Alliance HealthCare Services, Inc
Form 10-Q
August 04, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended: June 30, 2016

Commission File Number: 001-16609

ALLIANCE HEALTHCARE SERVICES, INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| DELAWARE | 33-0239910 |
| (State or Other Jurisdiction of Incorporation or Organization) | (IRS Employer Identification Number) |

100 Bayview Circle

Suite 400

Newport Beach, California 92660

(Address of Principal Executive Office) (Zip Code)

(949) 242-5300

(Registrant's Telephone Number, including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| Large accelerated filer | o | Accelerated filer | x |
| Non-accelerated filer | o (Do not check if a smaller reporting company) | Smaller reporting company | o |

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of August 1, 2016, there were 10,738,551 shares of common stock, par value $.01 per share, outstanding.

ALLIANCE HEALTHCARE SERVICES, INC.

FORM 10-Q

June 30, 2016

Index

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
ALLIANCE HEALTHCARE SERVICES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

| | June 30, 2016 (unaudited) | December 31, 2015 (audited) |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 24,319 | $ 38,070 |
| Accounts receivable, net of allowance for doubtful accounts of $4,376 in 2016 and $5,461 in 2015 | 73,514 | 73,208 |
| Prepaid expenses | 13,191 | 13,463 |
| Other receivables | 2,532 | 3,206 |
| Total current assets | 113,556 | 127,947 |
| Plant, property and equipment, net | 204,447 | 177,188 |
| Goodwill | 106,129 | 102,782 |
| Other intangible assets, net | 164,587 | 162,923 |
| Other assets | 25,858 | 32,820 |
| Total assets | $ 614,577 | $ 603,660 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| Current liabilities: | | |
| Accounts payable | $ 24,973 | $ 20,796 |
| Accrued compensation and related expenses | 22,753 | 19,933 |
| Accrued interest payable | 3,253 | 3,323 |
| Current portion of long-term debt | 19,174 | 17,732 |
| Current portion of obligations under capital leases | 2,606 | 2,674 |
| Other accrued liabilities | 34,783 | 36,453 |
| Total current liabilities | 107,542 | 100,911 |
| Long-term debt, net of current portion and deferred financing costs | 509,800 | 540,353 |
| Obligations under capital leases, net of current portion | 11,524 | 10,332 |
| Deferred income taxes | 23,960 | 23,020 |
| Other liabilities | 7,149 | 6,664 |
| Total liabilities | 659,975 | 681,280 |
| Commitments and contingencies (Note 12) | | |
| Stockholders' deficit: | | |
| Preferred stock, $0.01 par value; 1,000,000 shares authorized and no shares issued and outstanding | — | — |
| Common stock, $0.01 par value; 100,000,000 shares authorized; 10,896,524 | 109 | 108 |

| | | |
|---|---|---|
| and 10,774,857 issued in 2016 and 2015, respectively; 10,738,551 and 10,616,884 outstanding in 2016 and 2015, respectively | | |
| Treasury stock, at cost - 157,973 shares in 2016 and 2015 | (3,138 ) | (3,138 ) |
| Additional paid-in capital | 60,635 | 29,297 |
| Accumulated comprehensive loss | (465 ) | (511 ) |
| Accumulated deficit | (197,124 ) | (198,393 ) |
| Total stockholders' deficit attributable to Alliance HealthCare Services, Inc. | (139,983 ) | (172,637 ) |
| Noncontrolling interest | 94,585 | 95,017 |
| Total stockholders' deficit | (45,398 ) | (77,620 ) |
| Total liabilities and stockholders' deficit | $ 614,577 | $ 603,660 |

See accompanying notes.

ALLIANCE HEALTHCARE SERVICES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(in thousands, except per share amounts)

| | Quarter Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Revenues | $125,317 | $118,504 | $249,041 | $227,933 |
| Costs and expenses: | | | | |
| Cost of revenues, excluding depreciation and amortization | 69,939 | 67,485 | 140,853 | 129,371 |
| Selling, general and administrative expenses | 23,175 | 20,800 | 48,440 | 41,755 |
| Transaction costs | 431 | 1,113 | 848 | 1,532 |
| Shareholder transaction costs | 1,498 | — | 2,507 | — |
| Severance and related costs | 708 | 195 | 2,424 | 454 |
| Impairment charges | — | 6,670 | — | 6,746 |
| Depreciation expense | 13,730 | 12,072 | 26,778 | 23,705 |
| Amortization expense | 2,494 | 2,495 | 4,937 | 4,530 |
| Interest expense and other, net | 8,872 | 6,904 | 16,367 | 12,922 |
| Other (income) and expense, net | (3,546) | 486 | (4,334) | 127 |
| Total costs and expenses | 117,301 | 118,220 | 238,820 | 221,142 |
| Income before income taxes, earnings from unconsolidated investees, and noncontrolling interest | 8,016 | 284 | 10,221 | 6,791 |
| Income tax expense (benefit) | 2,221 | (1,366) | 1,275 | 206 |
| Earnings from unconsolidated investees | (393) | (1,292) | (645) | (2,455) |
| Net income | 6,188 | 2,942 | 9,591 | 9,040 |
| Less: Net income attributable to noncontrolling interest | (3,729) | (4,903) | (8,322) | (9,250) |
| Net income (loss) attributable to Alliance HealthCare Services, Inc. | $2,459 | $(1,961) | $1,269 | $(210) |
| Comprehensive income (loss), net of taxes: | | | | |
| Net income (loss) attributable to Alliance HealthCare Services, Inc. | $2,459 | $(1,961) | $1,269 | $(210) |
| Unrealized gain (loss) on hedging transactions, net of taxes | 84 | (13) | 46 | (141) |
| Comprehensive income (loss), net of taxes: | $2,543 | $(1,974) | $1,315 | $(351) |
| Income (loss) per common share attributable to Alliance HealthCare Services, Inc.: | | | | |
| Basic | $0.23 | $(0.18) | $0.12 | $(0.02) |
| Diluted | $0.23 | $(0.18) | $0.12 | $(0.02) |

| | | | | |
|---|---|---|---|---|
| Weighted-average number of shares of common stock and common stock equivalents: | | | | |
| Basic | 10,882 | 10,715 | 10,771 | 10,714 |
| Diluted | 10,893 | 10,836 | 10,796 | 10,839 |

See accompanying notes.

4

ALLIANCE HEALTHCARE SERVICES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

| | Six Months Ended June 30, | |
|---|---|---|
| | 2016 | 2015 |
| Operating activities: | | |
| Net income | $9,591 | $9,040 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for doubtful accounts | 1,356 | 1,054 |
| Share-based payment | 1,780 | 819 |
| Depreciation and amortization | 31,715 | 28,235 |
| Amortization of deferred financing costs | 3,312 | 2,098 |
| Accretion of discount on long-term debt | 254 | 232 |
| Adjustment of derivatives to fair value | (45) | 98 |
| Distributions more than undistributed earnings from investees | 107 | 189 |
| Deferred income taxes | 940 | (697) |
| Gain on sale of assets | (169) | (406) |
| Changes in fair value of contingent consideration related to acquisitions | (3,640) | — |
| Impairment charges | — | 6,746 |
| Excess tax benefit from share-based payment arrangements | 436 | 5 |
| Changes in operating assets and liabilities, net of the effects of acquisitions: | | |
| Accounts receivable | (1,389) | (577) |
| Prepaid expenses | (119) | (1,499) |
| Other receivables | 674 | (242) |
| Other assets | 4,240 | 534 |
| Accounts payable | 2,578 | 627 |
| Accrued compensation and related expenses | 2,820 | 340 |
| Accrued interest payable | (70) | (31) |
| Income taxes payable | (36) | 131 |
| Other accrued liabilities | 3,614 | 964 |
| Net cash provided by operating activities | 57,949 | 47,660 |
| Investing activities: | | |
| Equipment purchases | (33,975) | (26,382) |
| Increase in deposits on equipment | (13,847) | (9,935) |
| Acquisitions, net of cash received | (6,659) | (24,061) |
| Proceeds from sale of assets | 370 | 520 |
| Net cash used in investing activities | (54,111) | (59,858) |
| Financing activities: | | |
| Principal payments on equipment debt and capital lease obligations | (8,035) | (4,639) |
| Proceeds from equipment debt | 4,809 | 15,691 |
| Principal payments on term loan facility | (2,600) | (7,351) |
| Proceeds from term loan facility | — | 29,850 |
| Principal payments on revolving loan facility | (24,000) | (28,000) |

| | | |
|---|---|---|
| Proceeds from revolving loan facility | 21,000 | 26,000 |
| Payments of debt issuance costs and deferred financing costs | (25,059) | (654) |
| Noncontrolling interest in subsidiaries | (11,703) | (8,353) |
| Excess tax benefit from share-based payment arrangements | (436) | (5) |
| Issuance of common stock | 1 | — |
| Proceeds from exercise of stock options | 614 | 25 |
| Settlement of contingent consideration related to acquisitions | (810) | — |
| Proceeds from shareholder transaction | 28,630 | — |
| Net cash (used in) provided by financing activities | (17,589) | 22,564 |
| Net (decrease) increase in cash and cash equivalents | (13,751) | 10,366 |
| Cash and cash equivalents, beginning of period | 38,070 | 33,033 |
| Cash and cash equivalents, end of period | $24,319 | $43,399 |
| Supplemental disclosure of cash flow information: | | |
| Interest paid | $12,957 | $11,110 |
| Income taxes refunded, net of payments | (92) | (146) |
| Supplemental disclosure of non-cash investing and financing activities: | | |
| Capital lease obligations related to the purchase of equipment | 1,499 | $1,294 |
| Equipment purchases in accounts payable and accrued equipment | 352 | 2,477 |
| Noncontrolling interest assumed in connection with acquisitions (Note 3) | 2,948 | 20,598 |
| Fair value of contingent consideration related to acquisitions (Note 3) | 420 | — |
| Extinguishment of note receivable | — | 3,071 |

See accompanying notes.

ALLIANCE HEALTHCARE SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016

(Unaudited)

(Dollars in thousands, except per share amounts)

1. Basis of Presentation, Principles of Consolidation, and Use of Estimates

Basis of Presentation The accompanying unaudited condensed consolidated financial statements have been prepared by Alliance HealthCare Services, Inc. (the “Company” or “Alliance”) in accordance with accounting principles generally accepted in the United States of America and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles (“GAAP”) for complete financial statements. In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes to the consolidated financial statements for the year ended December 31, 2015.

Principles of Consolidation The accompanying unaudited condensed consolidated financial statements of the Company include the assets, liabilities, revenues and expenses of all subsidiaries over which the Company exercises control. Intercompany transactions have been eliminated. The Company evaluates participating rights in its assessment of control in determining consolidation of joint venture partners. The Company records noncontrolling interest related to its consolidated subsidiaries that are not wholly owned. Investments in non-consolidated investees over which it exercises significant influence but does not control are accounted for under the equity method.

Use of Estimates The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Critical Accounting Policies

Information with respect to the Company’s critical accounting policies which management believes could have the most significant effect on the Company’s reported results and require subjective or complex judgments by management is contained in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, of the 2015 Form 10-K/A. Management believes that there have been no significant changes during the three and six months ended June 30, 2016 in the Company’s critical accounting policies from those disclosed in Item 7 of the 2015 Form 10-K/A.

2. Recent Accounting Pronouncements

Revenue Recognition In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)" — to clarify and converge the revenue recognition principles under U.S. GAAP and International Financial Reporting Standards and to develop guidance that would streamline and enhance revenue recognition requirements while also providing a more robust framework for addressing revenue issues. ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry specific guidance. Key provisions of the ASU involve a 5-step model specific to recognizing revenue derived from customer contracts. In addition, ASU 2014-09 provides implementation guidance on several other important topics, including the accounting for certain revenue-related costs. The Company is currently assessing the impacts this guidance may have on its consolidated financial statements and disclosures as well as the transition method it will use to adopt the guidance. The Company is considering the impacts of the new guidance on its ability to recognize revenue for certain contracts. In addition, the Company will be required to capitalize costs to acquire new contracts, whereas currently, the Company expenses those costs as incurred. In August 2015, the FASB issued an amendment to provide a one year deferral of the effective date to annual reporting periods beginning on or after December 15, 2017, as well as an option to early adopt the standard for annual periods beginning on or after December 15, 2016. The Company does not plan to early adopt the standard.

ALLIANCE HEALTHCARE SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

June 30, 2016

(Unaudited)

(Dollars in thousands, except per share amounts)

Going Concern In August 2014, the FASB issued ASU 2014-15, “Presentation of Financial Statements—Going Concern (Subtopic 205-40)”. Under U.S. GAAP, a going concern is presumed unless and until an entity’s liquidation becomes imminent. When an entity’s liquidation becomes imminent, financial statements should be prepared under the liquidation basis of accounting in accordance with Subtopic 205-30, “Presentation of Financial Statements—Liquidation Basis of Accounting.” However, there may be conditions or events that raise substantial doubt about an entity’s ability to continue as a going concern, even if liquidation is not imminent. In those situations, financial statements should continue to be prepared under the going concern basis of accounting. ASU 2014-15 provides guidance about management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to determine whether to disclose information about relevant conditions and events. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The Company is assessing the impact, if any, that the adoption of ASU 2014-15 may have on the Company's consolidated financial statements.

Simplifying the Presentation of Debt Issuance Costs In April 2015, the FASB issued ASU 2015-03, “Simplifying the Presentation of Debt Issuance Cost” that changes the presentation of debt issuance costs in financial statements. ASU 2015-03 requires entities to present such costs in the balance sheet as a direct reduction to the related debt liability rather than as a deferred cost (i.e., an asset) as required by current guidance. In August 2015, the FASB issued clarifying authoritative guidance for debt issuance costs incurred in connection with line-of-credit arrangements. The guidance states that an entity should defer and present these debt issuance costs as an asset and subsequently amortize the deferred debt issuance costs ratably over the term of the line-of-credit arrangement. ASU 2015-03 does not change the recognition or measurement of debt issuance costs and is effective for fiscal years beginning after December 15, 2015. The guidance is required to be applied retrospectively to all prior periods presented. As of December 31, 2015, the Company had $6,594 in deferred financing costs, net that was reclassified to offset long-term debt, net of current portion. The adoption of the guidance did not have a material impact on the Company's consolidated financial statements.

Balance Sheet Classification of Deferred Taxes In November 2015, the FASB issued ASU 2015-17, “Balance Sheet Classification of Deferred Taxes,” which will require entities to present deferred tax assets (“DTAs”) and deferred tax liabilities (“DTLs”) as noncurrent in a classified balance sheet. The ASU simplifies the current guidance, which requires entities to separately present DTAs and DTLs as current and noncurrent in a classified balance sheet. The adoption of ASU 2015-17 is effective for publicly traded business entities for annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. Early adoption is permitted. The Company has elected to early adopt this guidance and applied it retrospectively to periods presented in the consolidated financial statements. As of December 31, 2015, the Company had $6,496 in DTAs that was reclassified to long-term DTLs. The adoption of ASU No. 2015-17 did not have a material impact on the Company’s consolidated financial statements.

Leases In February 2016, the FASB issued ASU 2016-02, “Leases,” to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The ASU supersedes the current guidance. The primary difference between current guidance and ASU 2015-02 is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. ASU 2016-02 also requires an entity to separate the lease components from the nonlease components (for example, maintenance services or other activities that transfer a good or service to the customer) in a contract. Only the lease components must be accounted for in accordance with this guidance. ASU 2016-02 is effective for publicly traded business entities for annual reporting periods beginning after December 15, 2018, including interim reporting periods within that reporting period. Early adoption is permitted. The Company is assessing the impact, if any, that the adoption of ASU 2016-02 may have on the Company's consolidated financial statements.

Share-Based Payments In March 2016, the FASB issued ASU 2016-09, “Compensation – Stock Compensation (Topic 718),” which simplifies several aspects of the accounting for employee share-based payment transactions for both public and nonpublic traded entities, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The new guidance, which is part of the FASB’s simplification initiative, also contains two practical expedients under which nonpublic entities can use the simplified method to estimate the expected term of an award and make a one-time election to switch from fair value measurement to intrinsic value measurement for liability-classified awards. ASU 2016-09 is effective for public business entities for annual reporting periods beginning after December 15, 2016, including interim periods within those annual reporting periods. Early adoption is permitted. The Company is assessing the impact, if any, that the adoption of ASU 2016-09 may have on the Company's consolidated financial statements.

ALLIANCE HEALTHCARE SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

June 30, 2016

(Unaudited)

(Dollars in thousands, except per share amounts)

3. Acquisitions and Transactions

Acquisitions have been recorded using the acquisition method of accounting and, accordingly, results of their operations have been included in the Company's consolidated financial statements since the effective date of each respective acquisition.

Thai Hot Transaction

On September 16, 2015, Fujian Thai Hot Investment Co., Ltd. ("Thai Hot") agreed to purchase approximately 5,537,945 shares of Company common stock from funds managed by Oaktree Capital Management, L.P. ("Oaktree") and MTS Health Investors, LLC ("MTS"), and Larry C. Buckelew (together, the "Selling Stockholders") for approximately $102.5 million or $18.50 per share (the "Thai Hot Transaction"). In connection with the Thai Hot Transaction, Thai Hot and the Selling Stockholders agreed to bear a specified portion of the following Company expenses related to the Thai Hot Transaction: (i) 100% of the fees and expenses incurred by the Company in connection with the amendment or waiver of its credit agreement, and (ii) all reasonable and documented fees and expenses incurred by the Company in connection with the Thai Hot Transaction in excess of $1 million. In addition, subject to the approval of the Board or an authorized special committee of the Board, Thai Hot agreed to fund a new management incentive arrangement which involves the issuance of $1.5 million in cash-based awards to the Company's management. The expenses associated with the cash-based awards will be recognized by the Company over the required service period of the awards. The Company accounted for reimbursements received prior to the Thai Hot Transaction close from the Selling Stockholders of $15,343 as capital contributions, and reimbursements received subsequent to the Thai Hot Transaction close from Thai Hot of $13,500 as capital contributions.

The Thai Hot Transaction closed on March 29, 2016. As a result of the Thai Hot Transaction, Thai Hot, through a wholly owned subsidiary, owns an aggregate of approximately 51.5% of the outstanding shares of common stock of the Company. The Company has not agreed to pay any management fees to Thai Hot for any financial advisory services to the Company.

2016 Acquisition

American Health Centers, Inc.

On April 22, 2016, the Company, through its Radiology Division, acquired the mobile business practice of American Health Centers, Inc., a provider of fixed and mobile radiology and nuclear medicine services in New Hampshire and Vermont. The Company acquired eight mobile radiology sites, and five mobile nuclear medicine sites, effective May 19, 2016. The combined cash purchase price consisted of $4,209. The Company financed this acquisition using the revolving line of credit. For additional information, see Note 8 – Long-Term Debt and Senior Subordinated Credit

Facility of the Notes to Condensed Consolidated Financial Statements.

The following table summarizes recognized amounts of identifiable assets acquired and liabilities assumed at the acquisition date:

| | |
|---|---|
| Equipment, net | $2,354 |
| Goodwill | 335 |
| Identifiable intangible assets | 1,940 |
| Total consideration | $4,629 |

8

ALLIANCE HEALTHCARE SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

June 30, 2016

(Unaudited)

(Dollars in thousands, except per share amounts)

As a result of this acquisition, the Company recorded goodwill of $335, which largely represents intangible assets that do not qualify for separate recognition, including existing patients and the solid record of patient care in the local community. In addition, the Company recorded intangible assets of $1,940, of which $1,600 was assigned to customer contracts, which is being amortized over 15 years, and $340 was assigned to a non-competition agreement, which is being amortized over five years. A portion of the recorded goodwill and intangible assets is being amortized over 15 years for tax purposes. The Company recorded the intangible assets at fair value at the acquisition date, which was estimated using the income approach. The results for the three and six months ended June 30, 2016 included $637 of net revenue and $269 of net income before income taxes.

The values assigned to the various assets and liabilities acquired in this transaction are preliminary and may be subject to adjustment as the calculation of their respective fair values could be subject to change.

The agreement includes contingent consideration arrangements, which are based on performance of the 18-month period following the transaction date. The fair value of these contingent consideration arrangements of $420 was estimated using management's estimates as of the acquisition date and as of June 30, 2016.

2015 Acquisitions

Pacific Cancer Institute, Inc.

On December 31, 2015, the Company, through its Oncology Division, acquired a 95% controlling interest in the Pacific Cancer Institute, Inc. ("PCI"), a state-of-the-art radiation therapy and SRS center located in Maui, Hawaii. The purchase price consisted of $11,013 in cash, net of holdback liabilities. The Company financed this acquisition using the revolving line of credit. For additional information, see Note 8 – Long-Term Debt and Senior Subordinated Credit Facility of the Notes to Condensed Consolidated Financial Statements

As a result of this acquisition, the Company recorded goodwill of $6,505, which largely represents intangible assets that do not qualify for separate recognition, including existing patients and the solid record of patient care in the local community. In addition, the Company recorded intangible assets of $8,800, of which $1,800 was assigned to physician referral network, $5,400 was assigned to Certificates of Need ("CONs"), $650 was assigned to non-solicitation and non-competition agreements and $950 was assigned to trademarks, which are being amortized over five to 15 years. The Company recorded the intangible assets at fair value at the acquisition date, which was estimated using the income approach. A portion of the recorded goodwill and intangible assets is being amortized over 15 years for tax purposes. The results for the three and six months ended June 30, 2016 included $1,280 and $2,714 of net revenue, respectively, and $22 and $219 of net income, respectively, generated by PCI.

The agreement includes contingent consideration arrangements, which are based on performance of the 12-month period following the transaction date. The fair value of these contingent consideration arrangements of $200 was estimated using management's estimates as of June 30, 2016.

The values assigned to the various assets and liabilities acquired in this transaction are preliminary and may be subject to adjustment as the calculation of their respective fair values could be subject to change.

AHIP-Florida, LLC

On October 14, 2015, the Company, through its Interventional Division, acquired a 60% controlling interest in PRC Associates, LLC, (“PRC”), a premier provider of interventional pain management healthcare with eight locations in Central Florida and the Palm Coast. The purchase price consisted of $15,014 in cash, net of $264 cash acquired. The Company financed this acquisition using the revolving line of credit. The purchase agreement includes a mandatory redemption provision allowing the noncontrolling interest holder to sell 10% of its noncontrolling interest to Alliance after the closing date.

ALLIANCE HEALTHCARE SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

June 30, 2016

(Unaudited)

(Dollars in thousands, except per share amounts)

As a result of this acquisition, the Company recorded goodwill of $8,234, which largely represents intangible assets that do not qualify for separate recognition, such as prominent leadership and the solid record of patient care programs that set national standards for quality coordinated care in pain management. In addition, the Company recorded intangible assets of $15,600, of which $12,100 was assigned to physician referral network, $1,800 was assigned to non-solicitation and non-competition agreements and $1,700 was assigned to trademarks, which are being amortized over five to 15 years. The Company recorded the intangible assets at fair value at the acquisition date, which was estimated using the income approach. A portion of the recorded goodwill and intangible assets is being amortized over 15 years for tax purposes. The results for the three and six months ended June 30, 2016 included $3,150 and $6,597 of net revenue, respectively, and $204 and $746 of net income, respectively, generated by PRC.

The agreement includes contingent consideration arrangements, which are based on performance of the 12-month period following the transaction date. The fair value of these contingent consideration arrangements of $950 was estimated using management's estimates as of June 30, 2016.

The values assigned to the various assets and liabilities acquired in this transaction are preliminary and may be subject to adjustment as the calculation of their respective fair values could be subject to change.

Alliance-HNI, LLC and Subsidiaries

On August 1, 2015, the Company obtained through its Radiology Division an additional 15.5% interest in its previously non-consolidated investment, Alliance-HNI, LLC ("AHNI") through a step acquisition. Prior to August 1, 2015, the Company held a noncontrolling interest in AHNI, pursuant to its acquisition of Medical Consultants Imaging, Co. ("MCIC"), which held a 50% interest in a joint venture that was subsequently renamed AHNI.

Prior to the step acquisition on August 1, 2015, AHNI had three subsidiaries: Alliance-HNI Leasing Co. ("AHNIL"), Alliance-HNV PET/CT Services, LLC ("AHNVPS"), and Alliance-HNV PET/CT Leasing, LLC ("AHNVPL"). AHNI held a 98% interest in AHNIL, which AHNI consolidated, a 53.4% interest in AHNVPS, and effectively, a 53.3% interest in AHNVPL through its ownership in AHNVPS, both of which AHNI did not consolidate. In addition to the Company's original 50% investment in AHNI, it also had a 46.6% direct interest in AHNVPS prior to the step acquisition and, accordingly, the Company has historically consolidated AHNVPS and AHNVPL.

On August 1, 2015, the Company contributed its 46.6% interest in HNVPS and its rights to certain assets to AHNI in exchange for an additional 15.5% interest in AHNI. After the transaction the Company holds a 65.5% interest in AHNI which, in turn, holds all of the outstanding interest in AHNVPS. As a result of gaining a controlling interest in AHNI, the Company began consolidating AHNI effective August 1, 2015.

Pursuant to ASC 805, "Business Combinations," the transaction is considered a step acquisition and the Company was required to remeasure its previously held equity interest in AHNI at its acquisition-date fair value and recognize any resulting gain or loss. AHNVPS assets that the Company was in control of before and after the acquisition were maintained at their carrying amounts immediately before the acquisition date and no gain or loss or resulting goodwill was recognized on these assets.

The fair value of the consideration transferred was based on the net book value of the assets transferred by the Company to AHNI at the acquisition date because the Company had control of those assets before and after the transaction. The Company recorded goodwill of $2,988, which largely represents intangible assets that do not qualify for separate recognition. In addition, the Company recorded intangible assets of $13,700. The intangible assets consist primarily of physician referral networks, trademarks, and CONs, a portion of which are being amortized over 15 years.

The values assigned to the various assets and liabilities acquired in this transaction are preliminary and may be subject to adjustment as the calculation of their respective fair values could be subject to change.

ALLIANCE HEALTHCARE SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

June 30, 2016

(Unaudited)

(Dollars in thousands, except per share amounts)

The Pain Center of Arizona

On February 17, 2015, the Company purchased approximately a 59% membership interest in The Pain Center of Arizona (“TPC”), a comprehensive full-time pain management medical practice with 12 locations within the state of Arizona. The acquisition took place in two stages: a purchase of a 60% membership interest in TPC by the Company, and a 50% membership interest in Medical Practice Innovations, Inc. (“MPI”), followed by a transfer of MPI assets to TPC. The MPI transaction diluted the ownership interests of TPC, with the Company retaining approximately 59% membership interest in TPC. The purchase price consisted of $24,087 in cash, net of $234 cash acquired, and net of extinguishment of $3,071 of related-party notes receivable. The Company financed this acquisition using the revolving line of credit.

As a result of this acquisition, the Company recorded goodwill of $22,566, which largely represents intangible assets that do not qualify for separate recognition, such as prominent leadership and the solid record of patient care programs that set national standards for quality coordinated care in pain management. In addition, the Company recorded intangible assets of $24,600, of which $13,500 was assigned to physician referral network and $11,100 was assigned to trademarks, which are being amortized over 20 years. The Company recorded the intangible assets at fair value at the acquisition date, which was estimated using the income approach. A portion of the recorded goodwill and intangible assets is being amortized over 15 years for tax purposes. The fair value of noncontrolling interest related to this transaction was estimated to be $20,598 as of the acquisition date using the implied fair value based on the Company's ownership percentage. The results for the three and six months ended June 30, 2016 included $7,961 and $15,793 of net revenue, respectively, and $417 and $1,056 of net loss, respectively, generated by TPC. The results for the three and six months ended June 30, 2015 included $8,167 and $12,023 of net revenue, respectively, and $20 and $291 of net income, respectively, generated by TPC.

The agreement includes contingent consideration arrangements, which are based on performance of the 12-month period following the transaction date. The fair value of these contingent consideration arrangements of $960 at June 30, 2016, of which $150 remained in other accrued liabilities on the consolidated balance sheets, was calculated using achieved performance estimates.

Pro Forma Impact of Acquisitions

The following table provides unaudited pro forma revenues and results of operations for the three and six months ended June 30, 2016 and 2015, as if the acquisitions had occurred on January 1, 2015. The pro forma results were prepared from financial information obtained from the sellers of the businesses, as well as information obtained during the due diligence process associated with the acquisitions. The unaudited pro forma results reflect certain adjustments related to the acquisitions, such as increased depreciation and amortization expense resulting from the stepped-up basis to fair value of assets acquired and adjustments to reflect the Company’s borrowing and tax rates. The pro forma operating results do not include any anticipated synergies related to combining the businesses. Accordingly, such pro forma operating results were prepared for comparative purposes only and do not purport to be indicative of what would have occurred had the acquisitions been made as of January 1, 2015 or of results that may occur in the future.

| | Quarter Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (In thousands, except per share amounts) | 2016 | 2015 | 2016 | 2015 |
| Revenues | $125,496 | $126,116 | $249,856 | $246,766 |
| Net income (loss) attributable to Alliance HealthCare Services, Inc. | 2,533 | (978) | 1,612 | 1,477 |
| Basic earnings (loss) per share | 0.23 | (0.09) | 0.15 | 0.14 |
| Diluted earnings (loss) per share | 0.23 | (0.09) | 0.15 | 0.14 |

Restructuring Plan

During the six months ended June 30, 2016, the Company recorded $1,351 related to restructuring charges, of which the Company recorded $598 in Selling, general and administrative expenses, and $753 and in Cost of revenues, excluding depreciation and amortization. The Company also recorded $2,424 in Severance and related costs during the six months ended June 30, 2016. During the six months ended June 30, 2015, the Company recorded $491 related to restructuring charges, of which the Company recorded $95 in Selling, general and administrative expenses, and $396 in Cost of revenues, excluding depreciation and amortization. The Company also recorded $454 in Severance and related costs during the six months ended June 30, 2015.

ALLIANCE HEALTHCARE SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

June 30, 2016

(Unaudited)

(Dollars in thousands, except per share amounts)

## 4. Share-Based Payment

The Company has adopted ASC 718, "Compensation—Stock Compensation," and has elected to follow the alternative transition method as described in ASC 718 for computing its beginning additional paid-in capital pool. In addition, the Company treats the tax deductions from stock options as being realized when they reduce taxes payable in accordance with the principles and timing under the relevant tax law.

### Stock Option Plans and Awards

In November 1999, the Company adopted an employee stock option plan (as amended and restated, the "1999 Equity Plan") pursuant to which options and awards with respect to a total of 3,005,000 shares have become available for grant. As of June 30, 2016, a total of 1,091,795 shares remained available for grant under the 1999 Equity Plan. Options are granted with exercise prices equal to the fair value of the Company's common stock at the date of grant. All options have 10-year terms. Options granted after January 1, 2008 were typically time based and vest in equal tranches over three or four years. During the first quarter of 2016, 71,057 options were accelerated due to a change in control in connection with the closing of the Thai Hot Transaction. There were no options in which vesting was accelerated during 2015.

The Company uses the Black-Scholes option pricing model to value the compensation expense associated with share-based payment awards. The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model using the assumptions presented in the table below. In addition, forfeitures are estimated when recognizing compensation expense and the estimate of forfeitures will be adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures will be recognized through a cumulative catch-up adjustment in the period of change and will also impact the amount of compensation expense to be recognized in future periods.

The following weighted average assumptions were used in the estimated grant date fair value calculations for stock option awards:

| | Six months ended June 30, | |
|---|---|---|
| | 2016 | 2015 |

| | | |
|---|---|---|
| Risk free interest rate | 1.53% | 1.65% |
| Expected dividend yield | — % | — % |
| Expected stock price volatility | 66.5% | 65.2% |
| Average expected life (in years) | 6.00 | 6.00 |

The Company calculates its stock price volatility and average expected life based on its own historical data. The risk free interest rates are based on the United States Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the option or award.

ALLIANCE HEALTHCARE SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

June 30, 2016

(Unaudited)

(Dollars in thousands, except per share amounts)

The following table summarizes the Company's stock option activity:

| | Number of Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at December 31, 2015 | 646,290 | $ 19.91 | | |
| Granted | 200,388 | 7.16 | | |
| Exercised | (121,667) | 5.05 | | |
| Canceled | (27,431) | 19.15 | | |
| Outstanding at June 30, 2016 | 697,580 | 18.83 | 6.56 | $ 35 |
| Vested and expected to vest in the future at June 30, 2016 | 655,280 | 19.53 | 6.36 | $ 35 |
| Vested and exercisable at June 30, 2016 | 452,021 | 22.81 | 5.11 | $ 35 |

The following table summarizes the Company's unvested stock option activity:

| | Shares | Weighted-Average Grant-Date Fair Value |
|---|---|---|
| Unvested at December 31, 2015 | 158,671 | $ 15.01 |
| Granted | 200,388 | 4.32 |
| Vested | (107,613) | 14.01 |
| Canceled | (5,887) | 7.81 |
| Unvested at June 30, 2016 | 245,559 | $ 6.90 |

Cash proceeds, along with fair value disclosures related to grants, exercises, and vesting options, are as follows:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Proceeds from stock options exercised | $129 | $19 | $614 | $25 |
| Intrinsic value of stock options exercised (1) | 21 | 9 | 1,386 | 25 |
| Weighted-average fair value of options granted (per share) | N.A. | N.A. | 4.32 | 14.25 |
| Total fair value of shares vested during the period | — | 107 | 1,508 | 479 |

(1) The intrinsic value of stock options exercised is the amount by which the market price of the stock on the date of exercise exceeded the market price of the stock on the date of grant.

For the three months ended June 30, 2016 and 2015, the Company recorded share-based payment related to stock options of $174 and $257, respectively. For the six months ended June 30, 2016 and 2015, the Company recorded share-based payment related to stock options of $1,406 and $475, respectively. At June 30, 2016, the total unrecognized fair value share-based payment related to unvested stock options granted to employees was $992, which is expected to be recognized over a remaining weighted-average period of 2.1 years. The valuation model applied in this calculation utilizes highly subjective assumptions that could potentially change over time, including the expected forfeiture rate and performance targets. Therefore, the amount of unrecognized share-based payment noted above does not necessarily represent the value that will ultimately be realized by the Company in the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

ALLIANCE HEALTHCARE SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

June 30, 2016

(Unaudited)

(Dollars in thousands, except per share amounts)

Stock Awards

The 1999 Equity Plan, as amended and restated, permits the award of restricted stock, restricted stock units, stock bonus awards and performance-based stock awards (collectively referred to as "stock awards"). During the six months ended June 30, 2016, 85,206 restricted stock units were granted to employees. There were no stock awards granted to employees during the six months ended June 30, 2015. For the three months ended June 30, 2016 and 2015, the Company recorded share-based payment related to stock awards of $205 and $172, respectively. For the six months ended June 30, 2016 and 2015, the Company recorded share-based payment related to stock awards of $837 and $344, respectively.

In the third quarter of 2014, 25,000 restricted stock units ("RSU") were granted to executive management, which vest based upon achieving certain market performance conditions. Specifically, the Company's closing stock price per common share must equal or exceed a value of $40.00 per share for 10 consecutive days between the dates of January 1, 2015 and April 21, 2017. If these conditions are not achieved before April 21, 2017, these RSUs will expire. In accordance with ASC 718, expense related to restricted stock units that vest based on achieving a market condition should not be recognized until the derived vesting period has been met, and at such time the derived vesting period becomes the requisite service period. Since the market condition has not been met, and is currently not probable of being met based on the current market condition, the Company has not recognized any expense related to these RSUs. These RSUs contain provisions that vesting may be accelerated under a change in control of the Company. The RSU Award provided that in the event of a change in control, the unvested portion of the award will convert into the right to receive a cash amount (the "Cash Right") equal to the number of unvested restricted stock units multiplied by the per share consideration received by the holders of the Company's Common Stock in the change in control and the Cash Right shall vest on the six month anniversary of the consummation of the change in control subject to the executive's continued service through such date; provided, that in the event the executive is terminated without "cause" or for "good reason" (each as defined in the executive's Employment Agreement) the Cash Right shall vest in full on the date of such termination (the "Cash Right Conversion"). The Thai Hot Transaction constituted a change in control under the terms of the RSU Award agreement and for purposes of the Cash Right Conversion, the Special Committee approved that the per share consideration received by the holders of the Company's Common Stock upon the consummation of the Thai Hot Transaction was $18.50 per share. The monetary value of the Cash Right of $463 is included as accrued compensation and related expenses on the Company's Condensed Consolidated Balance Sheets. For additional information on the Thai Hot Transaction, see Note 3 – Acquisitions and Transactions of the Notes to Condensed Consolidated Financial Statements.

The following table summarizes the Company's restricted stock activity:

| | Shares | Weighted- |
|---|---|---|

| | | Average Grant-Date Fair Value |
|---|---|---|
| Unvested at December 31, 2015 | 74,413 | $ 9.18 |
| Granted to employees | 85,206 | 6.93 |
| Vested | — | — |
| Canceled | — | — |
| Unvested at June 30, 2016 | 159,619 | $ 7.98 |

At June 30, 2016 and 2015, the total unrecognized fair value share-based payment related to stock awards granted to unaffiliated directors was $331 and $345, respectively, which is expected to be recognized over a remaining weighted-average period of 0.50 year. At June 30, 2016, unrecognized fair value share-based payments related to stock awards granted to employees was $426, which is expected to be recognized over a remaining weighted-average period of 2.7 years. At June 30, 2015, there were no unrecognized fair value share-based payments related to stock awards granted to employees.

5. Fair Value of Financial Instruments

The Company used the following methods and assumptions in estimating fair value disclosure for financial instruments:

Cash and cash equivalents The carrying amounts of cash and cash equivalents approximate fair value due to the short-term maturity or variable rates of these instruments.

ALLIANCE HEALTHCARE SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

June 30, 2016

(Unaudited)

(Dollars in thousands, except per share amounts)

Debt The carrying amounts of variable-rate borrowings at June 30, 2016 and December 31, 2015 approximate fair value estimates based on current market rates and credit spreads for similar debt instruments.

Contingent consideration The carrying amounts of contingent consideration related to acquisitions at June 30, 2016 and December 31, 2015 approximate fair value using probability-adjusted or achieved performance estimates.

Mandatorily redeemable noncontrolling interest The carrying amount of mandatorily redeemable noncontrolling interest related to the PRC acquisition at June 30, 2016 and December 31, 2015 approximates fair value using the estimated implied fair value based on the Company's ownership percentage. Further discussion of the mandatorily redeemable noncontrolling interest is disclosed in Note 3 – Acquisitions and Transactions of the Notes to Condensed Consolidated Financial Statements.

Derivative instruments Fair value of derivative instruments was determined based on the income approach and standard valuation techniques to convert future amounts to a single present amount and approximates the net gains and losses that would have been realized if the contracts had been settled at each period-end.

The estimated fair values of the Company’s financial instruments are as follows:

| | June 30, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Cash and cash equivalents | $24,319 | $24,319 | $38,070 | $38,070 |
| Fixed-rate capital leases and debt | 40,116 | 39,242 | 40,667 | 40,262 |
| Variable-rate debt | 532,007 | 531,254 | 537,018 | 538,520 |
| Contingent consideration related to acquisition | 1,720 | 1,720 | 5,750 | 5,750 |
| Mandatorily redeemable noncontrolling interest | 2,386 | 2,386 | 2,386 | 2,386 |
| Derivative instruments - asset position | — | — | — | — |
| Derivative instruments - liability position | 205 | 205 | 86 | 86 |

ASC 820, “Fair Value Measurement,” applies to all assets and liabilities that are being measured and reported at fair value on a recurring basis. ASC 820 requires disclosure that establishes a framework for measuring fair value in GAAP by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The statement requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 Quoted market prices in active markets for identical assets or liabilities.

Level 2 Observable market-based inputs or unobservable inputs, including identical securities in inactive markets or similar securities in active markets, which are corroborated by market data.

Level 3 Unobservable inputs that are not corroborated by market data.

The Company’s fixed and variable-rate debt represent level 2 liabilities not measured at fair value on a recurring basis. None of the Company’s instruments has transferred from one level to another.

ALLIANCE HEALTHCARE SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

June 30, 2016

(Unaudited)

(Dollars in thousands, except per share amounts)

The following table summarizes the valuation of the Company's financial instruments that are reported at fair value on a recurring basis by the above ASC 820 pricing levels as of June 30, 2016:

| | Total | Quoted market prices in active markets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|---|---|---|---|---|
| Cash and cash equivalents | $24,319 | $ 24,319 | $ — | $ — |
| Contingent consideration related to acquisition | 1,720 | — | — | 1,720 |
| Mandatorily redeemable noncontrolling interest | 2,386 | — | — | 2,386 |
| Interest rate contracts - asset position | — | — | — | — |
| Interest rate contracts - liability position | 205 | — | 205 | — |

The following table summarizes the valuation of the Company's financial instruments that are reported at fair value on a recurring basis by the above ASC 820 pricing levels as of December 31, 2015:

| | Total | Quoted market prices in active markets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|---|---|---|---|---|
| Cash and cash equivalents | $38,070 | $ 38,070 | $ — | $ — |
| Contingent consideration related to acquisition | 5,750 | — | — | 5,750 |
| Mandatorily redeemable noncontrolling interest | 2,386 | — | — | 2,386 |
| Interest rate contracts - asset position | — | — | — | — |
| Interest rate contracts - liability position | 86 | — | 86 | — |

The Company’s derivative instruments are primarily pay-fixed, receive-variable interest rate swaps and caps based on the LIBOR swap rate. The Company has elected to use the income approach to value these derivatives, using observable Level 2 market expectations at measurement date and standard valuation techniques to convert future amounts to a single present amount assuming that participants are motivated, but not compelled to transact. Level 2 inputs for interest rate swap and cap valuations are limited to quoted prices for similar assets or liabilities in active markets (specifically futures contracts on LIBOR for the first two years) and inputs other than quoted prices that are observable for the asset or liability (specifically LIBOR cash and swap rates at commonly quoted intervals and implied volatilities for options). ASC 820 states that the fair value measurement of an asset or liability must reflect the nonperformance risk of the entity and the counterparty. Therefore, the impact of the counterparty’s creditworthiness and the Company’s creditworthiness has also been factored into the fair value measurement of the derivative instruments. For additional information see Note 9 - Derivatives of the Notes to Condensed Consolidated Financial Statements.

ALLIANCE HEALTHCARE SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

June 30, 2016

(Unaudited)

(Dollars in thousands, except per share amounts)

6. Goodwill and Intangible Assets

Changes in the carrying amount of goodwill are as follows:

| | |
|---|---|
| Balance at December 31, 2014 | $63,864 |
| Goodwill acquired during the period | 38,918 |
| Impairment charges | — |
| Adjustments to goodwill during the period | — |
| Balance at December 31, 2015 | 102,782 |
| Goodwill acquired during the period | 2,379 |
| Impairment charges | — |
| Adjustments to goodwill during the period | 968 |
| Balance at June 30, 2016 | $106,129 |
| Gross goodwill | $280,373 |
| Accumulated impairment charges | (174,244) |
| Balance at June 30, 2016 | $106,129 |

Intangible assets consisted of the following:

| | June 30, 2016 | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Intangible Assets, net | Gross Carrying Amount | Accumulated Amortization | Intangible Assets, net |
| Amortizing intangible assets: | | | | | | |
| Customer contracts | $192,431 | $(96,399) | $96,032 | $186,316 | $(92,280) | $94,036 |
| Other | 39,009 | (21,359) | 17,650 | 38,522 | (20,540) | 17,982 |
| Total amortizing intangible assets | $231,440 | $(117,758) | $113,682 | $224,838 | $(112,820) | $112,018 |
| Intangible assets not subject to amortization | | | 50,905 | | | 50,905 |
| Total other intangible assets | | | $164,587 | | | $162,923 |

In 2016, the Company intends to perform its annual impairment test in the fourth quarter for goodwill and indefinite life intangible assets, absent other events occurring or changes in circumstances that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The Company compares the fair value of its reporting units to its carrying amount to determine if there is potential impairment. The fair value of the reporting unit is determined by an income approach and a market capitalization approach. Significant management judgment is required in the forecasts of future operating results that are used in the income approach. The estimates that the Company has used are consistent with the plans and estimates that it uses to manage its business. The Company bases its fair value estimates on forecasted revenue and operating costs which include a number of factors including, but not limited to, securing new customers, retention of existing customers, growth in radiology, oncology and interventional revenues and the impact of continued cost savings initiatives. However, it is possible that plans and estimates may change. Based on financial information as of June 30, 2016, impairment testing was not required during the three months then ended. Although the Company concluded that no impairment was present in its intangible assets in the six months of 2016, the Company intends to test its goodwill and other intangibles assets for impairment during the fourth quarter of 2016, as described above.

The Company uses the estimated useful life to amortize customer contracts, which is a weighted-average of 15 years. Other intangible assets subject to amortization are estimated to have a weighted-average useful life of 11 years. Amortization expense for intangible assets subject to amortization was $2,494 and $2,495 for the three months ended June 30, 2016 and 2015, respectively, and $4,937 and $4,530 for the six months ended June 30, 2016 and 2015, respectively. The intangible assets not subject to amortization represent certificates of need and regulatory authority rights that have indefinite useful lives.

ALLIANCE HEALTHCARE SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

June 30, 2016

(Unaudited)

(Dollars in thousands, except per share amounts)

As of June 30, 2016, estimated annual amortization expense for each of the fiscal years ending December 31, is presented below:

| | |
|---|---|
| Remainder of 2016 | $5,050 |
| 2017 | 9,751 |
| 2018 | 9,378 |
| 2019 | 8,889 |
| 2020 | 8,374 |
| Thereafter | 72,240 |

7. Supplemental Balance Sheet Information

Other accrued liabilities as of June 30, 2016 and December 31, 2015 are as follows:

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Systems rental and maintenance costs | $1,599 | $ 1,808 |
| Site rental fees | 1,661 | 1,121 |
| Property and sales taxes payable | 8,352 | 8,695 |
| Self-insurance accrual | 2,376 | 2,037 |
| Legal fees | 1,673 | 1,971 |
| Deferred gain on sale of equipment | 87 | 312 |
| Equipment purchases | 3,541 | 4,756 |
| Contingent consideration related to acquisition | 1,720 | 5,750 |
| Mandatorily redeemable noncontrolling interest | 2,386 | 2,386 |
| Other accrued liabilities | 11,388 | 7,617 |
| Total | $34,783 | $ 36,453 |

Plant, property and equipment, net of depreciation, as of June 30, 2016 and December 31, 2015 are as follows:

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Furniture and fixtures | $4,979 | $4,825 |
| Office equipment | 77,904 | 71,245 |
| Transportation and service equipment | 14,052 | 5,884 |
| Major equipment | 786,581 | 758,718 |
| Tenant improvements | 43,600 | 42,792 |
| Buildings and land | 342 | 340 |
| | 927,458 | 883,804 |
| Accumulated depreciation | (723,011) | (706,616) |
| Plant, property and equipment, net | $204,447 | $177,188 |

ALLIANCE HEALTHCARE SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

June 30, 2016

(Unaudited)

(Dollars in thousands, except per share amounts)

8. Long-Term Debt and Senior Subordinated Credit Facility

Long-term debt consisted of the following:

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Term loan facility | $500,274 | $ 502,874 |
| Discount on term loan facility | (1,569 ) | (1,823 ) |
| Revolving credit facility | 16,500 | 19,500 |
| Equipment under capital leases | 14,131 | 13,006 |
| Equipment debt | 42,787 | 44,128 |
| Deferred financing costs, net | (29,019 ) | (6,594 ) |
| Long-term debt, including current portion | 543,104 | 571,091 |
| Less current portion | 21,780 | 20,406 |
| Long-term debt | $521,324 | $ 550,685 |

Equipment debt, collateralized by equipment, has interest rates ranging from 1.93% to 7.50% and are payable in various monthly principal and interest installments through 2021. Capital leases, collateralized by equipment, have interest rates ranging from 4.00% to 13.97% and are payable in various monthly principal and interest installments through 2021.

Credit Facility and Senior Secured Term Loan Refinancing

On June 3, 2013, the Company replaced its existing credit facility with a new senior secured credit agreement with Credit Suisse AG, Cayman Islands Branch, as administrative agent, and the other lenders party thereto (the “Credit Agreement”). The Credit Agreement consists of (i) a $340,000, six-year term loan facility, (ii) a $50,000, five-year revolving loan facility, including a $20,000 sublimit for letters of credit, (iii) uncommitted incremental loan facilities of $100,000 of revolving or term loans, plus an additional amount if the Company’s pro forma leverage ratio is less than or equal to 3.25, subject to receipt of lender commitments and satisfaction of specified conditions, and (iv) an $80,000 delayed draw term loan facility, which was required to be drawn within thirty days of June 3, 2013 and used for the redemption of the Company's $190,000 of 8% Senior Notes (“Notes”).

On July 3, 2013 the delayed draw term loan facility was utilized, of which the proceeds were used to redeem $80,000 in aggregate principal amount of the Company's outstanding Notes that were originally issued in December 2009 as a cash tender offer for any and all of its outstanding 7.25% Notes originally issued in December of 2004. The delayed draw term loan facility converted into, and matched the terms of, the new $340,000 term loan facility.

Borrowings under the Credit Agreement bear interest through maturity at a variable rate based upon, at the Company's option, either the LIBOR or the base rate (which is the highest of the administrative agent's prime rate, one-half of 1.00% in excess of the overnight federal funds rate, and 1.00% in excess of the one-month LIBOR rate), plus, in each case, an applicable margin. With respect to the term loan facilities, the applicable margin for LIBOR loans is 3.25% per annum, and with respect to the revolving loan facilities, the applicable margin for LIBOR loans ranges, based on the applicable leverage ratio, from 3.00% to 3.25% per annum, in each case, with a LIBOR floor of 1.00%. The applicable margin for base rate loans under the term loan facilities is 2.25% per annum and under the revolving loan facility ranges, based on the applicable leverage ratio, from 2.00% to 2.25% per annum. Prior to the refinancing of the term loan facilities, the applicable margin for base rate loans was 4.25% per annum and the applicable margin for revolving loans was 5.25% per annum, with a LIBOR floor of 2.00%. The Company is required to pay a commitment fee which ranges, based on the applicable leverage ratio, from 0.38% to 0.50% per annum on the undrawn portion available under the revolving loan facility and variable per annum fees with respect to outstanding letters of credit.

During the first five and one-half years after the closing date, and including the full amount of the delayed draw term loan facility, the Company is required to make quarterly amortization payments of the term loans in the amount of $1,050. The Company is also required to make mandatory prepayments of term loans under the Credit Agreement, subject to specified exceptions, from excess cash flow (as defined in the Credit Agreement) and with the proceeds of asset sales, debt issuances and specified other events.

ALLIANCE HEALTHCARE SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

June 30, 2016

(Unaudited)

(Dollars in thousands, except per share amounts)

Obligations under the Credit Agreement are guaranteed by substantially all the Company's direct and indirect domestic subsidiaries. The obligations under the Credit Agreement and the guarantees are secured by a lien on substantially all tangible and intangible property, and by a pledge of all of the shares of stock and limited liability company interests of the Company's direct and indirect domestic subsidiaries, of which the Company now owns or later acquires more than a 50% interest, subject to limited exceptions.

In addition to other covenants, the Credit Agreement places limits on the ability of the Company and its subsidiaries to declare dividends or redeem or repurchase capital stock, prepay, redeem or purchase debt, incur liens and engage in sale-leaseback transactions, make loans and investments, incur additional indebtedness, amend or otherwise alter debt and other material agreements, engage in mergers, acquisitions and asset sales, transact with affiliates and alter the business conducted by the Company and its subsidiaries.

The Credit Agreement also contains a leverage ratio covenant requiring the Company to maintain a maximum ratio of consolidated total debt to Consolidated Adjusted EBITDA that ranges from 4.95 to 1.00 to 4.30 to 1.00. At June 30, 2016, the Credit Agreement requires a maximum leverage ratio of not more than 4.55 to 1.00. Failure to comply with the covenants in the Credit Agreement could permit the lenders under the Credit Agreement to declare all amounts borrowed under the Credit Agreement, together with accrued interest and fees, to be immediately due and payable, and to terminate all commitments under the Credit Agreement.

Amendments to the Credit Agreement

On October 11, 2013, the Company entered into an amendment to the Credit Agreement with Credit Suisse AG, Cayman Islands Branch, as administrative agent, and the other lenders party thereto (the “First Amendment”). Pursuant to the First Amendment, the Company raised $70,000 in incremental term loan commitments to repurchase the remaining Notes. On December 2, 2013, the Company borrowed $70,000 of incremental term loans and, with such proceeds plus borrowings under its revolving line of credit and cash on hand, completed the redemption of all its outstanding Notes on December 4, 2013. As a result, the revolving loan facility’s maturity date remained on June 3, 2018 and the term loan maturity date remained on June 3, 2019.

On June 19, 2015, the Company entered into a second amendment to the Credit Agreement with Credit Suisse AG, Cayman Islands Branch, as administrative agent, and the other lenders party thereto (the “Second Amendment”). Pursuant to the Second Amendment, the Company raised the remaining $30,000 in incremental term loan commitments. The funds were used to repay all outstanding borrowings under the Company's revolving credit facility, pay fees and expenses related to the Second Amendment, and general corporate purposes. The Second Amendment did not impact the borrowing capacity on the revolving credit facility, which remains at $50,000.

The incremental term loan under the Second Amendment was funded at 99.5% of principal amount and will mature on the same date as the existing term loan under the Company’s credit agreement, which is June 3, 2019. Upon funding, the incremental term loans were converted to match all the terms of existing term loans. Interest on the incremental term loan is calculated, at the Company's option, at a base rate plus a 2.25% margin or LIBOR plus a 3.25% margin, subject to a 1.00% LIBOR floor.

The quarterly amortization payments of all term loans under the credit facility for the first five and one-half years was initially established at $1,050. The quarterly amortization payment was increased to $1,300 in June 2015, pursuant to the Second Amendment.

On March 29, 2016, the Company entered into a third amendment to the Credit Agreement with Credit Suisse AG, Cayman Islands Branch, as administrative agent, and the other lenders party thereto (the "Third Amendment"). Pursuant to the Third Amendment, (i) the defined term "Investors" was amended to include THAIHOT Investment Company Limited, so that the sale by the Selling Stockholders would not be deemed to constitute a change of control and (ii) the soft call provision was reinstated to commence on the date the Third Amendment is effective and end the date that is twelve months after such commencement.

ALLIANCE HEALTHCARE SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

June 30, 2016

(Unaudited)

(Dollars in thousands, except per share amounts)

Under the soft call provision, if the Company makes a voluntary prepayment of any Term Loan or prepays, refinances, substitutes or replaces any Term Loan, and such action results in a reduction in the effective interest cost or weighted average yield of the Term Loan, then the Company shall pay to the administrative agent, for the ratable account of each of the lenders holding Term Loans a prepayment premium equal to 1.0% of the aggregate principal amount of the Term Loans so prepaid, refinanced, substituted or replaced.

In connection with the Third Amendment, the Company paid fees totaling $25.0 million, which were capitalized and amortized on a straight-line basis as interest expense over the term of the Credit Agreement.

As of June 30, 2016, the Company's ratio of consolidated total debt to Consolidated Adjusted EBITDA calculated pursuant to the Credit Agreement was 4.15 to 1.00. As of June 30, 2016, the Company had $29.1 million of available borrowings under the revolving line of credit, net of $16.5 million outstanding on the revolving line of credit and $4.4 million outstanding in letters of credit.

Notes Payable and Line of Credit with PNC

As a result of the step acquisition on August 1, 2015, and subsequent consolidation of AHNI, the Company had notes payable to PNC Equipment Finance, LLC ("PNC") totaling $6,746 at June 30, 2016. The notes payable are due in various installments through December 2020 at interest rates between 1.83% and 1.95% per annum. The notes are also collateralized by equipment and contain restrictive covenants. AHNI also has a $4,700 line of credit with PNC, with interest calculated based on LIBOR plus 1.4%. As of June 30, 2016, there was $1,389 amount outstanding on the line of credit. For additional information on the step acquisition, refer to Note 3 – Acquisitions and Transactions of the Notes to Condensed Consolidated Financial Statements.

9. Derivatives

The Company accounts for derivative instruments and hedging activities in accordance with the provisions of ASC 815, "Derivatives and Hedging." Management generally designates derivatives in a hedge relationship with the identified exposure on the date the Company enters into a derivative contract, as disclosed below. The Company has only executed derivative instruments that are economic hedges of exposures that can qualify in hedge relationships under ASC 815. The Company formally documents all relationships between hedging instruments and hedged items, as well as the risk-management objective and strategy for undertaking various hedge transactions. In this documentation, the Company specifically identifies the firm commitment or forecasted transaction that has been designated as a hedged item and states how the hedging instrument is expected to hedge the risks related to the hedged item. The Company formally assesses effectiveness of its hedging relationships, both at the hedge inception and on an ongoing basis, then measures and records ineffectiveness. The Company would discontinue hedge accounting prospectively (i) if it is determined that the derivative is no longer effective in offsetting change in the cash flows of a hedged item, (ii) when the derivative expires or is sold, terminated or exercised, (iii) because it is probable that the forecasted transaction will not occur, or (iv) if management determines that designation of the derivative as a hedge instrument is no longer appropriate. The Company’s derivatives are recorded on the balance sheet at their fair value. For additional information refer to Note 5 – Fair Value of Financial Instruments of the Notes to Condensed Consolidated Financial Statements. For derivatives accounted for as cash flow hedges, any effective unrealized gains or losses on fair value are included in comprehensive income (loss), net of tax, and any ineffective gains or losses are recognized in income immediately. Amounts recorded in comprehensive income (loss) are reclassified to earnings when the hedged item impacts earnings.

Cash Flow Hedges

Interest Rate Cash Flow Hedges

The Company has entered into multiple interest rate swap and cap agreements to hedge the future cash interest payments on portions of its variable rate bank debt. For the six months ended June 30, 2016 and 2015, the Company had interest rate swap and cap agreements to hedge approximately $263,520 and $257,057 of its variable rate bank debt, respectively, or 46.1% and 47.3% of total debt, respectively. Over the next twelve months, the Company expects to reclassify $563 from unrealized gain (loss) on hedging transactions, net of taxes to interest expense and other, net.

ALLIANCE HEALTHCARE SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

June 30, 2016

(Unaudited)

(Dollars in thousands, except per share amounts)

In the fourth quarter of 2012, the Company entered into an interest rate swap agreement in connection with equipment financing. The swap, which matures in December 2017, had a notional amount of $1,658 as of June 30, 2016. Under the terms of this agreement, the Company receives one-month LIBOR plus 2.50% and pays a fixed rate of 3.75%. The net effect of the hedge is to convert interest expense to a fixed rate of 3.75%, as the underlying debt incurred interest based on one-month LIBOR plus 2.50%.

In the first quarter of 2013, the Company entered into an interest rate swap agreement in connection with equipment financing. The swap, which matures in April 2018, had a notional amount of $1,612 as of June 30, 2016. Under the terms of this agreement, the Company receives one-month LIBOR plus 2.00% and pays a fixed rate of 2.87%. The net effect of the hedge is to convert interest expense to a fixed rate of 2.87%, as the underlying debt incurred interest based on one-month LIBOR plus 2.00%.

In the fourth quarter of 2013, the Company entered into five interest rate cap agreements ("2013 Caps"). The 2013 Caps, which mature in December 2016, had a notional amount of $250,000 and were designated as cash flow hedges of future cash interest payments associated with a portion of the Company's variable rate bank debt. Under these arrangements, the Company has purchased a cap on LIBOR at 2.50%. The Company paid $815 to enter into the caps, which is being amortized through Interest expense and other, net over the life of the agreements.

In the fourth quarter of 2014, the Company entered into an interest rate swap agreement in connection with equipment financing. The swap, which matures in November 2019, had a notional amount of $1,175 as of June 30, 2016. Under the terms of this agreement, the Company receives one-month LIBOR and pays a fixed rate of 1.34%. The net effect of the hedge is to convert Interest expense to a fixed rate of 1.34%, as the underlying debt incurred interest based on one-month LIBOR.

In the third quarter of 2015, the Company acquired eight non-designated interest rate swaps (the "AHNI Swaps") as a result of the step acquisition of AHNI. The AHNI swaps mature on various dates ranging from April 2017 through April 2020 and had notional amounts totaling $2,631 as of June 30, 2016. Under the terms of these arrangements, the Company receives one-month LIBOR and pays fixed rates ranging from 0.75% to 1.68%. The changes in fair market value of the AHNI Swaps are recorded in interest expense and other, net, as incurred.

In the fourth quarter of 2015, the Company entered into two interest rate swap agreements in connection with equipment financing. The swaps mature in December 2020 and in December 2021 and had notional amounts totaling $6,445 as of June 30, 2016. Under the terms of these agreements, the Company receives one-month LIBOR and one-month LIBOR plus 2.00% and pays fixed rates of 1.37% and 3.69%, respectively. The net effect of these hedges is to convert interest expense to fixed rates of 1.37% and 3.69%, as the underlying debt incurred interest based on one-month LIBOR and one-month LIBOR plus 2.00%, respectively.

The Effect of Designated Derivative Instruments on the Condensed Consolidated Statement of Operations and Comprehensive Income (Loss)

For the Three Months Ended June 30, 2016

| Derivatives in Cash Flow Hedging Relationships | Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion) | Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | Location of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion) | Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion) |
|---|---|---|---|---|---|
| Interest rate contracts | $ 6 | Interest expense and other, net | $ (140) | Interest expense and other, net | $ — |
| Total | $ 6 | | $ (140) | | $ — |

22

ALLIANCE HEALTHCARE SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

June 30, 2016

(Unaudited)

(Dollars in thousands, except per share amounts)

The Effect of Designated Derivative Instruments on the Condensed Consolidated Statement of Operations and Comprehensive Income (Loss)

For the Six Months Ended June 30, 2016

| Derivatives in Cash Flow Hedging Relationships | Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion) | Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | Location of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion) | Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion) |
|---|---|---|---|---|---|
| Interest rate contracts | $ (74 ) | Interest expense and other, net | $ (223 ) | Interest expense and other, net | $ (1 ) |
| Total | $ (74 ) | | $ (223 ) | | $ (1 ) |

The Effect of Designated Derivative Instruments on the Condensed Consolidated Statement of Operations and Comprehensive Income (Loss)

For the Three Months Ended June 30, 2015

| Derivatives in Cash Flow Hedging Relationships | Amount of Gain (Loss) Recognized in OCI on | Location of Gain (Loss) Reclassified from Accumulated OCI | Amount of Gain (Loss) Reclassified from Accumulated OCI into | Location of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion) | Amount of Gain (Loss) Recognized in Income on Derivatives |
|---|---|---|---|---|---|

| | Derivatives (Effective Portion) | into Income (Effective Portion) | Income (Effective Portion) | | (Ineffective Portion) |
|---|---|---|---|---|---|
| Interest rate contracts | $ (19 ) | Interest expense and other, net | $ 5 | Interest expense and other, net | $ — |
| Total | $ (19 ) | | $ 5 | | $ — |

The Effect of Designated Derivative Instruments on the Condensed Consolidated Statement of Operations and Comprehensive Income (Loss)

For the Six Months Ended June 30, 2015

| Derivatives in Cash Flow Hedging Relationships | Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion) | Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | Location of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion) | Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion) |
|---|---|---|---|---|---|
| Interest rate contracts | $ (208 ) | Interest expense and other, net | $ 16 | Interest expense and other, net | $ 1 |
| Total | $ (208 ) | | $ 16 | | $ 1 |

The effect of non-designated derivative instruments on the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and six months ended June 30, 2016 and 2015 was immaterial.

23

ALLIANCE HEALTHCARE SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

June 30, 2016

(Unaudited)

(Dollars in thousands, except per share amounts)

10. Income Taxes

For the three and six months ended June 30, 2016, the Company recorded income tax expense of $2.2 million and $1.3 million, respectively, or 47.4% and 50.1%, respectively, of the Company’s pretax income. For the three and six months ended June 30, 2015, the Company recorded income tax (benefit) expense of $(1,366) and $206, respectively, or 41.0% and (5,275.0)%, respectively, of the Company’s pretax income. The provision for income taxes for interim periods is determined using an estimate of the Company’s annual effective tax rate, which is applied to current year to date pre-tax income. Each quarter, the estimate of the annual effective tax rate is updated, and if the estimated effective tax rate changes, a cumulative adjustment is recorded. The Company’s effective tax rate for the three and six months ended June 30, 2016 and 2015 differed from the federal statutory rate principally as a result of state income taxes and permanent non-deductible tax items, including share-based payments, unrecognized tax benefits and other permanent differences.

As of June 30, 2016, the Company has provided a liability for $263 of unrecognized tax benefits related to various federal and state income tax matters. The tax-effected amount that would reduce the Company’s effective income tax rate if recognized is $221. As of December 31, 2015, the Company has provided a liability for $229 of unrecognized tax benefits related to various federal and state income tax matters. The tax-effected amount that would reduce the Company’s effective income tax rate if recognized is $192.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. As of June 30, 2016 and 2015, the Company had approximately $13 and $16, respectively, in accrued interest and penalties related to unrecognized tax benefits.

The Company is subject to United States federal income tax as well as income tax of multiple state tax jurisdictions. The Company is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended December 31, 2012 through 2015. The Company’s and its subsidiaries’ state income tax returns are open to audit under the applicable statutes of limitations for the years ended December 31, 2011 through 2015. The Company does not anticipate a significant change to the total amount of unrecognized tax benefits within the next 12 months.

11. Earnings Per Common Share

Basic net income (loss) per share is computed utilizing the two-class method and is calculated based on the weighted-average number of common shares outstanding during the periods presented, excluding unvested restricted stock units which do not contain nonforfeitable rights to dividend and dividend equivalents.

Diluted net income (loss) per share is computed using the weighted-average number of common and common equivalent shares outstanding during the periods utilizing the two-class method for stock options, unvested restricted stock and unvested restricted stock units. Potentially dilutive securities are not considered in the calculation of net loss per share as their impact would be anti-dilutive.

ALLIANCE HEALTHCARE SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

June 30, 2016

(Unaudited)

(Dollars in thousands, except per share amounts)

The following table sets forth the computation of basic and diluted net income (loss) per share (amounts in thousands, except per share amounts):

| | Three Months Ended June 30, 2016 | Three Months Ended June 30, 2015 | Six Months Ended June 30, 2016 | Six Months Ended June 30, 2015 |
|---|---|---|---|---|
| Numerator: | | | | |
| Net income (loss) attributable to Alliance HealthCare Services, Inc. | $2,459 | $(1,961) | $1,269 | $(210) |
| Denominator: | | | | |