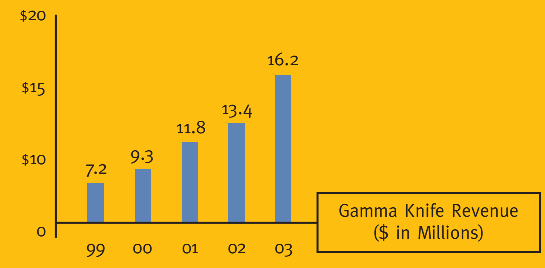
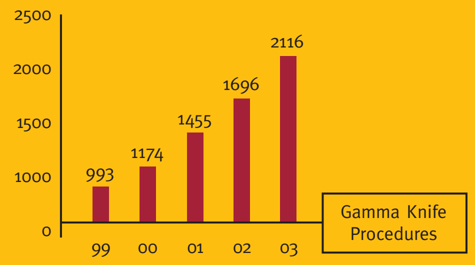
20 YEARS OF PARTNERSHIP 2003 ANNUAL REVIEW

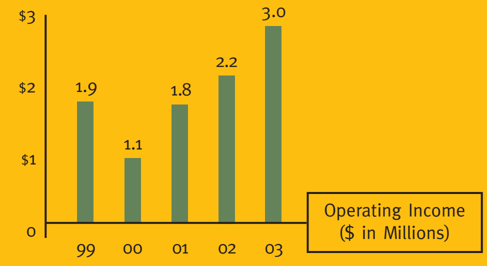
American Shared Hospital Services

PARTNERING FOR SUCCESS

In fiscal 2003, American Shared Hospital Services continued our track record of success with record revenues and operating income. The key reason for our results? **Our partnership approach.** We're there for our customers every step of the way, from innovative financing, to strategic planning, to marketing support.



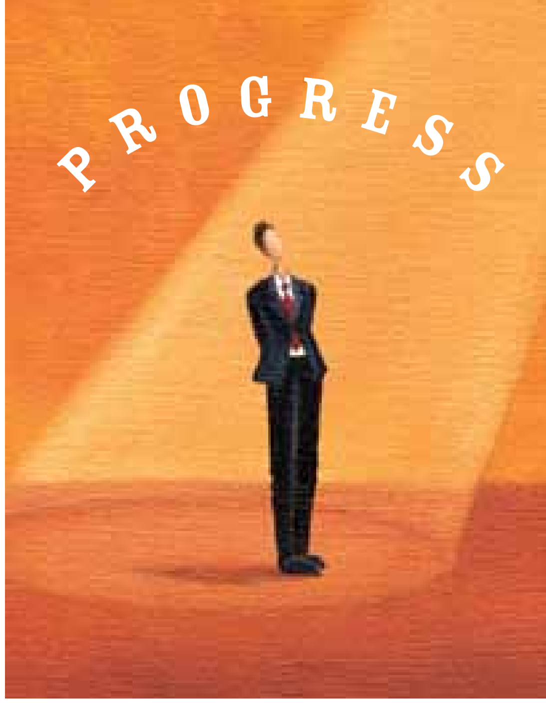




LONGEVITY

GROWTH

SHAREHOLDER RETURN



CHAIRMAN'S LETTER

This year, American Shared Hospital Services celebrates the 20th anniversary of our initial public offering. As the company's founder, I look back on our many achievements with considerable pride. Our record of developing Gamma Knife programs is unrivaled. Our fee-per-use financing model has started a whole new industry, enabling hospitals to obtain state-of-the-art technology with a minimal investment. Additionally, our partnership approach has resulted in successful Gamma Knife programs for our customers.

In fiscal 2003, we more than realized our objective of double-digit revenue and operating income growth. Our Gamma Knife revenues climbed to $16.2 million – a 21% gain over 2002. In addition, our operating income soared 34% over 2002 to $3 million. These results enabled us to increase our 2003 dividend distribution to $.16 per common share – a 33% rise over 2002. This dividend distribution, combined with our 2003 common share appreciation, resulted in a 50% total shareholder return.

These outstanding financial results were fueled by a 9% treatment increase at our Gamma Knife centers in operation for more than one year, as well as the start of three new centers, at Albuquerque Regional Medical Center, Baptist Regional Medical Center in Florida and The Johns Hopkins Hospital in Maryland.

Our fiscal 2004 objectives are threefold. First, to open at least four more Gamma Knife centers in addition to the 17 currently in operation. Second, to develop our radiation therapy business using the Gamma Knife business model. Third, to continue our record-breaking financial performance by again achieving double-digit revenue and operating income growth. With new Gamma Knife contracts already in place at Northern Westchester Hospital in New York, Lehigh Valley Hospital in Pennsylvania and Baptist Hospital of East Tennessee, we are well on our way to achieving these objectives.

As American Shared reaches this special 20-year anniversary, we have much to be excited about. Interest in Gamma Knife and other state-of-the-art radiation therapy devices continues to grow. Our expanding customer base and strategic alliances with the top tier of medical institutions position us for continued success. Furthermore, we have a clear vision for future growth. I look forward to reporting our successes to you for many years to come.

Ernest A. Bates, M.D. • Chairman & Chief Executive Officer • April 7, 2004

CELEBRATING **20** YEARS AS A PUBLIC COMPANY ›› **1980** Founding

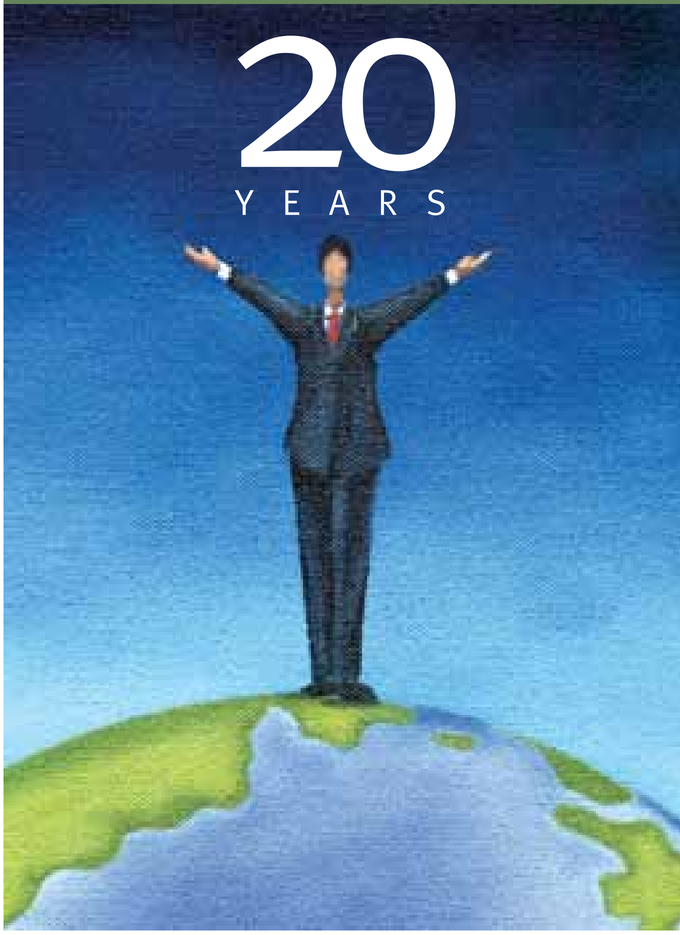

MODEL FOR GROWTH

“Technology like the Gamma Knife entails a huge investment in both time and money – plus it’s a considerable risk. With American Shared’s financing model, our Gamma Knife Center was opened quickly. We now have the Gamma Knife program we wanted, and – just as important – we’re using our capital for other critical needs.”

Melissa Fontaine
Chief Operating Officer
University of Arkansas for Medical Sciences

TRACK RECORD

FINANCIAL INNOVATION



FINANCIAL SOLUTIONS

In recent years, radiation therapy breakthroughs have been well publicized. Demand has increased for innovations like the Gamma Knife – a non-invasive alternative to conventional neurosurgery – and IMRT – a powerful cancer treatment that delivers radiation doses to selected parts of the body with vastly increased precision. Hospitals are anxious to offer this state-of-the-art equipment to differentiate themselves from the competition and provide the best possible care for their patients. But the costs can be overwhelming.

Through American Shared’s creative financing models, 17 of our clinical partners across the country have opened Gamma Knife centers with only a minimal investment. The University of Arkansas for Medical Sciences is just such an example. With our financing approach, they’ve been able to quickly get a Gamma Knife center up and running without the worry of capital investment, fixed monthly payments or technological obsolescence. As a result, they have the funds to address other pressing needs.

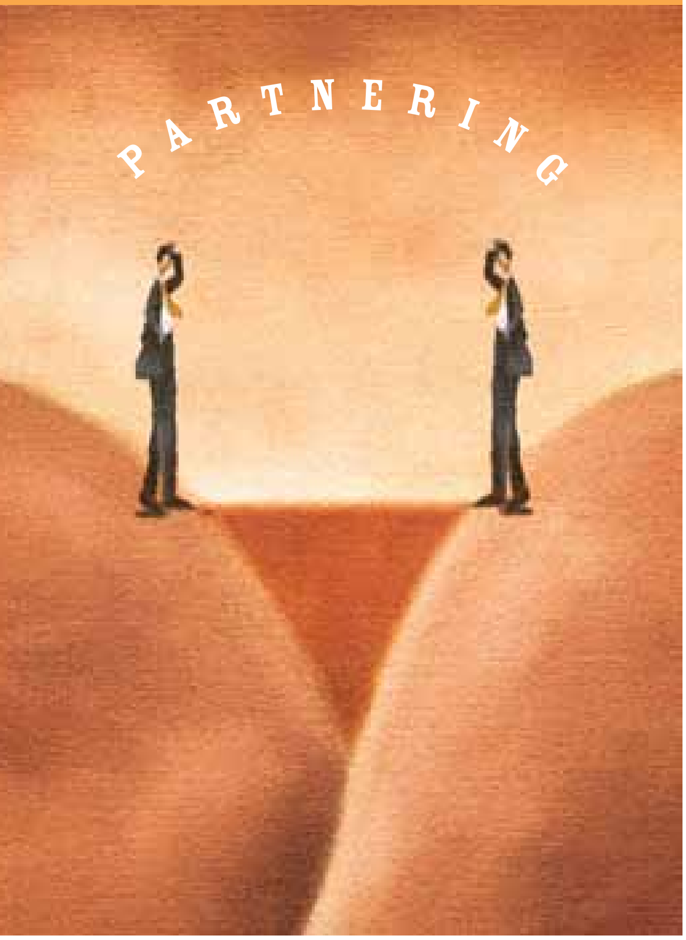
1984 Initial Public Offering

1987 Purchase of Imaging & Respiratory Therapy Business

1988 Secondary Public Offering

TRACK RECORD

MARKETING RESULTS



"American Shared is far more than a leasing company – they're a business partner. Drawing on their marketing expertise, we launched a highly effective ad campaign that dramatically increased awareness of the Gamma Knife among both physicians and the Boston community."

Edward Sternick
Director of Administration
Tufts-New England Medical Center

MARKET MAXIMIZATION

For American Shared, launching a customer's state-of-the-art facility is just the beginning. Our next step is to help them grow the business. Maintaining a Gamma Knife center requires steady demand from both physicians and potential patients – which translates into the need for a strong marketing and education campaign. Unlike traditional leasing companies, we bring our extensive marketing expertise to the table, working directly with our clinical partners to develop and execute customized marketing plans.

Our marketing programs include everything from radio, television, magazine and web-based advertising to video and online testimonials. Our work with Tufts-New England Medical Center is typical of the support we provide. Although they have the only Gamma Knife center in Boston, they still faced the challenge of competing against hospitals with other radiosurgical devices. We provided extensive marketing support, developing a campaign that sparked the interest of both the medical and consumer communities.

1989 Purchased Partner's Interest in MRI Business

1991 1st Gamma Knife Unit Installed

1995 GK Financing Formed


UNPARALLELED MARKETING SUPPORT

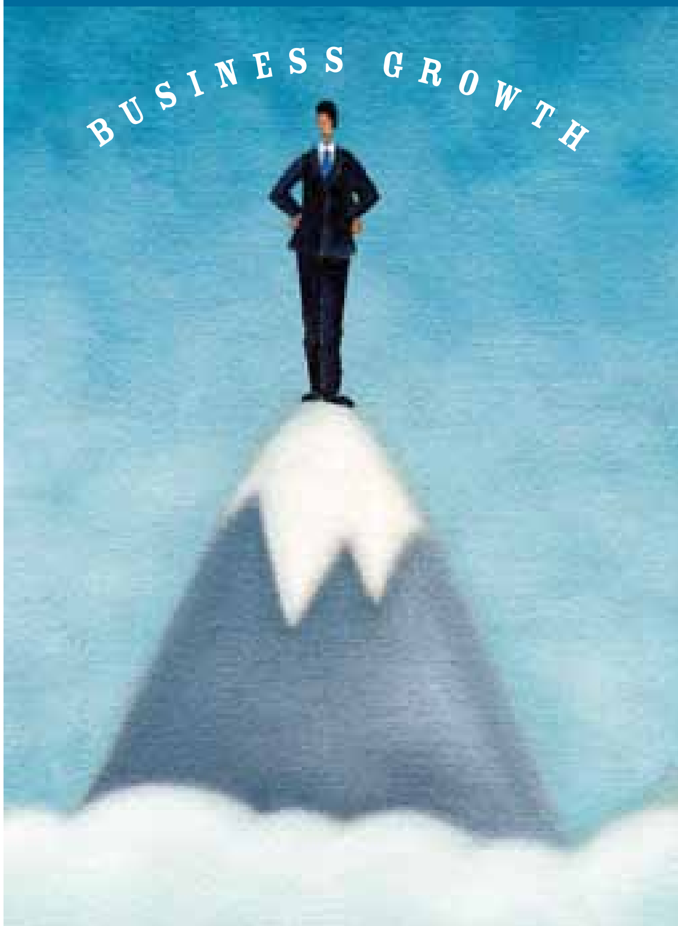

CREATIVE SOLUTIONS

"Albuquerque doesn't have enough patients to support multiple Gamma Knife facilities. American Shared went the extra mile by visiting our major area hospitals and obtaining their support for a single Gamma Knife center here at our facility. Through their efforts, our community has come together to ensure our patients get the treatment they need."

Paul Herzog
Chief Executive Officer
Albuquerque Regional Medical Center

TRACK RECORD

FORESIGHT



PLANNING FOR SUCCESS

Partnering with our customers can mean many things, from overcoming financial constraints to addressing local issues. Sometimes it means taking a step back and finding a creative solution to a potential roadblock. That was certainly the case in Albuquerque. In such a small community, competition among local hospitals could have destroyed any chance of a Gamma Knife center's success. American Shared visited local physicians and hospitals to obtain their support for a single center. The end result: a valuable community resource.

With our experience in helping numerous institutions establish and grow Gamma Knife centers, we've learned to play many roles. Whether it's operational support, marketing expertise, strategic planning or developing creative solutions to unique challenges, American Shared does what it takes to help ensure the success of our clinical partners.

1995 Sale of Respiratory Therapy Business

1998 Sale of Imaging Business

2001 Dividends Initiated

2003 SELECTED FINANCIAL REVIEW

American Shared Hospital Services

SELECTED FINANCIAL DATA

INCOME STATEMENT DATA

(Amounts in thousands except per share data)	Summary of Operations Year Ended December 31, 2003	2002	2001	2000	1999
Medical services revenue	$ 16,178	$ 13,366	$ 11,758	$ 9,336	$ 7,156
Costs of operations	7,400	5,399	4,285	3,435	2,165
Selling and administrative expense	3,255	3,313	3,245	2,655	1,803
Interest expense	2,547	2,437	2,456	2,118	1,309
Total costs and expenses	13,202	11,149	9,986	8,208	5,277
Income from operations	2,976	2,217	1,772	1,128	1,879
Interest and other income	121	171	480	829	613
Minority interest	(928)	(831)	(751)	(645)	(501)
Income before income taxes	2,169	1,557	1,501	1,312	1,991
Income tax benefit (expense)	(787)	(455)	(433)	0	716
Net income	$ 1,382	$ 1,102	$ 1,068	$ 1,312	$ 2,707
Net income per common share:					
Basic	$ 0.36	$ 0.30	$ 0.30	$ 0.34	$ 0.68
Diluted	$ 0.27	$ 0.22	$ 0.21	$ 0.24	$ 0.48
Cash dividend declared per common share	$ 0.20	$ 0.12	$ 0.10	$ 0.00	$ 0.00
Dividend payout ratio (paid and declared)	0.74	0.55	0.48	—	—

See accompanying note

BALANCE SHEET DATA

(Amounts in thousands)	2003	2002	2001	2000	1999
Cash	$ 10,312	$ 9,924	$ 11,580	$ 12,421	$ 12,903
Restricted cash	50	50	50	50	50
Working capital	5,268	7,175	9,351	10,155	11,125
Total assets	46,304	44,830	42,385	40,209	36,986
Current portion of long-term debt	6,803	5,490	4,305	4,126	2,545
Long-term debt, less current portion	20,114	22,006	21,615	20,300	19,887
Shareholders' equity	$ 15,329	$ 14,540	$ 13,785	$ 13,658	$ 12,639

See accompanying note

(1) 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 and OR21 for 1999 through 2003 and MedLeader for 2000 through 2003.

American Shared Hospital Services

SELECTED SUPPLEMENTARY FINANCIAL DATA

QUARTERLY FINANCIAL DATA (Unaudited)

(Amounts in thousands)	2002 Quarters First	Second	Third	Fourth	2003 Quarters First	Second	Third	Fourth
Medical services revenue	$ 3,245	$ 3,216	$ 3,563	$ 3,342	$ 3,669	$ 4,105	$ 4,011	$ 4,393
Costs of operations	1,235	1,297	1,342	1,525	1,535	1,883	1,895	2,087
Selling and administrative expense	798	863	899	753	826	839	702	888
Interest expense	624	575	626	612	581	671	656	639
Total costs and expenses	2,657	2,735	2,867	2,890	2,942	3,393	3,253	3,614
Income from operations	588	481	696	452	727	712	758	779
Interest and other income	54	43	41	33	44	28	27	22
Minority interest	(217)	(178)	(264)	(172)	(238)	(237)	(224)	(229)
Income before income taxes	425	346	473	313	533	503	561	572
Income tax benefit (expense)	(105)	(35)	(190)	(125)	(197)	(169)	(192)	(229)
Net income	$ 320	$ 311	$ 283	$ 188	$ 336	$ 334	$ 369	$ 343
Net income per common share:								
Basic	$ 0.09	$ 0.08	$ 0.08	$ 0.05	$ 0.09	$ 0.09	$ 0.10	$ 0.09
Diluted	$ 0.06	$ 0.06	$ 0.06	$ 0.04	$ 0.07	$ 0.07	$ 0.07	$ 0.07

GENERAL

During the years ended December 31, 2003, 2002 and 2001, 100% of the Company's revenue was derived from its Gamma Knife business.

TOTAL REVENUE

	2003	Increase (Decrease)	2002	Increase (Decrease)	2001
Medical services revenue (in thousands)	$ 16,178	21.0%	$13,366	13.7%	$11,758
Number of Gamma Knife procedures	2,116	24.8%	1,696	16.6%	1,455
Average revenue per procedure	$ 7,646	(3.0)%	$ 7,881	(2.5)%	$ 8,081

Medical services revenue increased 21.0% in 2003 compared to 2002 and increased 13.7% in 2002 compared to 2001. The increase in both 2003 and 2002 is primarily attributable to an increase in revenue at locations in operation for more than one year, as well as an increase in the number of Gamma Knife units in operation.

Gamma Knife revenue increased $2,812,000 and $1,608,000 in 2003 and 2002, respectively, compared to the prior years. The 2003 increase was primarily due to three new Gamma Knife units that began operation during 2003, the full year inclusion of two Gamma Knife units that began operation during 2002, and a 5% increase in revenue for Gamma Knife units in operation more than one year. The 2002 increase was primarily due to the full year inclusion of two Gamma Knife units that began operation during 2001, two new Gamma Knife units that began operation during 2002, and a 3% increase in revenue for Gamma Knife units in operation more than one year. The Company had seventeen, fourteen and twelve Gamma Knife units in operation at December 31, 2003, 2002 and 2001, respectively.

The number of Gamma Knife procedures increased 420 in 2003 compared to 2002 due to the increase in the number of Gamma Knife units in operation, as well as a 9% increase in procedures for Gamma Knife units in operation more than one year. The increase of 241 procedures in 2002 compared to 2001 was due to the increase in the number of Gamma Knife units in operation as well as a 7% increase in procedures for Gamma Knife units in operation more than one year.

Gamma Knife revenue per procedure decreased by $235 in 2003 compared to 2002 primarily because there was an increase in the number of procedures performed at certain Gamma Knife locations that have a lower per procedure rate, as well as a decrease in the amounts received from Medicare at one of the Company's retail sites. Revenue per procedure decreased $200 in 2002 compared to 2001 because there was an increase in the number of procedures performed at certain Gamma Knife locations that have a lower per procedure rate. The Company's contracts generally have different procedure rates because their investment basis varies.

COSTS OF OPERATIONS

(In thousands)	2003	Increase	2002	Increase	2001
Costs of operations	$7,400	37.1%	$5,399	26.0%	$4,285
Percentage of revenue	45.7%		40.4%		36.4%

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 other fees) increased $2,001,000 in 2003 compared to 2002, and increased $1,114,000 in 2002 compared to 2001.

The Company's maintenance and supplies costs were 5%, 3% and 2% of medical service revenue in 2003, 2002 and 2001, respectively. Maintenance and supplies costs increased $301,000 in 2003 compared to 2002, and increased $106,000 in 2002 compared to 2001. The increase in 2003 compared to 2002 was primarily due to the expiration of the warranty period on three Gamma Knife units and the full year inclusion of maintenance on two Gamma Knife units whose warranty period expired during the previous year. The increase in 2002 compared to 2001 was primarily due to the expiration of the warranty period on two Gamma Knife units and the full year inclusion of one Gamma Knife unit whose warranty period expired during 2001.

Depreciation and amortization increased $753,000 in 2003 compared to 2002, and increased $541,000 in 2002 compared to 2001. The increase in 2003 was due to the addition of three new Gamma Knife units that commenced operation during first, second and third quarters of 2003 and a full year of depreciation on two new Gamma Knife units that started operation during 2002. The increase in 2002 was due to the addition of two new Gamma Knife units that commenced operation during second and third quarters of 2002, as well as a full year's depreciation on two Gamma Knife units that started in second quarter 2001.

Other costs of operations as a percentage of medical services revenue were 15%, 11% and 9% in 2003, 2002 and 2001, respectively. The increase of $947,000 in 2003 compared to 2002 was primarily due to increased spending for marketing, increased operating costs related to the Company's additional retail units, startup and training costs at the Company's three new Gamma Knife centers, and higher insurance and taxes due to additional Gamma Knife units in operation. The increase of $467,000 in 2002 compared to 2001 was primarily due to increased spending for marketing, and increased insurance expense because of additional Gamma Knife units and higher insurance rates. These increases were partially offset by a use tax credit of $70,000 and lower property tax expense.

SELLING AND ADMINISTRATIVE

(In thousands)	2003	Increase (Decrease)	2002	Increase (Decrease)	2001
Selling and administrative costs	$3,255	(1.8)%	$3,313	2.1%	$3,245
Percentage of revenue	20.1%		24.8%		27.6%

The Company's selling and administrative costs decreased $58,000 in 2003 compared to 2002, and increased $68,000 in 2002 compared to 2001. The decrease in 2003 was primarily due to reduced business development costs of approximately $152,000 and legal and accounting fees of $104,000. These reductions were partially offset by increased employment recruiting fees of $60,000, the Company's Gamma Knife User's Meeting of approximately $45,000 and a write-off of approximately $58,000 in previously deferred costs relating to the future placement of a Gamma Knife unit in Brazil, which was reallocated to another location. The increase in 2002 was primarily due to increased building rent of approximately $100,000 and increased legal fees of approximately $96,000. These increases were partially offset by reduced business development costs of approximately $75,000 and reduced investor relations costs of approximately $45,000.

INTEREST EXPENSE

(In thousands)	2003	Increase (Decrease)	2002	Increase (Decrease)	2001
Interest expense	$2,547	4.5%	$2,437	(0.8)%	$2,456
Percentage of revenue	15.7%		18.2%		20.9%

The Company's interest expense increased $110,000 in 2003 compared to 2002, and decreased $19,000 in 2002 compared to 2001. The increase in 2003 was due to additional interest expense on the financing of the Company's three new Gamma Knife units in 2003, which was partially offset by lower interest expense on the Company's more mature Gamma Knife units. The decrease in 2002 was primarily due to lower interest expense on the Company's more mature Gamma Knife units, which offset the additional interest expense on the financing of the Company's two new Gamma Knife units in 2002. All of the Company's operating Gamma Knife units are financed by means of interest bearing debt. Nine of the Company's seventeen Gamma Knife units have been in operation for more than three years, and have lower interest expense than newer units because interest expense decreases with each principal payment.

OTHER INCOME AND EXPENSE

(In thousands)	2003	Increase (Decrease)	2002	Increase (Decrease)	2001
Interest and other income	$ 121	(29.2)%	$ 171	(64.4)%	$ 480
Percentage of revenue	0.7%		1.3%		4.1%
Minority interest	$(928)	11.7%	$(831)	10.7%	$(751)
Percentage of revenue	(5.7)%		(6.2)%		(6.4)%

Interest and other income decreased $50,000 in 2003 compared to 2002 and decreased $309,000 in 2002 compared to 2001. The decrease in 2003 was primarily due to lower invested cash balances during 2003 and lower interest rates during 2003 compared to 2002. The decrease in 2002 was primarily due to reduced return on cash investments due to the market decline in interest rates that started during 2001 and continued through 2002, as well as lower invested cash balances.

Minority interest increased $97,000 in 2003 and $80,000 in 2002 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)	2003	Increase (Decrease)	2002	Increase (Decrease)	2001
Income tax benefit (expense)	$(787)	73.0%	$(455)	5.1%	$(433)
Percentage of revenue	4.9%		3.4%		3.7%

Income tax expense increased $332,000 in 2003 compared to 2002, and increased $22,000 in 2002 compared to 2001. The Company's 40% income tax provision for 2003 was reduced by an $81,000 income tax benefit from the exercise of options to purchase 125,000 common shares. The Company's 40% income tax provision for 2002 was reduced by a $168,000 income tax benefit from the exercise of options to purchase 260,000 common shares. The income tax benefit is a result of compensation expense that was recognized when these options for common shares were granted in 1995. The Company began recording a federal and state income tax provision in 2001 as the Company's deferred tax liability began to exceed its deferred tax assets. The valuation allowance that had been provided for the deferred tax asset in excess of the deferred tax liability was eliminated in second quarter 2001.

The Company anticipates that it will continue to record income tax expense if it operates profitably in the future. Currently there are minimal actual 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, 2003 of approximately $11,000,000.

NET INCOME

(In thousands, except per share amounts)	2003	Increase (Decrease)	2002	Increase (Decrease)	2001
Net income	$1,382	3.2%	$1,102	3.2%	$1,068
Net income per share	$ 0.36	N/A	$ 0.30	N/A	$ 0.30

The Company had net income of $1,382,000 in 2003 compared to $1,102,000 in 2002 and $1,068,000 in 2001. Net income for 2003 included increased income from operations of $759,000 compared to 2002, which was primarily due to the addition of three new Gamma Knife units and a 5% increase in revenue from Gamma Knife units in operation more than one year. Net income for 2002 included increased income from operations of $445,000 compared to 2001, which was offset by reduced interest and other income of $309,000.

LIQUIDITY AND CAPITAL RESOURCES

The Company had cash and cash equivalents of $10,312,000 at December 31, 2003 compared to $9,924,000 at December 31, 2002. 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.

Restricted cash of $50,000 at December 31, 2003 reflects cash that may only be used for the operations of GKF.

Operating activities provided cash of $8,140,000 in 2003. Net income of $1,382,000, depreciation and amortization of $4,313,000, an increase in the deferred tax liability of $669,000 and an increase in the minority interest of $928,000 were the primary reasons. The Company's trade accounts receivable increased to $2,209,000 at December 31, 2003 from $2,089,000 at December 31, 2002. This increase was primarily due to the addition of three new Gamma Knife contracts during 2003 and an increase in the number of days' revenue outstanding in accounts receivable ("DSO") for some of the Gamma Knife contracts. The DSO was 64 and 55 days as of December 31, 2003 and December 31, 2002, respectively. We expect DSO to fluctuate in the future depending on timing of customer payments received and the mix of fee per use vs. retail customers. Other receivables decreased by

$224,000 primarily due to receipt of payments and application of credits due on over payment of sales and use taxes.

Investing activities used $731,000 of cash in 2003 primarily for the purchase of current and future Gamma Knife units and related site costs.

Financing activities used $7,021,000 of cash during 2003, primarily due to principal payments on long-term debt of $5,777,000, distributions to minority owners of $645,000 and the payment of dividends of $610,000.

Working capital decreased $1,907,000 to $5,268,000 at December 31, 2003 from $7,175,000 at December 31, 2002 primarily due to an increase in the current portion of long-term debt. The increase in debt was primarily due to the financing of three additional Gamma Knife units during 2003, as well as an increase in the principal portion of debt payments on existing financing as that debt approaches maturity.

The Company invests its cash in money market funds to minimize the potential for principal erosion. Cash is invested in these short-term funds pending use in the Company's operations. The Company believes its cash position combined with its working capital is adequate to service the Company's cash requirements in 2004.

The Company finances all of its Gamma Knife units, and anticipates that it will continue to do so with future contracts, but there can be no assurance that financing will continue to be available on acceptable terms. The Company's primary lender, DVI, filed for Chapter 11 bankruptcy protection during 2003. The Company has made claims in DVI's bankruptcy case for certain unfunded amounts under credit agreements in place at the time of the bankruptcy filing. The principal balance of notes that included the unfunded amounts were transferred by DVI to third parties. The Company believes that it is too early in the process to develop any definitive view regarding the outcome of the claim. The Company continues to make payments on the outstanding note balances with DVI. The Company has made cash payments, as needed, toward projects in progress and is in the process of securing financing for those and future projects from other potential lending sources. The Company meets all debt covenants required under notes with DVI, 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, 2003, the Corporation'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	$26,917,000	$6,803,000	$15,626,000	$4,174,000	$314,000
Future Gamma Knife purchases(1)	9,543,000		9,543,000		
Operating leases	738,000	309,000	429,000		
Total contractual obligations	$37,198,000	$ 7,112,000	$25,598,000	$4,174,000	$314,000

(1) The Company has deposits toward the purchase of future Gamma Knife units as more fully described in Note 10 of the consolidated financial statements. It is uncertain when these units will be placed in service, so it cannot be determined when the commitment is due. 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, and operating leases in Note 9 of the consolidated financial statements.

The Company has no significant off-balance sheet arrangements.

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 Revenue is recognized when services have been rendered and collectability is reasonably assured, on either a fee per use or revenue sharing basis. The Company has thirteen fee per use customers and four revenue sharing customers.

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 customer's contracted rate.

Under revenue sharing agreements, revenue is recognized based on estimates generated from direct billings to patients or their third party payors, and net of any contractual discounts and other arrangements for providing services. Revenue from direct patient billing amounted to approximately 24%, 25% and 28% of revenue for the years ended December 31, 2003, 2002, and 2001, respectively. The revenue estimates are reviewed continuously and adjusted as necessary to ensure that the estimates fairly represent the amounts we expect to realize. While historically payments received have been within our expectations, an inability to accurately estimate revenue from direct billings to patients in the future could have a material impact on operating results.

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, 2003 changed by as much as 10% based on actual collection information, it would have the effect of increasing or decreasing revenue by approximately $125,000.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The table below presents information about certain market-sensitive financial instruments as of December 31, 2003. 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)	2004	2005	2006	2007	2008	Thereafter	Total	Fair Value
Fixed-rate long-term debt	$6,803	$6,915	$5,168	$3,543	$2,444	$2,044	$26,917	$27,366
Average interest rates	9.6%	9.5%	9.3%	9.0%	8.7%	8.4%	9.4%	

At December 31, 2003, we had no significant long-term, market-sensitive investments. Our cash is invested in short-term money market funds to minimize potential for principal erosion.

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, 2003	December 31, 2002
ASSETS		
Current Assets		
Cash and cash equivalents	$ 10,312,000	$ 9,924,000
Restricted cash	50,000	50,000
Trade accounts receivable, net of allowance for doubtful accounts of $170,000 in 2003 and $120,000 in 2002	2,209,000	2,089,000
Other receivables	258,000	482,000
Prepaid expenses and other current assets	473,000	876,000
Total current assets	13,302,000	13,421,000
Property and Equipment, net	32,828,000	31,178,000
Other Assets	174,000	231,000
	$46,304,000	$44,830,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 371,000	$ 145,000
Accrued interest and other liabilities	734,000	485,000
Employee compensation and benefits	126,000	126,000
Current portion of long-term debt	6,803,000	5,490,000
Total current liabilities	8,034,000	6,246,000
Long-Term Debt, less current portion	20,114,000	22,006,000
Deferred Income Taxes	1,096,000	590,000
Minority Interest	1,731,000	1,448,000
Shareholders' Equity		
Common stock, no par value		
Authorized—10,000,000 shares		
Issued and outstanding shares—3,918,000 in 2003 and 3,783,000 in 2002	9,198,000	9,173,000
Additional paid-in capital	3,461,000	3,312,000
Retained earnings	2,670,000	2,055,000
Total shareholders' equity	15,329,000	14,540,000
	$46,304,000	$44,830,000

See accompanying notes

American Shared Hospital Services

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
	2003	2002	2001
Revenue:			
Medical services	$16,178,000	$13,366,000	$11,758,000
Costs and Expenses:			
Costs of operations:			
Maintenance and supplies	746,000	445,000	339,000
Depreciation	4,225,000	3,472,000	2,931,000
Other direct operating costs	2,429,000	1,482,000	1,015,000
Selling and administrative	3,255,000	3,313,000	3,245,000
Interest	2,547,000	2,437,000	2,456,000
Total costs and expenses	13,202,000	11,149,000	9,986,000
	2,976,000	2,217,000	1,772,000
Interest and other income	121,000	171,000	480,000
Minority interest	(928,000)	(831,000)	(751,000)
Income before income taxes	2,169,000	1,557,000	1,501,000
Income tax expense	(787,000)	(455,000)	(433,000)
Net Income	$ 1,382,000	$ 1,102,000	$ 1,068,000
Earnings per common share—basic	0.36	0.30	0.30
Earnings per common share—assuming dilution	0.27	0.22	0.21

See accompanying notes

American Shared Hospital Services

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Three Years Ended December 31, 2003				
	Common Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Total
Balances at January 1, 2001	3,711,000	$9,746,000	$3,228,000	$ 684,000	$13,658,000
Options exercised	9,000	16,000	—	—	16,000
Repurchase of common stock and options	(195,000)	(522,000)	(74,000)	—	(596,000)
Dividend	—	—	—	(361,000)	(361,000)
Net income	—	—	—	1,068,000	1,068,000
Balances at December 31, 2001	3,525,000	9,240,000	3,154,000	1,391,000	13,785,000
Options exercised	300,000	68,000	158,000	—	226,000
Repurchase of common stock and options	(42,000)	(135,000)	—	—	(135,000)
Dividend	—	—	—	(438,000)	(438,000)
Net income	—	—	—	1,102,000	1,102,000
Balances at December 31, 2002	3,783,000	9,173,000	3,312,000	2,055,000	14,540,000
Options exercised	135,000	25,000	163,000	—	188,000
Repurchase of stock options	—	—	(14,000)	—	(14,000)
Dividend	—	—	—	(767,000)	(767,000)
Net income	—	—	—	1,382,000	1,382,000
Balances at December 31, 2003	3,918,000	$9,198,000	$3,461,000	$2,670,000	$15,329,000

See accompanying notes

American Shared Hospital Services

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2003	2002	2001
OPERATING ACTIVITIES			
Net income	$ 1,382,000	$ 1,102,000	$ 1,068,000
Adjustments to reconcile net income to net cash from operating activities:			
Gain on sale of assets, early termination of capital leases	—	3,000	—
Depreciation and amortization	4,313,000	3,529,000	3,003,000
Deferred income tax liability	669,000	365,000	383,000
Minority interest in consolidated subsidiaries	928,000	831,000	751,000
Changes in operating assets and liabilities:			
Receivables	104,000	(202,000)	(162,000)
Prepaid expenses and other assets	426,000	(75,000)	(288,000)
Accounts payable and accrued liabilities	318,000	(376,000)	162,000
Net cash from operating activities	8,140,000	5,177,000	4,917,000
INVESTING ACTIVITIES			
Payment for purchase of property and equipment	(731,000)	(1,346,000)	(724,000)
Net cash from investing activities	(731,000)	(1,346,000)	(724,000)
FINANCING ACTIVITIES			
Principal payments on long-term debt and obligations under capital leases	(5,777,000)	(4,434,000)	(3,352,000)
Payment of dividends	(610,000)	(438,000)	(361,000)
Distributions to minority owners	(645,000)	(548,000)	(741,000)
Proceeds from exercise of stock warrants and options	25,000	68,000	16,000
Repurchase of stock options/warrants	(14,000)	—	(74,000)
Repurchase of common stock	—	(135,000)	(522,000)
Net cash from financing activities	(7,021,000)	(5,487,000)	(5,034,000)
Net increase (decrease) in cash and cash equivalents	388,000	(1,656,000)	(841,000)
Cash and Cash Equivalents, beginning of year	9,924,000	11,580,000	12,421,000
Cash and Cash Equivalents, end of year	$10,312,000	$9,924,000	$11,580,000
SUPPLEMENTAL CASH FLOW DISCLOSURE			
Interest paid	$ 2,692,000	$2,428,000	$ 2,433,000
Income taxes paid	$ 88,000	$ 90,000	$ 23,000
SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Acquisition of equipment with lease/debt financing	$ 5,198,000	$ 6,010,000	$ 4,847,000
Accrued dividends	$ 157,000	$ —	$ —
Income tax benefit from exercise of stock options and warrants	$ 163,000	$ 158,000	$ —

See accompanying notes

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 seventeen medical centers in California, Texas, Connecticut, Ohio, Massachusetts, Arkansas, Wisconsin, Nevada, Illinois, New Mexico, Maryland, Mississippi, Florida, New York, and New Jersey.

In October 1995, 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 provides alternative financing of Gamma Knife units and is the preferred provider for Elekta AB of financing arrangements, such as fee-for-service lease arrangements with health care institutions.

In November 1999, OR21, Inc., was incorporated. This wholly-owned subsidiary of the Company will provide the product "The Operating Room for the 21st Century (sm)", which is currently under development.

In April 2000, MedLeader.com, Inc., was incorporated. This wholly-owned subsidiary of the Company 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 generally accepted accounting principles, 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.

Restricted cash Restricted cash represents the minimum cash that, by agreement, must be maintained in GK Financing LLC (GKF) to fund operations.

Business and credit risk The Company maintains its cash balances in financial institutions which exceed federally insured limits. The Company has not experienced any losses and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Substantially all of the Company's revenue is provided by seventeen customers. These customers constitute accounts receivable at December 31, 2003. 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 industry or 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 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 $202,000 and $170,000 in 2003 and 2002, 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, 2003, the Company held equipment under operating lease contracts with customers with an original cost of $43,710,000 and accumulated depreciation of $14,455,000. At December 31, 2002, the Company held equipment under operating lease contracts with customers with an original cost of $36,252,000 and accumulated depreciation of $10,416,000.

Revenue recognition Revenue is provided for and recognized on either a fee-per-use or revenue sharing basis. The fee-per-use agreements call for a fixed fee per procedure and are typically for a ten-year term. Revenue is recognized at the time the procedures are performed. The Company receives a percentage of the reimbursement received by the medical center less the operating expenses of the Gamma Knife under the revenue sharing agreements. These agreements are typically for a ten to fifteen year term. Revenue is recognized at the time the procedures are performed based on an estimate of previously collected net revenue per procedure at the medical centers.

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, 2003, 2002 and 2001.

	2003	2002	2001
Numerator for basic and diluted earnings per share	$1,382,000	$1,102,000	$1,068,000
Denominator:			
Denominator for basic earnings per share—weighted-average shares	3,850,000	3,707,000	3,567,000
Effect of dilutive securities			
Employee stock options/warrants	1,238,000	1,324,000	1,559,000
Denominator for diluted earnings per share—adjusted weighted-average shares	$5,088,000	$5,031,000	$5,126,000
Earnings per share—basic	$ 0.36	$ 0.30	$ 0.30
Earnings per share—assuming dilution	$ 0.27	$ 0.22	$ 0.21

In 2002, options outstanding to purchase 17,500 shares of common stock at $4.10 per share were not included in the computation of diluted earnings per share as the exercise price of the options were greater than the average market price of the common stock during the year.

In 2001, there were options outstanding to purchase 5,000 and 17,150 shares of common stock at an exercise price of $3.06 and $4.10 per share, respectively. They were not included in the calculation of diluted earnings per share for the year ended 2001 as the exercise price of the options were greater than the average market price of common stock during the year.

Stock-based compensation The Company has three stock-based employee compensation plans, which are described more fully in Note 7. The Company accounts for those plans under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees,* and related Interpretations. No stock-based employee compensation cost is 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. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation,* to stock-based employee compensation. For pro forma purposes, the estimated fair value of the Company's options is amortized over the options' vesting period.

	Year Ended December 31,		
	2003	2002	2001
Net income, as reported	$1,382,000	$1,102,000	$1,068,000
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards (Note 7), net of related tax effects	(3,000)	(36,000)	(40,000)
Proforma net income	$1,379,000	$1,066,000	$1,028,000
Earnings per share:			
Basic—as reported	$ 0.36	$ 0.30	$ 0.30
Basic—pro forma	$ 0.36	$ 0.29	$ 0.29
Diluted—as reported	$ 0.27	$ 0.22	$ 0.21
Diluted—pro forma	$ 0.27	$ 0.21	$ 0.20

Fair value of financial instruments The carrying amounts of financial instruments, including cash and cash equivalents, restricted cash, accounts receivable, accounts payable, and other accrued liabilities approximated their fair value as of December 31, 2003 and 2002, 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 $27,366,000 and $28,885,000 at December 31, 2003 and 2002, 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 January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities* (VIE). It defined a VIE as a corporation, partnership, trust, or any other legal structure used for the business purpose that either a) does not have equity investors with voting rights or b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. This interpretation will require a VIE to be consolidated or deconsolidated by a company if that company is subject to a majority of the risk of loss from the VIE's activities or entitled to receive a majority of the entity's residual return. The provisions of interpretation No. 46 are required to be applied immediately to VIE's created after January 31, 2003. The Company does not have any VIE and accordingly the implementation of the Interpretation did not result in an impact on its financial position or results of operations.

In April 2003, the FASB issued Statement No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities.* This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities.* This Statement is effective for contracts entered into or modified after June 30, 2003. Adoption of the Statement did not result in an impact on the Company's statement of financial position or results of operations.

In May 2003, the FASB issued Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.* This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatory redeemable financial instruments of nonpublic entities. Adoption of the Statement did not result in an impact on the Company's statement of financial position or results of operations.

NOTE 3—PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	December 31, 2003	December 31, 2002
Medical equipment and facilities	$46,126,000	$37,306,000
Office equipment	376,000	358,000
Deposits and construction in progress	1,463,000	4,372,000
	47,965,000	42,036,000
Accumulated depreciation	(15,137,000)	(10,858,000)
Net property and equipment	$32,828,000	$ 31,178,000

NOTE 4—LONG-TERM DEBT

Long-term debt consists primarily of 22 notes with a financing company, related to Gamma Knife construction and installation, totaling $26,917,000. These notes accrue interest at fixed annual rates between 8.5% and 10.95%, are payable in 84 monthly installments, mature between September 2004, and June 2010, and are collateralized by the respective Gamma Knife units. The following are contractual maturities of long-term debt by year at December 31, 2003:

Year ending December 31,	
2004	$ 6,803,000
2005	6,915,000
2006	5,168,000
2007	3,543,000
2008	2,444,000
Thereafter	2,044,000
	$26,917,000

The Company's primary lender, DVI Financial Services, Inc. (DVI), filed for Chapter 11 bankruptcy protection in August 2003. The Company continues to make payments on the outstanding note balances with DVI. The Company has made cash payments, as needed, toward projects in progress and is in the process of securing financing for those and future projects from other potential lending sources. Management believes that the financial condition of DVI will not have a material adverse effect on the Company's financial position or results of operations.

NOTE 5—INCOME TAXES

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

	December 31, 2003	December 31, 2002
Deferred tax liabilities:		
Fixed assets	$(5,420,000)	$(4,453,000)
Total deferred tax liabilities	(5,420,000)	(4,453,000)
Deferred tax assets:		
Net operating loss carryforwards	3,404,000	3,332,000
State income taxes	14,000	7,000
Accured reserves	90,000	64,000
Stock option deductions	402,000	158,000
Other—net	414,000	302,000
Total deferred tax assets	4,324,000	3,863,000
Net deferred tax liabilities	$(1,096,000)	$ (590,000)

The 2003 and 2002 tax provision does not reflect 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 is reflected as a direct increase to equity and an increase in the deferred tax asset of $244,000 and $158,000 for 2003 and 2002 respectively, which is described more fully in Note 7.

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

	Years Ended December 31, 2003	2002	2001
Current:			
State	$ 38,000	$ 90,000	$ 50,000
Deferred:			
Federal	649,000	282,000	25,000
State	100,000	83,000	358,000
	$787,000	$455,000	$433,000

The provision for income taxes differs from the amount computed by applying the U.S. federal statutory tax rate (34% in 2003, 2002 and 2001) to income before taxes as follows:

	Years Ended December 31,		
	2003	2002	2001
Computed expected tax	$741,000	$529,000	$510,000
Change in valuation allowance	—	—	(133,000)
State income taxes, net of federal benefit	127,000	91,000	125,000
Stock options	(81,000)	(167,000)	—
Other	—	2,000	(69,000)
	$787,000	$455,000	$433,000

At December 31, 2003, the Company had a net operating loss carryforward for federal income tax return purposes of approximately $11,000,000 which expire between 2004 and 2023. A substantial part of this carryforward is 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. Future federal net operating losses generated by the Company can be carried forward for 20 years.

NOTE 6—MINORITY INTEREST

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

	Years Ended December 31,		
	2003	2002	2001
Beginning balance	$1,448,000	$1,165,000	$1,155,000
Minority interest in GKF net income	928,000	831,000	751,000
Less: cash distributions	(645,000)	(548,000)	(741,000)
Minority interest	$1,731,000	$1,448,000	$1,165,000

NOTE 7—SHAREHOLDERS' EQUITY

1984 Stock Option Plan Under the Company's 1984 Stock Option Plan (the "Plan"), as amended, a total of 475,000 stock options were authorized for grant. The Plan terminated according to its terms on March 1, 1994. Options granted pursuant to the Plan generally had lives of 10 years from the date of grant, subject to earlier expiration in certain cases, such as termination of the grantee's employment. All outstanding options under this Plan were exercised in 2002.

1995 Stock Option Plan The Company's 1995 Stock Option Plan provides for nonqualified stock options and "incentive stock options." Under the 1995 Plan, 330,000 common shares are reserved for awards to officers and other key employees, non-employee directors, and advisors. Provisions of the 1995 Stock Option Plan include an automatic grant to each non-employee director of options to purchase up to 4,000 shares annually 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, until the non-employee director has options for a total of 12,000 shares of the Company's common stock in all Company plans. Directors who are appointed or elected to the Company's Board of Directors on a date other than that of the Annual Shareholder Meeting receive a pro-rata grant of such options, at an exercise price equal to the market price of the Company's common shares on the date of grant. At December 31, 2003, 74,000 options were available for grant under the 1995 Plan.

2001 Stock Option Plan The Company's 2001 Stock Option Plan, providing for nonqualified stock options and "incentive stock options," was approved by the Company's Board of Directors in October 2001. Under the 2001 Plan, 250,000 common shares are reserved for awards to officers who beneficially own 15% or less of the outstanding shares of the Company's stock, other key employees, non-employee directors, and advisors. Provisions of the 2001 Stock Option Plan include an automatic grant to each non-employee director of options to purchase up to 4,000 shares annually 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, until the non-employee director has options for a total of 12,000 shares of the Company's common stock in all Company plans. Directors who are appointed or elected to the Company's Board of Directors on a date other than that of the Annual Shareholder Meeting receive a pro-rata grant of such options, at an exercise price equal to the market price of the Company's common shares on the date of grant. As of December 31, 2003, no stock options had been granted under the 2001 Stock Option Plan, as there are still options available under the 1995 Plan.

Changes in options outstanding under the Stock Option Plans from January 1, 2001 to

December 31, 2003 are as follows :

	Number of Options	Weighted Average Exercise Price
Balance at January 1, 2001	298,000	$ 1.943
Granted	27,000	$3.474
Exercised	(9,000)	$ 1.661
Forfeited	(18,000)	$2.695
Repurchased	(70,000)	$ 1.625
Balance at December 31, 2001	228,000	$ 2.156
Exercised	(40,000)	$ 1.631
Balance at December 31, 2002	188,000	$2.269
Granted	11,000	$5.272
Exercised	(10,000)	$2.400
Forfeited	(5,000)	$ 4.100
Repurchased	(5,000)	$3.000
Balance at December 31, 2003	179,000	$2.383

The weighted average fair value of the options granted in 2003 was $1.49.

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. The officer exercised 125,000 and 260,000 options during 2003 and 2002 respectively. The exercise in 2003 resulted in a $163,000 increase to additional paid in capital and a $244,000 increase in deferred tax assets. In 2002 the exercise resulted in a $158,000 increase in additional paid capital and a $158,000 increase in deferred tax assets.

The following table summarizes information about all options outstanding at December 31, 2003:

	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
$ 0.01	1,110,000	1.83	$0.010	1,110,000	$0.010
1.625–1.688	110,000	1.66	1.626	110,000	1.626
3.000–4.100	58,000	5.85	3.235	58,000	3.235
4.570–6.000	11,000	9.63	5.272	2,000	5.47
$ .01–6.000	1,289,000	2.07	$0.340	1,280,000	$0.306

At December 31, 2003 and 2002, 1,280,000 and 1,423,000 options, respectively, were vested and exercisable.

Pro Forma Information related to Option Grants Pro forma information regarding net income and earnings per share is required by SFAS 123 for awards granted after December 31, 1995, 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 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 effects of applying SFAS No. 123 in the proforma disclosure are not indicative of future amounts. The fair value of the Company's option grants under the 1984 and 1995 Plans was estimated assuming a dividend yield of 3.0% and the following weighted-average assumptions:

	2003	2002*	2001
Expected life (years)	10.0	N/A	9.5
Expected volatility	29.0%	N/A	65.0%
Risk-free interest rate	4.3%	N/A	5.1%

* Weighted-average assumptions are not applicable in 2002 because there were no options granted during the period ended December 31, 2002.

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. The Company repurchased 155,000 shares of its own stock on the open market during the year ended December 31, 2001. There were no shares repurchased on the open market during the years ending December 31, 2003 and December 31, 2002. Additionally, the Company repurchased 42,000 and 40,000 common shares from the Company's Chairman and Chief Executive Officer during the years ending December 31, 2002 and 2001, respectively. As the Company's stock has no par value, the entire repurchase price of the stock is recorded as a reduction to common stock.

In 2003, the Company repurchased 10,000 options under the 1995 stock option plan from a former employee. In 2001, the Company repurchased 20,000 options under the 1984 stock option plan and 50,000 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 April and October of 2003 the Company paid dividends of $0.12 per share and $0.04 per share respectively. In December 2003 the Company declared dividends of $0.04 per share, payable in January 2004. The Company paid dividends of $0.12 per share and $0.10 per share in April 2002 and March 2001 respectively.

NOTE 8—RETIREMENT PLAN

In 2002, the Company amended its defined-contribution retirement plan (the "Plan") to allow for a matching safe harbor contribution. For 2003, 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 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 $38,000 to the Plan for the safe harbor match for the year ended December 31, 2002, and has accrued $39,000 at December 31, 2003 for the estimated safe harbor matching contribution for 2003.

NOTE 9—OPERATING LEASES

The Company leases office space and equipment under operating leases expiring at various dates through 2006.

Future minimum payments under noncancelable operating leases having initial terms of more than one year consisted of the following at December 31, 2003:

Year ending December 31,	
2004	$309,000
2005	303,000
2006	126,000
	$738,000

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 $315,000, $350,000, and $245,000 for the years ended December 31, 2003, 2002 and 2001, respectively, and includes the above operating leases as well as month-to-month rental and certain executory costs.

The Company entered into an agreement to sublease office space that expired in September 2002. Rental income received under this agreement was $170,000, and $95,000 for the years ended December 2002 and 2001, respectively.

NOTE 10—COMMITMENTS AND CONTINGENCIES

Under the terms of five Gamma Knife quotation agreements, the Company is committed to purchase Gamma Knife equipment for $9,543,000 when the equipment is placed in service at each customer location. At December 31, 2003, the Company had $1,276,000 in deposits related to these purchase commitments which are classified as construction in progress.

NOTE 11—MAJOR CUSTOMERS

Revenues from the Company's Gamma Knife segment were provided by seventeen customers in 2003, fourteen customers in 2002, and twelve customers in 2001.

In 2003 no individual customers exceeded 10% of the Company's total revenue. In 2002, revenues from two individual customers of $1,709,000 and $1,614,000, respectively, exceeded 10% of the Company's total revenue. In 2001, revenues from four individual customers of $1,699,000, $1,621,000, $1,363,000, and $1,309,000, respectively, exceeded 10% of the Company's total revenue.

American Shared Hospital Services

INDEPENDENT AUDITOR'S REPORT

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, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2003. 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 auditing standards generally accepted in 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. 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of American Shared Hospital Services at December 31, 2003 and 2002, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Stockton, California
January 22, 2004

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American Shared Hospital Services

MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's common shares, no par value (the "Common Shares"), are currently traded on the American Stock Exchange and the Pacific Exchange. 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, 2002	$3.45	$3.00
June 30, 2002	$4.29	$3.05
September 30, 2002	$4.30	$3.60
December 31, 2002	$ 4.41	$3.50
March 31, 2003	$ 4.21	$3.55
June 30, 2003	$5.20	$3.75
September 30, 2003	$ 6.15	$4.78
December 31, 2003	$6.83	$5.33

The Company estimates that there were approximately 1,470 beneficial holders of its Common Shares at December 31, 2003.

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 were repurchased during 2002 or 2003. 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 2003 holders of options to acquire the Company's common stock exercised their respective rights pursuant to such securities, resulting in the Company issuing 135,000 new shares of common stock for approximately $25,000.

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, 2003 the Company had 3,918,203 issued and outstanding common shares, 1,613,667 common shares reserved for options, and 5,205 shares reserved pursuant to the Company's Shareholder Rights Plan.

The Board of Directors declared a quarterly dividend of $.04 per common share to shareholders of record on January 2, 2004, paid on January 15, 2004, and a quarterly dividend of $0.04 per common shared to shareholders of record on April 2, 2004 payable on April 16, 2004. Shareholders of record on March 14, 2003 were paid an annual dividend of $0.12 per common share on April 4, 2003, and shareholders of record on October 1, 2003 were paid a quarterly dividend of $0.04 per common share on October 15, 2003. The Board of Directors anticipates declaring and paying quarterly cash dividends in similar amounts in the future subject to evaluation of the Company's level of earnings, balance sheet position and availability of cash. 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 17, 2004
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.

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Chairman of the Board

Willie R. Barnes
Attorney at Law
Musick, Peeler & Garrett LLP
Los Angeles, CA

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

Norman A. Houck
Vice President
Controller

Craig K. Tagawa
Chief Operating Officer
Chief Financial Officer

Willie R. Barnes
Corporate Secretary

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