 2015, the Company had eleven (11) fee per use arrangements and eight (8) retail service arrangements. Under both of these types of agreements, the hospital is responsible for billing patients and collecting technical component 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 in accordance with the contract terms.

During 2015, ASHS had one (1) agreement and GKF had seven (7) agreements that are based on revenue sharing. These can be further classified as either "turn-key" arrangements or "revenue sharing" arrangements. For GKF's four (4) 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. For two of the turn-key sites, the Company also shares a percentage of net operating profit. The Company records an estimate of net operating profit based on estimated revenues, less estimated operating costs. 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 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 revenue sharing arrangement is a percentage of reimbursed revenue. Payments are made by the hospital, generally on a monthly basis, to the Company based on an agreed upon percentage allocation of cash collected. Revenue is recognized during the period in which procedures are performed, and is estimated based on the reimbursement amount that the Company expects to receive from the hospital for those procedures. 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 47%, 42% and 44% of total revenue for the years ended December 31, 2015, 2014 and 2013, respectively. Because the revenue estimates are reviewed on a quarterly basis, any adjustments required for past revenue estimates would result in an increase or reduction in revenue during the current quarterly period.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is estimated based on possible losses relating to the Company's 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.

Carrying Value of Mevion Investment

The Company has carried its investment in Mevion at cost and reviews it for impairment on a quarterly basis, or as events or circumstances might indicate that the carrying value of the investment may be below its cost basis on an, other-than-temporary impairment basis. The Company evaluated this investment for impairment at December 31, 2014. In light of available information, the Company determined impairment was not other-than temporary. The Company estimates that there was an unrealized loss (impairment) of approximately $2.4M, as of December 31, 2014.

Due to Mevion's cancellation of its planned IPO on July 27, 2015 and its announcement on August 4, 2015 of an investment of up to $200M by new investors, the Company determined that its Mevion common stock investment was impaired on an other-than-temporary basis. The fair value of the Company's investment in Mevion, as of December 31, 2015, is approximately $579,000 with an impairment loss for the year of $2,140,000. For additional information, see "Impairment Analysis of Investment in Equity Securities."

2015 Results

For the year ended December 31, 2015, 97% of the Company's revenue was derived from its Gamma Knife business, and the remaining 3% from its IGRT business. For the year ended December 31, 2014, 94% of the Company's revenue was derived from its Gamma Knife business, and the remaining 6% from its IGRT business. For the year ended December 31, 2013, 92% of the Company's revenue was derived from its Gamma Knife business, and the remaining 8% from its IGRT business.

TOTAL REVENUE

(in thousands)	2015	Increase (Decrease)		2014	Increase (Decrease)		2013
Total revenue	$16,548	7.3	%	$15,417	(12.3	)%	$17,584

Total revenue in 2015 increased 7.3% compared to 2014, due to an increase in Gamma Knife revenue, offset by a decrease in IGRT revenue. Total revenue decreased 12.3% in 2014 compared to 2013 primarily due to the sale of EWRS Turkey which contributed $999,000 to the decline for 2014.

Gamma Knife Revenue

	2015	Increase (Decrease)		2014	Increase (Decrease)		2013
Medical services revenue from Gamma Knife (in thousands)	$16,077	10.7	%	$14,521	(10.0	)%	$16,127
Number of Gamma Knife procedures	1,947	(4.8	)%	2,046	(17.6	)%	2,482
Average revenue per procedure	$8,257	16.3	%	$7,097	9.2	%	$6,498

Total Gamma Knife revenue for 2015 increased 10.7% to $16,077,000 compared to $14,521,000 in 2014. Total Gamma Knife revenue for 2014 decreased 10.0% to $14,521,000 compared to $16,127,000 in 2013. The increase in revenue in 2015 compared to 2014 was due to an increase in volume and a favorable payor mix at the Company's retail sites. Excluding procedures performed in Turkey in 2014, procedures increased 7% in 2015, compared to prior year. The decrease in revenue in 2014 compared to 2013 was due to the sale of EWRS Turkey which contributed $642,000 to the decline, and the decrease in number of Gamma Knife procedures at certain of its U.S. sites. The Company had

seventeen, twenty, and nineteen Gamma Knife units in operation at December 31, 2015, 2014 and 2013.

The number of Gamma Knife procedures performed in 2015 increased 125, excluding procedures performed in Turkey in 2014. This increase was due to a new site which treated its first patient in December 2014, and increased volume at existing sites, offset by one contract which ended March 31, 2015. The number of Gamma Knife procedures performed in 2014 decreased by 436 compared to 2013, primarily due to the sale of EWRS Turkey which reported 343 more procedures in 2013. The remaining decline in procedures was due to personnel issues at existing Gamma Knife sites.

Revenue per procedure increased by $1,160 in 2015 and $599 in 2014 compared to 2014 and 2013, respectively. For 2015, the increase was due to a favorable payor mix, increased reimbursement for Medicare procedures, effective January 1, 2015, and the sale of EWRS Turkey units which were reimbursed at lower rates compared to the Company’s other units. For 2014, this increase was due to a favorable change in payor mix and the sale of the EWRS Turkey units which were reimbursed at lower rates compared to the Company’s other units.

IGRT Revenue

(in thousands)	2015	Increase (Decrease)	2014	Increase (Decrease)	2013
Medical services revenue from IGRT	$471	(47.4)%	$896	(38.5)%	$1,457

Medical services revenue from the Company’s IGRT contracts decreased $425,000 in 2015 compared to 2014. The sale of EWRS Turkey contributed $208,000 to the decline, in addition to lower volume at the Company’s existing site. Medical services revenue from the Company’s IGRT contracts decreased by $561,000 in 2014 compared to 2013. The sale of EWRS Turkey contributed $357,000 to the decline, in addition to lower volume at the Company’s existing site.

COSTS OF REVENUE

(In thousands)	2015	Increase (Decrease)	2014	Increase (Decrease)	2013
Total costs of revenue	$9,833	(3.0)%	$10,138	(4.7)%	$10,640
Percentage of total revenue	59.4 %		65.8 %		60.5 %

The Company's costs of revenue, 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) decreased by $305,000 in 2015 compared to 2014 and decreased $502,000 in 2014 compared to 2013.

The Company's maintenance and supplies costs were 6.6% of total revenue in 2015, 11.0% of total revenue in 2014 and 10.2% of total revenue in 2013. Maintenance and supplies costs decreased by $602,000 and $100,000 in 2015 and 2014 compared to 2014 and 2013, respectively. The decrease in 2015 compared to 2014 was due to the expiration of four fixed fee maintenance contracts at existing sites and the sale of the Company’s units in Turkey, which also had fixed fee maintenance contracts. The existing sites with fixed fee maintenance contracts that expired, now receive maintenance on a scheduled and on an as needed basis, which is more cost effective. The decrease in 2014 compared to 2013 is due to the expiration of two fixed fee maintenance contracts at existing sites and the sale of the Company’s units in Turkey, which also had fixed fee maintenance contracts. The existing sites with fixed fee maintenance contracts that expired, now receive maintenance on a scheduled and on an as needed basis, which is more cost effective.

Depreciation and amortization costs as a percentage of total revenue were 37.1%, 40.0%, and 35.9% in 2015, 2014 and 2013, respectively. Depreciation and amortization costs decreased $32,000 and $138,000 in 2015 and 2014 compared to 2014 and 2013, respectively. The decrease in 2015 compared to 2014 is due to the sale of EWRS Turkey in 2014, offset by increased depreciation in 2015 for the Company's new site, which started in December 2014, and two Cobtalt-60 reloads, which occurred during the second and third quarters 2015. The decrease in 2014 compared to 2013 is due to the extension of two customer agreements which spread the remaining depreciation expense over the extended contract term. In addition, the sale of EWRS Turkey lessened depreciation expense.

Other direct operating costs as a percentage of total revenue were 15.7%, 14.8% and 14.4% in 2015, 2014 and 2013, respectively. Other direct operating costs increased by $329,000 in 2015 compared to 2014 and decreased by $264,000 in 2014 compared to 2013. The increase in 2015 is due to increased operating costs at the Company's retail sites, offset slightly by lower insurance costs. The decrease in 2014 is due to lower insurance costs and property taxes.

SELLING AND ADMINISTRATIVE EXPENSE

(In thousands)	2015	Increase (Decrease)	2014	Increase (Decrease)	2013
Selling and administrative costs	$3,496	(3.7)%	$3,630	(9.8)%	$4,025
Percentage of total revenue	21.1 %		23.5 %		22.9 %

The Company's selling and administrative costs decreased $134,000 in 2015 compared to 2014 and decreased $395,000 in 2014 compared to 2013. The decrease in 2015 is due to consulting fees that were expensed in 2014, a decrease in state and local taxes paid, offset by an increase in stock-based compensation expense. The decrease in 2014 is due to reduction in payroll expense driven by lower headcount, building rent, travel expense, and legal and consulting fees, partially offset by increased tax and audit fees. Building rent decreased due to accrued rent relating to a sublease of a portion of the Company’s office space, recorded in the first quarter of 2013.

INTEREST EXPENSE

(In thousands)	2015	Increase (Decrease)	2014	Increase (Decrease)	2013
Interest expense	$1,239	(27.1)%	$1,699	(5.6)%	$1,799
Percentage of total revenue	7.5 %		11.0 %		10.2 %

The Company's interest expense decreased $460,000 and $100,000 in 2015 and 2014 compared to 2014 and 2013, respectively. The decrease in 2015 compared to 2014 is due, in part, to the sale of EWRS Turkey in 2014, which accounted for approximately $100,000 of expense in 2014. In addition, the Company had a lower average principal base in 2015, effectively reducing interest expense. The decrease in 2014 compared to 2013 is due to a lower average principal base in 2014, effectively reducing interest expense. In addition, the Company paid off one contract in 2014.

(LOSS) ON WRITE DOWN INVESTMENT IN EQUITY SECURITIES

(In thousands)	2015	Increase (Decrease)	2014	Increase (Decrease)	2013
(Loss) on write down investment in equity securities	$2,140	2,140.0 %	$0	0.0 %	$0

Percentage of total revenue	12.9 %	0.0 %	0.0 %

(Loss) on the write down of the Company's investment in equity securities is due to the other-than-temporary impairment assessment performed at June 30, 2015. At June 30, 2015, the Company adjusted the carrying value of its investment in Mevion to the determined fair value of $600,000 and recorded a $2,114,000 impairment loss. Subsequently, the Company engaged a third party expert to review its assessment of the fair value of the Company's common stock in Mevion and as a result, adjusted the impairment loss an additional $26,000. For the year ended December 31, 2015 the impairment loss was $2,140,000 and the fair value was approximately $579,000.

This transaction is treated as a capital loss for tax purposes which may be deducted only to the extent the Company has capital gains. The Company is not aware of any event or transaction planned where the Company would generate a capital gain. Therefore a full valuation allowance was recorded against the income tax benefit from the impairment loss, and the net impact to the income tax provision is $0.

(LOSS) ON SALE OF SUBSIDIARY

(In thousands)	2015	Increase (Decrease)	2014	Increase (Decrease)	2013
(Loss) on sale of subsidiary	$0	572.0 %	$(572)	(572.0)%	$0
Percentage of total revenue	0.0 %		(3.7)%		0.0 %

Loss on sale of subsidiary was $0 in 2015 compared to $572,000 in 2014. Effective May 31, 2014 (with closing occurring June 10, 2014) the Company sold EWRS Turkey for EUR 4.2 million (approximately $6.0M). The proceeds were used to pay-off outstanding debt associated with the Turkey operations and the excess was cash to the Company of $768,000.

GAIN (LOSS) FOREIGN CURRENCY TRANSACTIONS

(In thousands)	2015	Increase (Decrease)	2014	Increase (Decrease)