

AMERICAN SHARED HOSPITAL SERVICES
Form DEF 14A
April 30, 2015

SCHEDULE 14A (Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant x
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Check the appropriate box:

o Preliminary Proxy Statement
 Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
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American Shared Hospital Services

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

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(3) Filing Party:

(4) Date Filed:

**AMERICAN SHARED HOSPITAL SERVICES
Four Embarcadero Center, Suite 3700
San Francisco, California 94111**

**NOTICE OF 2015 ANNUAL MEETING OF
SHAREHOLDERS
To be held on June 16, 2015**

TO THE SHAREHOLDERS OF AMERICAN SHARED HOSPITAL SERVICES:

NOTICE IS HEREBY GIVEN that, pursuant to a call of the Board of Directors, the 2015 Annual Meeting of Shareholders (the Meeting) of American Shared Hospital Services, a California corporation (the Company), will be held in the Conference Center, Four Embarcadero Center, San Francisco, CA 94111 at 9:00 a.m. Pacific Daylight Time on Tuesday, June 16, 2015 to consider and to act upon the following matters, all as set forth in the Proxy Statement.

1. ELECTION OF DIRECTORS. To elect the following six nominees to the Board of Directors to serve until the next Annual Meeting of Shareholders and until their successors are elected and have qualified:

Ernest A. Bates, M.D.

S. Mert Ozyurek

Raymond C. Stachowiak

David A. Larson, M.D.

John F. Ruffle

Stanley S. Trotman, Jr.

2. ADVISORY VOTE ON OUR EXECUTIVE COMPENSATION. To provide a non-binding advisory vote on the compensation of our named executive officers.

3. AMENDMENT AND RESTATEMENT OF THE INCENTIVE COMPENSATION PLAN. To approve the amendment and restatement of the Company's Incentive Compensation Plan.

4. RATIFICATION OF THE APPOINTMENT OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM. To ratify the appointment of Moss Adams LLP as the Company's Independent Registered Public Accounting Firm for the year ending December 31, 2015.

5. OTHER BUSINESS. To transact such other business and to consider and take action upon any and all matters that may properly come before the Annual Meeting and any and all adjournments thereof.

The Board of Directors knows of no matters, other than those set forth in paragraphs (1), (2), (3), and (4) above, that will be presented for consideration at the Meeting.

The Board of Directors has fixed the close of business on April 24, 2015 as the Record Date for the determination of shareholders entitled to vote at the Meeting.

WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING IN PERSON, PLEASE DATE, SIGN AND MAIL THE ENCLOSED PROXY IN THE ENVELOPE PROVIDED AS PROMPTLY AS POSSIBLE. THE PROXY IS REVOCABLE AND WILL NOT AFFECT YOUR RIGHT TO VOTE IN PERSON, IF YOU ATTEND THE MEETING. IN ORDER TO FACILITATE THE PROVISION OF ADEQUATE ACCOMMODATIONS, PLEASE INDICATE ON THE PROXY WHETHER YOU PLAN TO ATTEND THE MEETING IN PERSON.

By Order of the Board of Directors

Willie R. Barnes
Corporate Secretary

Dated: April 30, 2015
San Francisco, California

AMERICAN SHARED HOSPITAL SERVICES
Four Embarcadero Center, Suite 3700
San Francisco, California 94111

PROXY STATEMENT
2015 ANNUAL MEETING OF SHAREHOLDERS
June 16, 2015

INTRODUCTION

This Proxy Statement is being furnished to shareholders of American Shared Hospital Services, a California corporation (the Company), in connection with the solicitation of proxies by the Company's Board of Directors (the Board of Directors) for use at the 2015 Annual Meeting of Shareholders scheduled to be held in the Conference Center, Four Embarcadero Center, San Francisco, CA 94111 at 9:00 a.m. Pacific Daylight Time on Tuesday, June 16, 2015 and at any adjournments or postponement thereof (the Meeting). It is anticipated that this Proxy Statement and the proxy will first be sent to shareholders on or about May 8, 2015.

The matters to be considered and voted upon at the Meeting will be:

1. To elect six persons to the Board of Directors to serve until the next Annual Meeting of Shareholders and until their successors are elected and have qualified.
2. To provide a non-binding advisory vote on the compensation of our named executive officers.
3. To approve the amendment and restatement of the Company's Incentive Compensation Plan.
4. To ratify the appointment of Moss Adams LLP as the Company's Independent Registered Public Accounting Firm for the year ending December 31, 2015.
5. To transact such other business as may properly be brought before the Meeting and any and all adjournments thereof.

Only shareholders of record at the close of business on April 24, 2015 (the Record Date) are entitled to notice of and to vote at the Meeting.

Revocability of Proxies

A proxy for use at the Meeting is enclosed. Any shareholder who executes and delivers such proxy may revoke it at any time prior to its use by filing with the Secretary of the Company either written instructions revoking such proxy or a duly executed proxy bearing a later date. Written notice of the death of the person executing a proxy, before the vote is counted, is tantamount to revocation of such proxy. A proxy may also be revoked by attending the Meeting and

voting in person.

Solicitation of Proxies

This proxy solicitation is being made by the Board of Directors of the Company. The expense of the solicitation will be paid by the Company. To the extent necessary to assure sufficient representation at the Meeting, proxies may be solicited by any appropriate means by directors, officers, regular employees of the Company and the stock transfer agent for shares of the Company's common stock (the Common Shares), who will not receive any additional compensation therefor. The Company will request that banks, brokers and other fiduciaries solicit their customers who own beneficially the Common Shares listed of record in names of nominees and, although there is no formal arrangement to do so, the Company will reimburse such persons the reasonable expenses of such solicitation. In addition, the Company may pay for and utilize the services of individuals or companies not regularly employed by the Company in connection with the solicitation of proxies, if the Board of Directors of the Company determines that this is advisable.

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Outstanding Securities

The Board of Directors has fixed April 24, 2015 as the Record Date for the determination of shareholders entitled to notice of, and to vote at, the Meeting. At the close of business on the Record Date, there were estimated to be outstanding and entitled to vote 5,361,000 Common Shares. The Common Shares are the only class of securities entitled to vote at the Meeting.

Vote Required and Voting Procedures

Each holder of Common Shares will be entitled to one vote, in person or by proxy, for each share standing in its name on the books of the Company as of the Record Date for the Meeting on each of the matters duly presented for vote at the Meeting, except as indicated below in connection with the election of directors.

In connection with the election of directors, shares are permitted to be voted cumulatively, if (i) a shareholder present at the Meeting has given notice at the Meeting, prior to the voting, of such shareholder's intention to vote its shares cumulatively and (ii) the names of the candidates for whom such shareholder desires to cumulate votes have been placed in nomination prior to the voting. If a shareholder has given such notice, all shareholders may cumulate their votes for candidates in nomination. Cumulative voting allows a shareholder to give one nominee as many votes as is equal to the number of directors to be elected multiplied by the number of shares owned by such shareholder or to distribute the same number of votes between two or more nominees. Discretionary authority to cumulate votes is hereby solicited by the Board of Directors.

In connection with the solicitation by the Board of Directors of proxies for use at the Meeting, the Board of Directors has designated Ernest A. Bates, M.D. and Craig K. Tagawa as proxies. Common Shares represented by properly executed proxies will be voted at the Meeting in accordance with the instructions specified thereon. If no instructions are specified, the Common Shares represented by any properly executed proxy will be voted FOR (1) the election of the six nominees for the Board of Directors named herein, (2) the approval, on an advisory basis, of the Company's executive compensation, (3) the approval of the amendment and restatement of the Company's Incentive Compensation Plan, and (4) ratification of the appointment of the Company's Independent Registered Public Accounting Firm.

The Board of Directors is not aware of any matters that will come before the Meeting other than as described above. However, if such matters are presented, the named proxies will, in the absence of instructions to the contrary, vote such proxies in accordance with the judgment of such named proxies with respect to any such other matter properly coming before the Meeting.

All outstanding shares of the Company's Common Stock represented by properly executed and unrevoked proxies received in time for the Meeting will be voted. A shareholder has the following voting options for the three proposals discussed herein:

A shareholder may, with respect to the election of directors, (i) vote for the election of all six nominees named herein as directors, (ii) withhold authority to vote for all such director nominees or (iii) vote for the election of all such director nominees other than any nominee(s) with respect to whom the shareholder withholds authority to vote by so indicating in the appropriate space on the proxy. Withholding authority to vote for a director nominee will not prevent such director nominee from being elected.

A shareholder may, with respect to the advisory vote on executive compensation, (i) vote for, or approve on an advisory basis, our executive compensation, (ii) vote against, or disapprove on an advisory basis, our executive compensation, or (iii) abstain.

3. A shareholder may, with respect to the amendment and restatement of the Company's Incentive Compensation Plan, (i) vote for the amendment and restatement, (ii) vote against the amendment and restatement, or (iii) abstain.
4. A shareholder may, with respect to the proposal to ratify the appointment of the Company's Independent Registered Public Accounting Firm, (i) vote for the ratification, (ii) vote against the ratification, or (iii) abstain.

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A proxy submitted by a shareholder may indicate that all or a portion of the shares represented by such proxy are not being voted by such shareholder with respect to a particular matter. This could occur, for example, when a broker is not permitted to vote stock held in street name on certain matters in the absence of instructions from the beneficial owner of the stock. The shares subject to any such proxy which are not being voted with respect to a particular matter (the non-voted shares) will be considered shares not present and entitled to vote on such matter, although such shares may be considered present and entitled to vote for other purposes and will count for purposes of determining the presence of a quorum. Abstentions are included in the determination of the number of shares represented at the Meeting for purposes of determining whether a quorum is present.

The rules of the New York Stock Exchange determine whether proposals presented at shareholder meetings are routine or non-routine. If a proposal is routine, a broker or other entity holding shares for an owner in street name may vote for the proposal without receiving voting instructions from the owner under certain circumstances. If a proposal is non-routine, the broker or other entity may vote on the proposal only if the owner has provided voting instructions.

A broker non-vote occurs when the broker or other entity is unable to vote on a proposal because the proposal is non-routine and the owner does not provide any voting instructions.

Under the rules of the New York Stock Exchange, the election of directors in an uncontested election, the advisory vote on executive compensation and the amendment and restatement of the Company's Incentive Compensation Plan are non-routine items. This means that brokers who do not receive voting instructions from their clients as to how to vote their shares for these proposals cannot exercise their discretionary authority to vote your shares to vote for these proposals. Therefore, it is important that you instruct your broker as to how you wish to have your shares voted on these proposals, even if you wish to vote as recommended by the Board of Directors.

A majority of the Common Shares outstanding on the Record Date must be represented in person or by proxy at the Annual Meeting in order to constitute a quorum for the transaction of business. In the election of directors, the six candidates receiving the highest number of votes will be elected directors of the Company.

The outcome of the advisory vote on our executive compensation will not be binding on the Board of Directors. Therefore, there is no required vote on these resolutions. The Board of Directors, in the exercise of its fiduciary duties, will consider the outcome of the advisory votes in determining how to proceed following such votes. The compensation of our Named Executive Officers will be approved, on an advisory basis, if the proposal receives the affirmative vote of a majority of the shares of Common Stock present in person or represented by proxy and entitled to vote on the proposal.

The proposal to amend and restate the Company's Incentive Compensation Plan requires for approval that a majority of those voting in person or by proxy vote FOR the proposal, provided that an affirmative vote also represents at least a majority of the voting power required to constitute a quorum at the Annual Meeting.

The proposal to ratify the appointment of the Company's Independent Registered Public Accounting Firm requires for approval that a majority of those voting in person or by proxy vote FOR the proposal, provided that an affirmative vote also represents at least a majority of the voting power required to constitute a quorum at the Annual Meeting.

Provided that the quorum requirement is satisfied, (i) broker non-votes will have no effect on the outcome of the election of directors, advisory vote on our executive compensation and the vote on the amendment and restatement of the Company's Incentive Compensation Plan, and (ii) abstentions would have the effect of a No/Against vote on the advisory vote on our executive compensation, the vote on the amendment and restatement of the Company's Incentive Compensation Plan, and the ratification of the appointment of the Company's Independent Registered Public Accounting Firm. No broker non-votes are expected for the proposal on the ratification of the appointment of the Company's Independent Registered Public Accounting Firm.

The Board of Directors has appointed Jacqueline Kretzu of American Stock Transfer & Trust Company, the registrar and transfer agent for the Common Shares, or her designee, as the Inspector of Elections for the Annual Meeting. The Inspector of Elections will determine the number of Common Shares represented in person or by proxy at the Annual Meeting, whether a quorum exists, and the authenticity, validity and effect of proxies and will receive and count the votes. The election of directors will not be by ballot unless a shareholder demands election by ballot at the Annual Meeting before the voting begins.

PROPOSAL NO. 1

ELECTION OF DIRECTORS

Board of Directors

The Company's Bylaws provide that there shall be no fewer than five nor more than nine directors and that the exact number shall be fixed from time to time by an amendment to the Bylaws adopted by the Board of Directors. The number of directors currently is fixed at six. There are currently no vacancies on the Board of Directors.

For many years our founder, Ernest A. Bates, M.D., has served as both Chairman and Chief Executive Officer of the Company. The Board believes that Dr. Bates' intimate knowledge of the Company's business and customers, and his significant ownership of our common stock, closely align him with the interests of all of our constituencies and position him well to lead the Board, which in turn determines the Company's overall direction. Since the Chairman and Chief Executive Officer positions are held by the same person, the Board has elected an independent, non-management director as Lead Director to coordinate the activities of the other non-management directors and preside at their meetings. Mr. Ruffle currently serves as Lead Director.

Management, which is responsible for day-to-day risk management, continually monitors the material risks facing the Company, including strategic risks, operational risks, financial risks and legal and compliance risks. The Board is responsible for exercising oversight of management's identification and management of, and planning for, those risks. The Board has delegated to certain committees oversight responsibility for those risks that are directly related to their area of focus. The responsibilities of the Board's committees, and the areas of risk that they monitor, are described in detail in their charters. In summary, the Audit Committee oversees the preparation of the Company's financial statements and the hiring and work of its independent auditors to mitigate the risk of non-compliance with the regulations of the Securities and Exchange Commission governing financial reporting. The Compensation Committee oversees the structure of the Company's executive compensation program and has concluded that the program does not create a material risk that individuals will take excessive risks in order to impact their compensation. The Nominating and Corporate Governance Committee oversees Board organization, membership and structure, director and officer succession planning and corporate governance to promote compliance with the requirements of securities regulators and stock exchanges. While management has the primary responsibility for identifying, assessing and managing risk, the ability of the Board to oversee management in this area is enhanced by the active participation of Dr. Bates as Chairman.

The Board of Directors is proposing the persons named below for election to the Board of Directors. Each of the persons identified below will be nominated for election to serve until the next Annual Meeting of Shareholders and until his successor shall be elected and qualified. Votes will be cast pursuant to the enclosed proxy in such a way as to effect the election of each of the persons named below or as many of them as possible under applicable voting rules. If a nominee is unable or unwilling to accept nomination for election as a director, it is intended that the proxy holders will vote for the election of such substitute nominee, if any, as shall be designated by the Board of Directors. Each of the nominees named below has notified the Board of Directors that, if elected, he is willing to serve as a director.

Set forth below is certain information regarding each of the nominees.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF THE NOMINEES NAMED BELOW. PROPERLY EXECUTED PROXIES RETURNED TO THE COMPANY WILL BE

VOTED FOR THE NOMINEES NAMED BELOW UNLESS OTHERWISE INSTRUCTED.

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Nominees

ERNEST A. BATES, M.D., founder of the Company, has served as Chairman of the Board and Chief Executive Officer since the Company's incorporation. A board-certified neurosurgeon, he is currently Emeritus Vice Chairman of the Board of Trustees of The Johns Hopkins University and serves on the Board of Visitors of the Johns Hopkins Medical Center and the Johns Hopkins Neurosurgery Advisory Board. He is an Emeritus member of the board at the University of Rochester. He serves on the boards of Shared Imaging and FasterCures. Dr. Bates was appointed to the California Commission for Jobs and Economic Growth and the Magistrate Judge Merit Selection Panel. From 1981-1987 he was a member of the Board of Governors of the California Community Colleges, and he served on the California High Speed Rail Authority from 1997 to 2003. Dr. Bates is a member of the Board of Overseers at the University of California, San Francisco, School of Nursing. He is a Partner in Black Coyote Chateau Wines, LLC. He is a graduate of the School of Arts and Sciences of The Johns Hopkins University and the University of Rochester School of Medicine and Dentistry. Dr. Bates is 78 years old. Dr. Bates is the father of former Board Member and current Company Vice President of Sales and Business Development, Ernest R. Bates.

DAVID A. LARSON, M.D., PhD, FACR, FASTRO, was elected to the Board of Directors in 2011. He is currently employed as a radiation oncology physician at the University of California, San Francisco and the Washington Hospital Healthcare System Gamma Knife Program. He is an internationally recognized authority on brain tumors and on central nervous system and body radiosurgery, intensity modulated radiotherapy, and highly conformal radiotherapy. He holds a PhD degree in high energy physics from the University of Chicago and an MD degree from the University of Miami School of Medicine. He completed his medical internship at the University of California, San Francisco and his radiation oncology residency training at Harvard Medical School, where he also served as attending physician and instructor. Dr. Larson has been a member of the UCSF academic faculty since 1986, leading to joint professorial appointments in the Departments of Radiation Oncology and Neurosurgery. He has authored more than 200 scientific papers, reviews, and book chapters. He was elected by his peers to the presidency of numerous professional societies, including the American Society for Radiation Oncology (ASTRO), the Northern California Radiation Oncology Society (NCROS), and the International Stereotactic Radiosurgery Society (ISRS). He is a Fellow in the American College of Radiation Oncology (FACRO), the American College of Radiology (FACR), and the American Society for Radiation Oncology (FASTRO). He has been recognized as one of America's top doctors every year since 1991. Dr. Larson is 74 years old.

S. MERT OZYUREK was elected to the Board of Directors in 2011. He is currently the President of Ozyurek A.S., the preferred supplier of Elekta Gamma Knife systems to hospitals in Turkey, and EMKA, LLC, in the United States. Prior to that, he served as Vice President in Ozyurek A.S., overseeing international business and business development. He joined Ozyurek A.S., the family business, and served as a Sales Manager for nine years, after completing military service in the Turkish Air Force. Mr. Ozyurek founded a marble export company in Turkey in 1995. He is a member partner in the subsidiary that the Company developed for its operations in Turkey. He received a B.A. degree in Mining Engineering at Middle East Technical University in Ankara, Turkey. Mr. Ozyurek is 40 years old.

JOHN F. RUFFLE has been a director since 1995. He retired in 1993 as Vice-Chairman of the Board and a Director of J.P. Morgan & Co. Incorporated and Morgan Guaranty Trust Co. of New York. He is a Trustee Emeritus of The Johns Hopkins University. From December 1996 to May 2009 he was a member of the board of trustees of certain mutual funds in the J.P. Morgan Family of mutual funds and certain investment funds managed by J.P. Morgan Investment Management, Inc. From March 2004 to January 2007, he was a director for Reckson Associates Realty Corp. Mr. Ruffle graduated from The Johns Hopkins University, has an MBA in finance from Rutgers University, and is a Certified Public Accountant. Mr. Ruffle is 78 years old.

RAYMOND C. STACHOWIAK joined the Board of Directors in 2009. He founded Shared Imaging in 1994 with the purchase of the assets of Shared Imaging Partners, L.P. He served as President and CEO since its inception until March 2013. In 2008, he sold 50% of his interest in Shared Imaging. Shared Imaging is a preferred independent provider of CT, MRI and PET/CT equipment and services. He remains its Founder and Owner. He is also sole owner of RCS Investments, Inc. and manager of Stachowiak Equity Fund, both of which are private equity funds. He received his undergraduate degree in Business from Indiana University in 1979 and received an MBA from Indiana University in 1985. Mr. Stachowiak has CPA (Certified Public

Accountant), CPIM (Certification in Production and Inventory Management) and CIA (Certified Internal Auditor) certifications. Mr. Stachowiak is 57 years old.

STANLEY S. TROTMAN, JR., has been a director of the Company since 1996. He retired in 2001 from UBS Financial Services, Inc. after it acquired in 2000, PaineWebber Incorporated, an investment banking firm where he had been a Managing Director with the Health Care Group since 1995. He is currently a director of Web MD Health Corp.. Mr. Trotman received his undergraduate degree from Yale University in 1965 and obtained an MBA from Columbia Business School in 1967. Mr. Trotman is 71 years old.

Meetings of the Board of Directors

The Board of Directors of the Company held four regular meetings during 2014. Each director attended at least 75% of the aggregate number of meetings of both the Board of Directors and of the Committees of the Board on which such director served during the year.

Shareholders may communicate with the Board by writing to: Four Embarcadero Center, Suite 3700, San Francisco, CA 94111-4107, Attention: Ernest A. Bates, M.D. We encourage directors to attend our annual meeting and all directors attended the 2014 Annual Meeting in person. All shareholder communications to directors are forwarded to them.

Committees of the Board of Directors

The Company has standing Compensation, Nominating and Corporate Governance and Audit Committees, each of which is described below. The Company is in compliance with The NYSE MKT Stock Exchange (NYSE MKT) enhanced board and board committee independence requirements that became fully applicable to the Company effective July 31, 2005. A majority of our directors are independent under the NYSE MKT rules and Rule 10A-3 under the Securities Exchange Act and each of the Committees described above is comprised of independent directors.

The only directors who are not independent under NYSE MKT rules and Rule 10A-3 are Dr. Bates, who is the Company's Chief Executive Officer, and Mr. Ozyurek, who is not independent because during the most recent three years he served as an owner in an organization that has a business association with a subsidiary of the Company. See Certain Relationships and Transactions Related Party Transactions below. Each of the Audit, Compensation and Nominating and Corporate Governance Committees has adopted a formal written charter. These, as well as our Code of Professional Conduct and Ethics, are available on our website at www.ashs.com. You may also request a copy of these documents free of charge by writing our Corporate Secretary. We intend to post on our website any amendments to our Code of Professional Conduct and Ethics, as well as any waivers for directors or executive officers (including our chief accounting officer and controller and anyone else performing similar functions) within five business days after the date of any amendment or waiver. The information on our website is not part of this proxy statement. The Company's independent directors meet at least annually without management and the non-independent directors, as required by the NYSE MKT rules. The Lead Director presides at such meetings.

The Compensation Committee's functions are to (i) establish compensation arrangements and incentive goals for executive officers, (ii) administer compensation plans, (iii) evaluate the performance of executive officers and award incentive compensation, (iv) adjust compensation arrangements as appropriate based upon performance, and (v) review and monitor management development and succession plans and activities. The Compensation Committee met once during 2014. The Compensation Committee during 2014 consisted of Dr. Larson, Mr. Ruffle and Mr. Trotman. Dr. Larson is Chair of the Compensation Committee.

The Compensation Committee is authorized to delegate its authority to a subcommittee when appropriate. It is authorized to hire independent compensation consultants and other professionals to assist in the design, formulation, analysis and implementation of compensation programs for the Company's executive officers and other key employees. The Compensation Committee did not engage a compensation consultant during 2014. In determining or recommending the amount or form of executive officer compensation, the Compensation Committee also takes into consideration information received from the Company's Chief Executive Officer. In doing so, however, the Compensation Committee customarily considers the comparative relationship of the recommended compensation to the compensation paid by other similarly situated companies, individual performance, tenure, internal comparability and the achievement of certain other operational and qualitative goals identified in the Company's strategic plan.

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The purpose of the Nominating and Corporate Governance Committee is to recommend candidates for election to the Board of Directors. The Company adopted a Nominating and Corporate Governance Committee Charter in 2006, which is available on our website. The Nominating and Corporate Governance Committee met once during 2014. In 2015, the Nominating and Corporate Governance Committee recommended the nominations of Dr. Bates, Dr. Larson, Mr. Ozyurek, Mr. Ruffle, Mr. Stachowiak and Mr. Trotman for election to the Board. During 2014, Dr. Larson, Mr. Ruffle, Mr. Stachowiak and Mr. Trotman served on the Nominating and Corporate Governance Committee. Mr. Trotman is Chair of the Nominating and Corporate Governance Committee.

The purpose of the Audit Committee is to review the financial reporting and internal controls of the Company, to appoint the independent auditors, and to review the reports of such auditors. The Audit Committee during 2014 consisted of Mr. Ruffle, Mr. Stachowiak and Mr. Trotman. Mr. Ruffle is Chair of the Audit Committee. During the year 2014 the Audit Committee held two regular meetings and four special meetings. For further information concerning the Audit Committee, refer to the Audit Committee Report. Mr. Ruffle is a financial expert and meets the applicable independence requirements of the NYSE MKT and Rule 10A-3 under the Securities Exchange Act.

Identifying and Evaluating Director Nominees

The Nominating and Corporate Governance Committee uses various methods to identify director nominees. The Nominating and Corporate Governance Committee assesses the appropriate size and composition of the Board and the particular needs of the Board based on whether any vacancies are expected due to retirement or otherwise. Candidates may come to the attention of the Nominating and Corporate Governance Committee through current board members, shareholders, or other sources. All candidates are evaluated based on a review of the individual's qualifications, skills, independence and expertise.

To be eligible for consideration for the Board, any proposed candidate must be ethical, have proven judgment and experience, have professional skills and experience in dealing with complex problems that would be complementary to the needs of the Company, have demonstrated the ability to act independently, be willing to represent the interests of all shareholders and not just those of a particular interest, and be willing and able to devote sufficient time to fulfill the needs of a director of the Company.

The Nominating and Corporate Governance Committee will consider director candidates submitted by shareholders to: Four Embarcadero Center, Suite 3700, San Francisco, CA 94111-4107, Attention: Nominating and Corporate Governance Committee. Such recommendations should be accompanied by (i) evidence of the shareholder's stock ownership over the last year, (ii) a statement that the shareholder is not a competitor of the Company, (iii) a resume and contact information for the director candidate, as well as a description of the candidate's qualifications and (iv) a statement as to whether the candidate has expressed interest in serving as a director. The Nominating and Corporate Governance Committee follows the same process and uses the same criteria for evaluating candidates proposed by shareholders as it does for candidates proposed by other parties. The Nominating and Corporate Governance Committee will consider such candidacy and will advise the recommending shareholder of its final decision. A shareholder who wishes to nominate a person for director must provide the nomination in writing to the Secretary at the Company's principal offices pursuant to the notice provisions in the Bylaws. Such notice must be received not less than 60 nor more than 90 days prior to the Annual Meeting or, if less than 70 days' notice of the date of such meeting has been given, then within 10 business days following the earlier of the first public disclosure of the meeting date or the mailing of the Company's notice. Any such notice must contain information regarding the nominee and the proponent. Details concerning the nature of such information are available without charge from the Company.

Based on the process described above, the Committee recommended and the Board determined to nominate each of the incumbent directors for re-election at the 2015 Annual Meeting of Shareholders. The Committee and Board

concluded that each of the incumbent directors should be nominated for re-election based on the experience, qualifications, attributes and skills identified in the biographical information contained in the *Nominees* section under *Proposal No. 1: Election of Directors*. The Committee and the Board assessed several factors while considering the Company's longstanding history of providing Gamma Knife and other medical services to hospitals and medical centers in the United States, and its anticipated

growth in providing similar services internationally, as well as providing proton beam radiation therapy services in the United States. In particular, the Committee and the Board considered the following factors:

The nominees all have extensive experience in guiding business and professional organizations as both executive leaders and board members.

The nominees' experiences reflect a range of occupations and industries, which helps to provide differing viewpoints to help guide the Company. This specifically includes financial services (Mr. Ruffle and Mr. Trotman), health care (Dr. Bates, Dr. Larson, Mr. Ozyurek, Mr. Stachowiak and Mr. Trotman), government and public policy (Dr. Bates, Dr. Larson and Mr. Ruffle), international policy and development (Dr. Bates, Mr. Ozyurek, Mr. Ruffle and Mr. Trotman), and business development (Dr. Bates, Mr. Ozyurek and Mr. Stachowiak).

The nominees have significant and substantive expertise in several areas that are applicable to the Board and its committees, including finance (all of the nominees), public company accounting and financial reporting (Mr. Ruffle and Mr. Stachowiak), strategic planning (all of the nominees), operations management (all of the nominees) and corporate governance (all of the nominees).

The Board particularly believes that Dr. Bates' vast experience in the medical community both as a neurosurgeon and as an entrepreneur, as founder, President and CEO of the Company, brings unparalleled expertise to the board in a variety of areas.

Director Compensation for Fiscal Year 2014

The following table sets forth information regarding the compensation earned by or awarded to each non-employee director during the 2014 Fiscal Year.

Name (a)	Fees Earned or Paid in Cash (\$) ⁽¹⁾ (b)	Stock Awards (\$) ⁽²⁾⁽³⁾ (c)	Option Awards (\$) ⁽⁴⁾⁽⁵⁾ (d)	All Other Compensation (\$) (e)	Total (\$) (f)
David A. Larson	20,000	691	12,194	0	32,885
S. Mert Ozyurek	20,000	691	12,194	0	32,885
John F. Ruffle	20,000	691	12,194	0	32,885
Raymond C. Stachowiak	20,000	691	12,194	0	32,885
Stanley S. Trotman	20,000	691	12,194	0	32,885

(1) Consists of the annual retainer fees for service as members of the Company's Board of Directors. Each non-employee director may choose to have the retainer paid in cash, or make an election to defer all or part of the retainer by converting it to a restricted stock unit award pursuant to the terms of the Company's Deferral Election Program. Each non-employee director, with the exception of Mr. Ozyurek, made an election to defer their entire 2014 retainer by converting such fee into a restricted stock unit award under the Company's Incentive Compensation Plan covering 7,576 shares of the Company's common stock. For further information concerning such deferral election, see the section below entitled "Deferral Election Program for Non-Employee Board Members".