AMERICAN SHARED HOSPITAL SERVICES
Form 10-Q
May 16, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2011 or

o 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 (State or other jurisdiction of Incorporation or organization)	94-2918118 (IRS Employer Identification No.)
Four Embarcadero Center, Suite 3700, San Francisco, California (Address of Principal Executive Offices)	94111 (Zip Code)

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

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 o No x

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 o No o

Indicate by check mark whether 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 o   Accelerated Filer o   Non-Accelerated Filer o   Smaller reporting company x

As of April 1, 2011, there are outstanding 4,597,070 shares of the Registrant's common stock.

PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

AMERICAN SHARED HOSPITAL SERVICES
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS		(unaudited) March 31, 2011		December 31, 2010
Current assets:				
Cash and cash equivalents	$	1,384,000	$	1,438,000
Restricted cash		50,000		50,000
Certificate of deposit		9,000,000		9,000,000
Accounts receivable, net of allowance for doubtful accounts of $100,000 in 2011 and $100,000 in 2010		4,236,000		3,730,000
Other receivables		109,000		71,000
Prepaid expenses and other current assets		412,000		473,000
Current deferred tax assets		313,000		313,000
Total current assets		15,504,000		15,075,000
Property and equipment:				
Medical equipment and facilities		75,355,000		74,356,000
Office equipment		685,000		685,000
Deposits and construction in progress		7,851,000		8,979,000
		83,891,000		84,020,000
Accumulated depreciation and amortization		(36,287,000)		(36,660,000)
Net property and equipment		47,604,000		47,360,000
Investment in preferred stock		2,617,000		2,617,000
Other assets		507,000		288,000
Total assets	$	66,232,000	$	65,340,000

LIABILITIES AND SHAREHOLDERS' EQUITY		(unaudited) March 31, 2011		December 31, 2010
Current liabilities:				
Accounts payable	$	274,000	$	337,000
Employee compensation and benefits		392,000		211,000
Customer deposits/deferred revenue		2,304,000		382,000
Accrued marketing costs		31,000		52,000

Other accrued liabilities		769,000		389,000
Current portion of long-term debt		3,542,000		3,474,000
Current portion of obligations under capital leases		3,026,000		2,599,000
Total current liabilities		10,338,000		7,444,000
Long-term debt, less current portion		7,891,000		8,803,000
Long-term capital leases, less current portion		13,603,000		14,367,000
Advances on line of credit		7,900,000		8,500,000
Deferred income taxes		3,182,000		3,182,000
Shareholders' equity:				
Common stock (4,597,000 shares at March 31, 2011 and 4,597,000 shares at December 31, 2010)		8,606,000		8,606,000
Additional paid-in capital		4,741,000		4,703,000
Retained earnings		6,283,000		6,262,000
Total equity-American Shared Hospital Services		19,630,000		19,571,000
Non-controlling interest in subsidiary		3,688,000		3,473,000
Total shareholders' equity		23,318,000		23,044,000
Total liabilities and shareholders' equity	$	66,232,000	$	65,340,000

See accompanying notes

AMERICAN SHARED HOSPITAL SERVICES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months ended March 31, 2011	2010
Medical services revenue	$4,367,000	$4,088,000
Costs of revenue:		
Maintenance and supplies	344,000	369,000
Depreciation and amortization	1,427,000	1,484,000
Other direct operating costs	672,000	536,000
	2,443,000	2,389,000
Gross Margin	1,924,000	1,699,000
Selling and administrative expense	1,122,000	1,061,000
Interest expense	576,000	481,000
Operating income	226,000	157,000
Interest and other income	16,000	31,000
Income before income taxes	242,000	188,000
Income tax expense	23,000	11,000
Net income	219,000	177,000
Less: Net income attributable to non-controlling interest	(198,000)	(169,000)
Net income attributable to American Shared Hospital Services	$21,000	$8,000
Net income per share:		
Earnings per common share - basic	$-	$-
Earnings per common share - assuming dilution	$-	$-

See accompanying notes

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AMERICAN SHARED HOSPITAL SERVICES

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

PERIODS ENDED DECEMBER 31, 2009 AND 2010 AND MARCH 31, 2011

	Common Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Sub-Total ASHS	Non-controlling Interest in Subsidiary	Total
Balances at January 1, 2009	4,712,000	$8,877,000	$4,458,000	$6,393,000	19,728,000	$ 3,210,000	22,938,000
Repurchase of common stock	(119,000)	(271,000)	-	-	(271,000)	-	(271,000)
Stock based compensation expense	2,000	-	135,000	-	135,000	-	135,000
Cash distributions to non-controlling interest	-	-	-	-	-	(513,000)	(513,000)
Net income (loss)	-	-	-	(188,000)	(188,000)	654,000	466,000
Balances at December 31, 2009	4,595,000 +	8,606,000	4,593,000	6,205,000	19,404,000	3,351,000	22,755,000
Stock based compensation expense	2,000	-	110,000	-	110,000	-	110,000
Cash distributions to non-controlling interest	-	-	-	-	-	(627,000)	(627,000)
Net income (loss)	-	-	-	57,000	57,000	749,000	806,000
Balances at December 31, 2010	4,597,000	8,606,000	4,703,000	6,262,000	19,571,000	3,473,000	23,044,000
Stock based compensation	-	-	38,000	-	38,000	-	38,000

expense							
Cash distributions to non-controlling interest	-	-	-	-	-	(380,000)	(380,000)
Investment in subsidiary by non-controlling interest	-	-	-	-	-	397,000	397,000
Net income	-	-	-	21,000	21,000	198,000	219,000
Balances at March 31, 2011 (unaudited)	4,597,000	$8,606,000	$4,741,000	$6,283,000	$19,630,000	$ 3,688,000	$23,318,000

See accompanying notes

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AMERICAN SHARED HOSPITAL SERVICES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months ended March 31, 2011	Three Months ended March 31, 2010
Operating activities:		
Net income	$219,000	$177,000
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	1,453,000	1,516,000
Stock based compensation expense	38,000	28,000
Changes in operating assets and liabilities:		
Receivables	(544,000)	(196,000)
Prepaid expenses and other assets	(168,000)	(53,000)
Customer deposits/deferred revenue	1,922,000	-
Accounts payable and accrued liabilities	477,000	(236,000)
Net cash from operating activities	3,397,000	1,236,000
Investing activities:		
Payment for purchase of property and equipment	(1,335,000)	(110,000)
Net cash from investing activities	(1,335,000)	(110,000)
Financing activities:		
Cash distribution to non-controlling interest	(380,000)	(95,000)
Advances on line of credit	-	400,000
Payments on line of credit	(600,000)	-
Investment in subsidiary by non-controlling interest	397,000	-
Principal payments on capital leases	(689,000)	(440,000)
Principal payments on long-term debt	(844,000)	(1,272,000)
Net cash from financing activities	(2,116,000)	(1,407,000)
Net change in cash and cash equivalents	(54,000)	(281,000)

Cash and cash equivalents at beginning of period	1,438,000	833,000
Cash and cash equivalents at end of period	$1,384,000	$552,000
Supplemental cash flow disclosure:		
Cash paid during the period for:		
Interest	$622,000	$572,000
Income taxes	$11,000	$29,000
Schedule of non-cash investing and financing activities		
Acquisition of equipment with capital lease financing	$352,000	$3,044,000

See accompanying notes

AMERICAN SHARED HOSPITAL SERVICES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly American Shared Hospital Services' consolidated financial position as of March 31, 2011 and the results of its operations for the three month periods ended March 31, 2011 and 2010, which results are not necessarily indicative of results on an annualized basis. Consolidated balance sheet amounts as of December 31, 2010 have been derived from audited financial statements.

These unaudited consolidated financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2010 included in the Company's 10-K filed with the Securities and Exchange Commission.

These financial statements include the accounts of American Shared Hospital Services (the "Company") and its wholly-owned subsidiaries: OR21, Inc. ("OR21"); MedLeader.com, Inc. ("MedLeader"); and American Shared Radiosurgery Services ("ASRS"); ASRS' majority-owned subsidiary, GK Financing, LLC ("GK Financing"); GKF's wholly-owned subsidiaries, GK Financing U.K. ("GKUK"), Limited and Instituto de Gamma Knife del Pacifico S.A.C. ("GKPeru"); ASHS' majority owned subsidiary, Long Beach Equipment, LLC ("LBE"), GKF's majority owned subsidiary EWRS, LLC ("EWRS"), and EWRS' wholly owned subsidiary, EWRS Turkey.

The Company through its majority-owned subsidiary, GK Financing, provided Gamma Knife units to nineteen medical centers as of March 31, 2011 in Arkansas, California, Connecticut, Florida, Illinois, Massachusetts, Mississippi, Nevada, New Jersey, New Mexico, New York, Tennessee, Oklahoma, Ohio, Pennsylvania, Texas and Wisconsin.

The Company also directly provides radiation therapy and related equipment, including Intensity Modulated Radiation Therapy ("IMRT"), Image Guided Radiation Therapy ("IGRT") and a CT Simulator to the radiation therapy department at an existing Gamma Knife site.

The Company has formed the subsidiaries GKUK, GKPeru, EWRS and LBE for the purposes of expanding its business into the United Kingdom, Peru and Turkey, and to provide proton beam therapy services in Long Beach, California. The sites in Peru and Turkey may begin operation in the last half of 2011, but the other entities are not expected to generate operations for 2011. During the first quarter 2011, the Company's 30% partner in its business in Turkey made an initial investment in EWRS of $397,000, which is included in the Non-controlling Interest in Subsidiary section of Shareholders' Equity.

The Company has only one operating segment.

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

Note 2. Per Share Amounts

Per share information has been computed based on the weighted average number of common shares and dilutive common share equivalents outstanding. For the three months ended March 31, 2011 basic earnings per share was computed using 4,597,000 common shares and diluted earnings per share was computed using 4,617,000 common shares and equivalents. For the three months ended March 31, 2010 basic earnings per share was computed using 4,595,000 common shares and diluted earnings per share was computed using 4,600,000 common shares and equivalents.

The computation for 2011 excluded approximately 355,000 of the Company's stock options because the strike price of the options was higher than the average market price during the quarter. The computation for 2010 excluded approximately 587,000 of the Company's stock options because the strike price of the options was higher than the average market price during the quarter.

Note 3. Stock-based Compensation

On June 2, 2010, the Company's shareholders approved an amendment and restatement of the 2006 Stock Incentive Plan (the "2006 Plan"). Among other things, the amendment and restatement renamed the 2006 Plan to the Incentive Compensation Plan (the "Plan") and increased the number of shares of the Company's common stock reserved for issuance under the Plan by an additional 880,000 shares from 750,000 shares to 1,630,000 shares. The shares are reserved for issuance to officers of the Company, other key employees, non-employee directors, and advisors. The Plan serves as successor to the Company's previous two stock-based employee compensation plans, the 1995 and 2001 Stock Option Plans. The shares reserved under those two plans, including the shares of common stock subject to currently outstanding options under the plans, were transferred to the Plan, and no further grants or share issuances will be made under the 1995 and 2001 Plans. Under the Plan, there are 2,000 restricted stock units granted, consisting of annual automatic grants to non-employee directors, and approximately 605,000 options granted, of which approximately 436,000 options are vested, as of March 31, 2011.

Compensation expense associated with the Company's stock-based awards to employees is calculated using the Black-Scholes valuation model. The Company's stock-based awards have characteristics significantly different from those of traded options, and changes in the subjective input assumptions can materially affect the fair value estimates. The estimated fair value of the Company's option grants is estimated using assumptions for expected life, volatility, dividend yield, and risk-free interest rate which are specific to each award. The estimated fair value of the Company's options is amortized over the period during which an employee is required to provide service in exchange for the award, usually the vesting period. Accordingly, stock-based compensation cost before income tax effect in the amount of approximately $38,000 is reflected in net income for the three month period ended March 31, 2011, compared to approximately $28,000 in the same period in the prior year. There were no options issued and no options exercised during the three month period ended March 31, 2011. There were no excess income tax benefits to report.

Note 4. Convertible Preferred Stock Investment

As of March 31, 2011 the Company has a $2,617,000 investment in the convertible preferred stock ("Preferred Stock") of Still River Systems, Inc. ("Still River"), representing an approximate 1.8% interest in Still River. The Company accounts for this investment under the cost method.

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

The Company carries its investment in Still River 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 not be recoverable. The Company evaluated this investment for impairment at December 31, 2010 and reviewed it at March 31, 2011 in light of both current market conditions and the ongoing needs of Still River to raise cash to continue its development of the first compact, single room PBRT system. Based on its analysis, the Company estimates that there is currently an unrealized loss (impairment) of approximately $1.5 million.

In assessing whether the impairment is other than temporary, we evaluated the length of time and extent to which market value has been below cost, the financial condition and near term prospects of Still River and our ability and intent to retain our investment for a period sufficient to allow for an anticipated recovery in the market value. Although the investment is not without certain risk, and the manufacture of the first unit has taken longer than originally anticipated, the Company believes that the current market value is a temporary situation brought on solely due to the continuing downturn of the economy, and is not a reflection on the progress or viability of Still River or its PBRT design, and believes that our investment in Still River is not other than temporarily impaired.

Note 5. Customer Deposit

The Company received a $2,000,000 deposit from an existing customer during the first quarter 2011. The customer is currently leasing a Gamma Knife unit from the Company and wishes to upgrade to a Perfexion unit. Therefore, as part of an amendment to the existing customer contract, the Company has agreed to terminate the existing lease agreement and has entered into a purchase agreement with the customer for a Perfexion unit that is expected to be delivered and installed later in the current year.

Note 6. Line of Credit

The Company amended its $9,000,000 line of credit with the Bank of America (the "Bank") effective August 1, 2010, extending it for a two year period. The line of credit is drawn on from time to time as needed for equipment purchases and working capital. Amounts drawn against the line of credit are at an interest rate per year equal to the Bank's Prime Rate, or alternately the LIBOR rate plus 1.50 percentage points, and are secured by the Company's cash invested with the Bank. The Company is in compliance with all debt covenants required. The weighted average interest rate during the first three months of 2011 was 2.13%. At March 31, 2011, $7,900,000 was borrowed against the line of credit.

Note 7. Fair Value of Financial Instruments

The carrying value of financial instruments including cash and cash equivalents, restricted cash, accounts receivable, accounts payable, and other accrued liabilities approximated their fair value as of March 31, 2011 and December 31, 2010 because of the relatively short maturity of these instruments. The fair value of the Company's investment in preferred stock is estimated to be $1,120,000 at March 31, 2011 and $1,390,000 at December 31, 2010. The fair value of the Company's various debt obligations, discounted at currently available interest rates was approximately $27,983,000 and $29,178,000 at March 31, 2011 and December 31, 2010, respectively.

Note 8. Repurchase of Common Stock

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, and in 2008 the Board reaffirmed this authorization. There are approximately 81,000 shares remaining under this repurchase authorization. The Company did not repurchase any of its stock during 2010 or the first quarter of 2011.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This quarterly report to the Securities and Exchange Commission may be deemed to contain certain forward-looking statements with respect to the financial condition, results of operations and future plans of American Shared Hospital Services, which involve risks and uncertainties including, but not limited to, the risks of the Gamma Knife and radiation therapy businesses, the risks of developing The Operating Room for the 21st Century® program, and the risks of investing in a development-stage company, Still River Systems, Inc. ("Still River"), without a proven product. Further information on potential factors that could affect the financial condition, results of operations and future plans of American Shared Hospital Services is included in the filings of the Company with the Securities and Exchange Commission, including the Company's Annual Report on Form 10-K for the year ended December 31, 2010 and the definitive Proxy Statement for the Annual Meeting of Shareholders to be held on June 9, 2011.

The Company had nineteen Gamma Knife units in operation at both March 31, 2011 and March 31, 2010. Fourteen of the Company's nineteen current Gamma Knife customers are under fee-per-use contracts, and five customers are under retail arrangements. The Company's contract to provide additional radiation therapy and related equipment services to an existing Gamma Knife customer is considered a retail arrangement. Retail arrangements are further classified as either turn-key or revenue sharing. Revenue from fee per use contracts is recorded on a gross basis as determined by each hospital's contracted rate. Under turn-key arrangements, the Company receives payment from the hospital in the amount of its reimbursement from third party payors, and is responsible for paying all the operating costs of the equipment. Revenue is recorded on a gross basis and estimated based on historical experience and hospital contracts with third party payors. For revenue sharing arrangements, the Company receives a contracted percentage of the reimbursement received by the hospital. The gross amount the Company expects to receive is recorded as revenue and estimated based on historical experience.

Medical services revenue increased by $279,000 to $4,367,000 for the three month period ended March 31, 2011 from $4,088,000 for the three month period ended March 31, 2010. The increase for the three month period is primarily due to an increase in Gamma Knife volume at several sites compared to the same period in the prior year, particularly at sites where the Company has upgraded its existing Gamma Knife units or replaced Gamma Knife units with Perfexion units. The increases at these sites were partially offset by lower revenue at three other sites where volume was significantly lower than in the same period in the prior year. The net result is that revenue from Gamma Knife operations increased by $329,000 to $4,117,000 from $3,788,000 for the same quarter in the prior year. The revenue increase for the quarter from Gamma Knife operations was partially offset by a $50,000 decrease in revenue to $250,000 from $300,000 from the Company's radiation therapy contract.

The number of Gamma Knife procedures increased by 51 to 489 in first quarter 2011 from 438 in the same quarter in the prior year, primarily due to volume increases at many of the Company's sites, particularly those where the Company has upgraded its existing Gamma Knife units or replaced Gamma Knife units with Perfexion units. These increases were partially offset by decreases in the number of procedures performed at two of the Company's historically higher volume sites and one site where the customer contract is set to expire in second quarter 2011.

Total costs of revenue increased by $54,000 to $2,443,000 for the three month period ended March 31, 2011 from $2,389,000 for the three month period ended March 31, 2010. Maintenance and supplies decreased by $25,000 for the three month period ended March 31, 2011 compared to the same period in the prior year, primarily due lower costs for maintenance contracts. Also, there were three sites where Perfexion units had been recently installed that were still in their warranty period. Depreciation and amortization decreased by $57,000 for the three month period ended March 31, 2011 compared to the same period in the prior year primarily because depreciation was stopped in 2010 on three sites where the remaining value of the equipment had reached its salvage value. This was partially offset by increased depreciation expense from two new Perfexion units that were installed in 2010 and another new Perfexion unit that was installed in 2011. Other direct operating costs increased by $136,000 for the three month period ended March 31, 2011 compared to the same period in the prior year primarily due to increased operating costs in connection with three of the Company's retail sites and increased state and local taxes.

Selling and administrative costs increased by $61,000 to $1,122,000 for the three month period ended March 31, 2011 from $1,061,000 for the three month period ended March 31, 2010. This increase was primarily due to increased payroll related costs, business development costs and accounting and tax fees, partially offset by reduced legal fees.

Interest expense increased by $95,000 to $576,000 for the three month period ended March 31, 2011 from $481,000 for the three month period ended March 31, 2010 primarily due to increased interest expense from new financing obtained on two Perfexion units in 2010 and one Perfexion unit in 2011. This increase was partially offset by lower interest expense on debt relating to the more mature Gamma Knife units. The mature units have lower interest expense because interest expense decreases as the outstanding principal balance of each loan is reduced.

Interest and other income decreased by $15,000 to $16,000 for the three month period ended March 31, 2011 from $31,000 for the three month period ended March 31, 2010 primarily from to a reduction in interest income due to low interest rates available on invested cash.

The Company had income tax expense of $23,000 in the first quarter 2011 compared to income tax expense of $11,000 in the first quarter 2010. The increase is primarily due to income before income taxes of $242,000 in the first quarter 2011 compared to $188,000 in the first quarter 2010. Based on the Company's current estimated effective annual income tax rate for 2011 (based on income attributable to American Shared Hospital Services), a 52% income tax rate was applied to the Company's taxable income in the first quarter of 2011 compared to a 59% rate in the first quarter of 2010.

Net income attributable to non-controlling interest increased by $29,000 to $198,000 for the three month period ended March 31, 2011 from $169,000 for the three month period ended March 31, 2010 due to increased profitability of GK Financing. Non-controlling interest represents the 19% interest of GK Financing owned by a third party.

The Company had net income of $21,000, or $0.00 per diluted share, for the three month period ended March 31, 2011 compared to net income of $8,000, or $0.00 per diluted share, in the same period in the prior year. The increase in net income was primarily due to an increase in gross margin from operations, and was partially offset by higher selling and administrative costs and interest expense.

Liquidity and Capital Resources

The Company had cash and cash equivalents of $1,384,000 at March 31, 2011 compared to $1,438,000 at December 31, 2010. The Company's cash position decreased by $54,000 due to payments for the purchase of property and equipment of $1,335,000, principal payments on long term debt and capital leases of $1,533,000, payments on the Company's line of credit with a bank of $600,000 and distributions to the non-controlling interest of $380,000. These decreases were offset by net cash from operating activities of $3,397,000, which included an increase in customer deposits of $1,922,000, and an investment by a non-controlling interest of $397,000.

As of March 31, 2011, the Company has a $9,000,000 principal investment in a certificate of deposit with a bank at an interest rate of 0.7% and a maturity date in August 2012.

The Company has a two year renewable $9,000,000 line of credit with a bank, available as needed for equipment purchases and working capital. Amounts drawn against the line of credit are secured by the Company's cash invested with the bank. At March 31, 2011 there was $7,900,000 drawn against the line of credit.

The Company has scheduled interest and principal payments under its debt obligations of approximately $4,320,000 and scheduled capital lease payments of approximately $4,319,000 during the next 12 months. The Company believes that its cash flow from operations and cash resources are adequate to meet its scheduled debt and capital lease obligations during the next 12 months.

The Company as of March 31, 2011 had shareholders' equity of $23,318,000, working capital of $5,166,000 and total assets of $66,232,000.

Commitments

The Company has a $2,617,000 preferred stock investment in Still River Systems, Inc., a development stage company, which is considered a long-term investment on the balance sheet and is recorded at cost. As of March 31, 2011, the Company also has $2,500,000 in non-refundable deposits toward the purchase of three Monarch250 proton beam radiation therapy (PBRT) systems from Still River. For the first two machines, the Company has a commitment to total deposits of $3,000,000 per machine until FDA approval is received, at which time the remaining balance is committed. The delivery dates for the first two machines are anticipated to be in 2012. For the third machine, the Company has a commitment to total deposits of $500,000 until FDA approval is received, at which time the remaining balance is committed. The Company has entered into an agreement with a radiation oncology physician group, which has contributed $100,000 towards the deposits on the third machine. The Still River PBRT system is not commercially proven and there is no assurance FDA approval will be received.

The Company has made non-refundable deposits totaling $3,790,000 towards the purchase of a LGK Model 4 Gamma Knife unit at a site still to be determined, a Perfexion unit to be installed at an existing Gamma Knife site in the third quarter 2011, and a LGK Model 4 Gamma Knife unit, a Perfexion unit and radiation therapy equipment scheduled to be installed at two new customer sites in Turkey in the third and fourth quarter 2011.

Including the commitments for the three Monarch250 systems, the two Perfexion units and the two LGK Model 4 Gamma Knife units, the Company has total remaining commitments to purchase equipment in the amount of approximately $53,000,000. One of the Perfexion units will be sold to the customer as part of an early termination agreement of the lease on the existing Gamma Knife system. It is the Company's intent to finance the remaining purchase commitments as needed. However, due to the current economic and credit market conditions it has been more difficult to obtain financing for the Company's projects. The Company expects that it will not receive financing commitments from a lender for its PBRT systems until Still River obtains FDA approval on the Monarch250. As such, there can be no assurance that financing will be available for the Company's current or future projects, or at terms that are acceptable to the Company.

Impairment Evaluation of Convertible Preferred Stock Investment

The Company carries its investment in Still River 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 not be recoverable. The Company evaluated this investment for impairment at December 31, 2010 and reviewed it at March 31, 2011 in light of both current market conditions and the ongoing needs of Still River to raise cash to continue its development of the first compact, single room PBRT system, and considering the following specific events.

During the first quarter of 2009, Still River proposed a Series D round of financing to raise cash, which it was able to do, but at a per share price lower than the Company's cost basis investment. In June 2010, Still River received approximately $20 million funding from an extended Series D offering at $0.17 per share, the same price as the earlier offering under Series D, of which existing investors contributed $13 million and new investors contributed $7 million.

In late December 2010, two lawsuits were filed by MIT against Still River, alleging patent infringement. Still River disputes the allegations and is attempting to reach agreement with MIT. Still River believes this issue will not have a significant long-term impact on the business.

In February 2011, an additional round of financing under a Series D extension was offered and raised in excess of $14 million. These additional funds should allow Still River to complete the installation of the first proton beam unit, and allow it to make progress towards the manufacture of additional units. This round was offered at $0.17 per share, the same price as earlier offerings under Series D. Investors were offered an inducement to quickly close the round in the form of a warrant for 20% of additional shares. The warrant was offered because of the delays in construction that have occurred and because of the uncertainty from the pending lawsuits.

The lower price per share of the Series D offering, along with the 20% warrant offered in the recent round of financing in 2011, could be viewed as a reasonable estimate of the fair value of our cost-method investment, indicating that our investment is impaired. The Company estimates that there is currently an unrealized loss (impairment) of approximately $1.5 million based on the issuance of the Series D funding compared to the Company's cost of its investment.

However, the Company's analysis has determined that its investment in Still River is not other than temporarily impaired. This is based primarily on the following:

- The installation of Still River's first proton beam unit is nearing completion, with the final phase of installation expected to be completed in summer 2011. The first two of three installation phases have been completed at the initial site, and Still River has begun work on the final phase. Still River believes that installation of the first system will be completed and a working system in place before the end of 2011. The three phases of installation are:

- o Phase 1 consists of rigging and mounting the accelerator gantry, which holds and positions the proton source with sub-millimeter accuracy.

- o Phase 2 includes assembling and installing the clinical environment which comprises the 6D robotic couch, the high-accuracy treatment gantry and its applicators, the 2D/3D imaging and positioning systems and the clinical software interfaces.

- o Phase 3 consists of the installation of the accelerator module. In connection with the final phase, the accelerator module has recently passed a series of tests, and final fabrication of the second magnet, an integral part of the accelerator module, was completed in November 2010. The module continues to pass more tests as manufacturing progresses.

- In spite of the uncertain economic climate and a limited number of potential investors, with the initial Series D offering Still River was still able to raise the cash required to continue its operations, was able to add two new major investors, and continues to be able to raise additional cash with Series D extensions. Due to the high level of interest in more compact and lower cost proton beam radiation therapy devices, Still River has been able to attract funding from financially significant and highly sophisticated investors, such as Caxton Health and Life Sciences, Venrock Associates and CHL Medical Partners. All of these major investors, as well as Still River management, continue to invest in the Series D extensions.

- Based on ongoing discussions with Still River management and regular review of their financial statements and cash flow projections, the Company believes that Still River will have adequate cash flow to continue development of the system. Still River states that their burn rate of cash is approximately $1.2 million per month, and expects that the additional funding from the current offering will be sufficient to complete the installation of the first system. Still River, as a development stage company manufacturing its first product, continuously analyzes its cash requirements.

In addition the Company considered the following:

- Much of Still River's unique design is based on existing technology:

- o The single room PBRT concept and design, although a departure from the large scale three and four room PBRT systems on the market, is based on the existing principle of generating protons from a cyclotron. Still River, through design innovations and advances in magnet technology, has made the cyclotron more compact such that it can be mounted on the gantry

- o A gantry mounted cyclotron, although appearing to be revolutionary, has in fact been done previously. A neutron generating gantry mounted cyclotron has successfully treated patients for over ten years at Detroit Medical Center.

- o Still River's development approach for the Monarch250 has been to integrate as many commercially existing components as possible into the Monarch250. The patient couch, CT imaging and treatment planning software are all commercially available and will be integrated into the Monarch250.

- o Still River has hired engineers and staff with many years of accelerator and proton beam experience. Personnel have been hired with prior experience at MIT's Plasma Fusion Lab, as well as Still River rival, IBA.

- Still River has completed several significant milestones towards its manufacture and installation of its first proton beam unit:
  - o built the magnet and other cyclotron subsystems for the first three units
  - o completed the manufacture/assembly of the gantry system
  - o demonstrated integrated software control of all cyclotron operations on the prototype unit
  - o completed and passed the cold mass test on the prototype unit.
  - o completed the beam extraction test phase.
- Preliminary submissions have been made to the FDA, and Still River anticipates that it will file its final 510(k) submission in mid-year 2011. The minimum expected review period is 3 months, and Still River is planning for a 6 month review period. It is not possible to predict the actual review period and outcome, and it is uncertain as to whether the FDA will require an inspection of the unit prior to deeming Still River's application complete.
- The expected completion of the first unit, and therefore the Company's first two units, has been delayed due to minor problems during some of the tests that were quickly rectified. However, minor problems such as these are expected in a new technology, and do not affect the Company's position on the viability of the Still River technology.
- A respected physicist was hired by the Company as a third party consultant to perform a technical review of this project, and continues to make periodic reviews at the request of the Company. His discussions with Still River's chief technology officer indicated that the delays encountered have at times resulted in modifications being required, but the modifications were not significant, and he still believes that development of the PBRT machine will be completed in Still River's timeline. The consultant was not engaged to analyze Still River's financial condition.
- Still River added a new CEO, Joseph Jachinowski, in late 2009 strengthening its management depth, and with the new investors, increased its board strength as well. Independent board members consist of the following: Robert Wilson, Former Vice Chairman of Johnson and Johnson; Peter P. D'Angelo, President, Caxton Associates; Dr. Anders Hove, MD, Partner, Venrock Associates; Dr. Myles D. Greenberg, MD, General Partner, CHL Medical Partners; Dr. Jay Rao, MD, JD, Portfolio Manager, Green Arrow Capital Management; and Mr. Paul Volcker, Former Chairman, United States Federal Reserve.
- Still River currently has 15 sites agreeing to install the Monarch250 system.

Once FDA approval is obtained, the per share investment in Still River will likely increase to a level higher than the Company's existing carrying value (cost). As the first unit nears completion in 2011, and FDA approval appears more imminent, the Company believes that the value of its investment will meet and exceed its carrying value. The estimated recovery period is anticipated to occur subsequent to the first system's clinical treatment of patients, which would shortly follow obtaining FDA approval. The first system is projected to be ready to treat patients in late 2011. The Company has the intent and the ability to maintain its investment in Still River until at least these milestones are met.

Subsequent Events

In April 2011, the Company made deposits toward the purchase of four additional Perfexion units that are expected to be placed at existing and potentially new customer sites in 2011 and 2012.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company does not hold or issue derivative instruments for trading purposes and is not a party to any instruments with leverage or prepayment features. The Company does not have affiliation with partnerships, trust or other entities whose purpose is to facilitate off-balance sheet financial transactions or similar arrangements, and therefore has no exposure to the financing, liquidity, market or credit risks associated with such entities. At March 31, 2011 the Company had no significant long-term, market-sensitive investments.

Item 4. Controls and Procedures

Under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934. These controls and procedures are designed to ensure that material information relating to the company and its subsidiaries is communicated to the chief executive officer and the chief financial officer. Based on that evaluation, our chief executive officer and our chief financial officer concluded that, as of March 31, 2011, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to the chief executive officer and the chief financial officer, and recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting during the three months ended March 31, 2011, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors

There are no changes from those listed in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Securities Holders.

None.

Item 5. Other Information.

None.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

The following exhibits are filed herewith:

10.60 Lease Agreement for a Gamma Knife Unit dated as of May 1, 2010 between GK Financing, LLC and Fort Sanders Regional Medical Center. (Confidential material appearing in this document has been omitted and filed separately with the Securities and Exchange Commission in accordance with Rule 24b-2, promulgated under the Securities and Exchange Act of 1934, as amended. Omitted information has been replaced with asterisks.)

31.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AMERICAN SHARED HOSPITAL SERVICES
Registrant

Date: May 16, 2011	/s/ Ernest A. Bates, M.D. Ernest A. Bates, M.D. Chairman of the Board and Chief Executive Officer
Date: May 16, 2011	/s/ Craig K. Tagawa Craig K. Tagawa Senior Vice President Chief Operating and Financial Officer