

Edgar Filing: TRIMEDYNE INC - Form 10-Q

TRIMEDYNE INC
Form 10-Q
August 14, 2009

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, 2009

Or

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

For the transition period from to

Commission File Number: 0-10581

TRIMEDYNE, INC.

(Exact name of Registrant as specified in its charter)

Nevada
(State or other jurisdiction
of incorporation or organization)

36-3094439
(IRS Employer Identification Number)

25901 Commercentre Dr., Lake Forest, CA 92630
(Address of principal executive offices) (Zip Code)

(949/951-3800)
(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), (2) has been subject to such filing requirements for the past 90 days.

YES NO

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 (ss.232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Edgar Filing: TRIMEDYNE INC - Form 10-Q

the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's class of common stock, as of the last practicable date.

Class	Outstanding at August 14, 2009
----- Common Stock, \$0.01 par value	----- 18,365,960 shares

TRIMEDYNE, INC.

	Page Number

PART I. Financial Information	3
ITEM 1. Condensed Consolidated Financial Statements (Unaudited)	3
Condensed Consolidated Balance Sheets	3
Condensed Consolidated Statements of Operations	4
Condensed Consolidated Statements of Cash Flows	5
Notes to Condensed Consolidated Financial Statements	6
ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	14
ITEM 3. Quantitative and Qualitative Disclosures About Market Risk	16
ITEM 4T Controls and Procedures	16
PART II. Other Information	17
ITEM 1. Legal Proceedings	17
ITEM 1A. Risk Factors	17
ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds	17
ITEM 3. Defaults Upon Senior Securities	17

Edgar Filing: TRIMEDYNE INC - Form 10-Q

ITEM 4. Submission of Matters to a Vote of Security Holders	17
ITEM 5. Other Information	17
ITEM 6. Exhibits	17
SIGNATURE PAGE	18
CERTIFICATIONS	19

TRIMEDYNE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

ASSETS	June 30, 2009	September 30,
	-----	-----
Current assets:		
Cash and cash equivalents	\$ 2,076,000	\$ 2,007,
Trade accounts receivable, net of allowance for doubtful accounts of \$16,000 and \$12,000, respectively	695,000	954,
Inventories	2,082,000	2,584,
Other current assets	276,000	171,
	-----	-----
Total current assets	5,129,000	5,716,
Property and equipment, net	1,250,000	1,382,
Other	84,000	83,
Goodwill	544,000	544,
	-----	-----
Total Assets	\$ 7,007,000	\$ 7,725,
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 399,000	\$ 256,
Accrued expenses	552,000	469,
Deferred revenue	115,000	75,
Accrued warranty	50,000	54,
Current portion of note payable and capital leases	236,000	237,
	-----	-----
Total current liabilities	1,352,000	1,091,
Note payable and capital leases, net of current portion	279,000	400,
Deferred rent	58,000	73,
	-----	-----

Edgar Filing: TRIMEDYNE INC - Form 10-Q

Total liabilities	1,689,000	1,564,
Commitments and contingencies (Note 4)		
Stockholders' equity:		
Preferred stock - \$0.01 par value, 1,000,000 shares authorized, none issued and outstanding	--	
Common stock - \$0.01 par value; 30,000,000 shares authorized, 18,467,569 shares issued, 18,365,960 shares outstanding at June 30, 2009 and September 30, 2008	186,000	186,
Additional paid-in capital	51,454,000	51,425,
Accumulated deficit	(45,609,000)	(44,737,
Treasury stock, at cost (101,609 shares)	6,031,000 (713,000)	6,874, (713,
Total stockholders' equity	5,318,000	6,161,
Total liabilities and stockholder's equity	\$ 7,007,000	\$ 7,725,

See accompanying notes to condensed consolidated financial statements

3

TRIMEDYNE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended June 30,		Nine Month June
	2009	2008	2009
Net revenues	\$ 2,068,000	\$ 1,385,000	\$ 5,310,000
Cost of revenues	1,250,000	1,017,000	3,400,000
Gross profit	818,000	368,000	1,910,000
Operating expenses:			
Selling, general and administrative	653,000	602,000	2,042,000
Research and development	317,000	419,000	931,000
Total operating expenses	970,000	1,021,000	2,973,000
Loss from operations	(152,000)	(653,000)	(1,063,000)
Other income, net	74,000	81,000	199,000

Edgar Filing: TRIMEDYNE INC - Form 10-Q

Loss before provision for income taxes	(78,000)	(572,000)	(864,000)
Provision for income taxes	4,000	13,000	8,000
	-----	-----	-----
Net loss	\$ (82,000)	\$ (585,000)	\$ (872,000)
	=====	=====	=====
Net loss:			
Basic	\$ (0.00)	\$ (0.03)	\$ (0.05)
	=====	=====	=====
Diluted	\$ (0.00)	\$ (0.03)	\$ (0.05)
	=====	=====	=====
Weighted average number of shares outstanding:			
Basic	18,365,960	18,365,960	18,365,960
	=====	=====	=====
Diluted	18,365,960	18,365,960	18,365,960
	=====	=====	=====

See accompanying notes to condensed consolidated financial statements

4

TRIMEDYNE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended June 30,	
	2009	2008
	-----	-----
Cash flows from operating activities:		
Net loss	\$ (872,000)	\$ (1,254,000)
Adjustment to reconcile net loss to net cash provided by operating activities:		
Stock-based compensation	29,000	47,000
Depreciation and amortization	271,000	226,000
(Gain) loss on disposal of property and equipment	(12,000)	17,000
Changes in operating assets and liabilities:		
Trade accounts receivable	259,000	(59,000)
Inventories	502,000	113,000
Other assets	(106,000)	130,000
Note due from related party	--	9,000
Accounts payable	143,000	74,000
Accrued expenses	83,000	(68,000)
Deferred revenue	40,000	29,000
Accrued warranty	(4,000)	2,000
Deferred rent	(15,000)	(13,000)
	-----	-----
Net cash provided by (used in) operating activities	318,000	(747,000)
	-----	-----

Edgar Filing: TRIMEDYNE INC - Form 10-Q

Cash flows from investing activities:		
Purchase of property and equipment	(127,000)	(64,000)
	-----	-----
Net cash used in investing activities	(127,000)	(64,000)
	-----	-----
Cash flows from financing activities:		
Payments on debt	(122,000)	(71,000)
	-----	-----
Net cash used in financing activities	(122,000)	(71,000)
	-----	-----
Net (decrease) increase in cash and cash equivalents	69,000	(882,000)
Cash and cash equivalents at beginning of period	2,007,000	3,179,000
	-----	-----
Cash and cash equivalents at end of period	\$ 2,076,000	\$ 2,297,000
	=====	=====

Supplemental disclosure of cash flow information:

Cash paid for income taxes during the three months ended June 30, 2009 and 2008 was \$8,000 and \$13,000, respectively. Cash paid for interest during the nine months ended June 30, 2009 and 2008 was approximately \$36,000 and \$21,000, respectively.

Supplemental disclosure of non-cash investing activity:

During the nine months ended June 30, 2008, the Company financed the purchase of equipment with \$651,000 in lease agreements.

During the nine months ended June 30, 2009, the Company financed the purchase of certain insurance policies with a \$85,000 note. During the nine months ended June 30, 2008, the Company financed the purchase of certain insurance policies with a \$134,000 note.

See accompanying notes to condensed consolidated financial statements

5

TRIMEDYNE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009
(UNAUDITED)

NOTE 1 - Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of Trimedyne, Inc., its wholly owned subsidiary, Mobile Surgical Technologies, Inc. ("MST"), and its 90% owned inactive subsidiary, Cardiodyne, Inc. ("Cardiodyne") (collectively, the "Company"). All intercompany accounts and transactions have been eliminated in consolidation.

Edgar Filing: TRIMEDYNE INC - Form 10-Q

Managements' Plans

The Company has incurred losses from operations for the past two years. However, the Company believes that existing cash flows are sufficient enough to fund operations through June 30, 2010. However, there can be no assurance that we will be able to create more sales to maintain the current level of sales in the next 12 months, or that the Company will be profitable. It is possible that additional working capital in the next 12 months may be required. If necessary, the Company will attempt to raise additional debt and/or equity capital and reduce its costs by eliminating certain personnel positions and certain overhead costs in order to fund operations. There is no assurance that management's efforts to do so will be successful.

Unaudited Interim Financial Information

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America for interim financial information, and pursuant to the instructions to Form 10-Q promulgated by the Securities and Exchange Commission (SEC). Accordingly, they do not include all information and disclosures required by generally accepted accounting principles for complete financial statement presentation. In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the Company's consolidated financial position as of June 30, 2009 and the results of its operations and its cash flows for the nine months ended June 30, 2009 and 2008. Results for the nine months ended June 30, 2009 are not necessarily indicative of the results to be expected for the year ending September 30, 2009.

While management believes that the disclosures presented are adequate to make the information not misleading, it is suggested that these condensed consolidated financial statements be read in conjunction with the condensed consolidated financial statements and the notes included in the Company's 2008 annual report on Form 10-K for the year ended September 30, 2008.

Stock-Based Compensation

The fair value of stock-based awards is calculated using the Black-Scholes option pricing model. The Black-Scholes model requires subjective assumptions regarding future stock price volatility and expected time to exercise, which greatly affect the calculated values. The expected term of options granted is derived from historical data on employee exercises and post-vesting employment termination behavior. The risk-free rate selected to value any particular grant is based on the U.S. Treasury rate that corresponds to the pricing term of the grant effective as of the date of the grant. The expected volatility is based on the Company's historical volatilities of its common stock. These factors could change in the future, affecting the determination of stock-based compensation expense in future periods. During the nine months ended June 30, 2009, there were no stock options granted.

As of June 30, 2009, there was approximately \$89,422 of total unrecognized compensation cost, net of estimated expected forfeitures, related to employee and director stock option compensation arrangements. This unrecognized cost is expected to be recognized on a straight-line basis over the next 4.50 years.

The following table summarizes stock-based compensation expense related to employee and director stock options under SFAS No. 123(R) for the three and nine months ended June 30, 2009 and 2008, which was allocated as follows:

Three Months Ended

Edgar Filing: TRIMEDYNE INC - Form 10-Q

	June 30, 2009	June 30, 2008	June
Stock-based compensation included in:			
Cost of revenues	\$ 3,000	\$ 3,000	\$
Research and development expenses	\$ 1,000	\$ 1,000	\$
Selling, general, and administrative expenses	\$ 3,000	\$ 13,000	\$

6

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates and assumptions include inventory valuation, allowances for doubtful accounts and deferred income tax assets, recoverability of goodwill and long-lived assets, losses for contingencies and certain accrued liabilities.

Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and long-term debt. The carrying amounts of the Company's financial instruments generally approximate their fair values as of March 31, 2009 because of the short maturity of these instruments.

Effective October 1, 2008, the first day of the Company's fiscal year 2009, the Company adopted SFAS 157 and SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115," for financial assets and liabilities. The Company did not record an adjustment to retained earnings as a result of the adoption of SFAS 157, and the adoption did not have a material effect on the Company's results of operations. SFAS 159 provides companies the irrevocable option to measure many financial assets and liabilities at fair value with changes in fair value recognized in earnings. The Company has not elected to measure any financial assets or liabilities at fair value that were not previously required to be measured at fair value.

Concentration of Credit Risk and Customer Concentration

Cash balances are maintained at various financial institutions. The Federal Deposit Insurance Corporation ("FDIC") insures accounts at each institution for up to \$250,000. From time to time, the Company maintains cash balances at certain institutions in excess of the FDIC limit.

The Company generates revenues principally from sales of products in the medical field. As a result, the Company's trade accounts receivable are concentrated primarily in this industry. As of June 30, 2009 five customers accounted for 22% of the Company's receivables.

Goodwill

Edgar Filing: TRIMEDYNE INC - Form 10-Q

The Company accounts for goodwill and acquired intangible assets in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142 "Goodwill and Other Intangible Assets", whereby goodwill is not amortized, and is tested for impairment at the reporting unit level annually during the fourth quarter and in interim periods if certain events occur indicating that the carrying value of goodwill may be impaired. A reporting unit is an operating segment for which discrete financial information is available and is regularly reviewed by management. The Company has one reporting unit, our service and rental group, to which goodwill is assigned.

SFAS 142 requires a two-step approach to test goodwill for impairment for each reporting unit. The first step tests for impairment by applying fair value-based tests to a reporting unit. The second step, if deemed necessary, measures the impairment by applying fair value-based tests to specific assets and liabilities within the reporting unit. Application of the goodwill impairment tests require judgment, including identification of reporting units, assignment of assets and liabilities to each reporting unit, assignment of goodwill to each reporting unit, and determination of the fair value of each reporting unit. The determination of fair value for a reporting unit could be materially affected by changes in these estimates and assumptions.

As part of the first step, the Company generally estimates the fair value of the reporting unit based on market prices (i.e., the amount for which the assets could be bought by or sold to a third party), when available. When market prices are not available, we estimate the fair value of the reporting unit using the income approach. The income approach uses cash flow projections. Inherent in our development of cash flow projections are assumptions and estimates derived from a review of our historical operating results, future business plans, expected growth rates, cost of capital, future economic conditions, etc. Many of the factors used in assessing fair value are outside the control of management, and these assumptions and estimates can change in future periods. During the fourth quarter of the year ended September 30, 2008, the Company conducted a goodwill impairment test for its service and rental group using a combination of the market and income approach. As a result of the first step analysis, the expected cash flows to be generated by the service and rental were sufficient enough to support the carrying value of the goodwill. Thus, the Company determined there was no impairment of the goodwill as of September 30, 2008.

7

Per Share Information

Basic per share information is computed based upon the weighted average number of common shares outstanding during the period. Diluted per share information consists of the weighted average number of common shares outstanding, plus the dilutive effects of options and warrants calculated using the treasury stock method. In loss periods, dilutive common equivalent shares are excluded as the effect would be anti-dilutive. During the three months ended June 30, 2009 and 2008, outstanding options of 25,043 and 21,043, respectively, were excluded from the diluted net loss per share as the effects would have been anti-dilutive.

Segment Information

The Company reports information about operating segments, as well as disclosures about products and services, geographic areas and major customers (see Note 7).

Edgar Filing: TRIMEDYNE INC - Form 10-Q

Operating segments are defined as revenue-producing components of the enterprise, which are generally used internally for evaluating segment performance.

Recently Issued/Adopted Accounting Pronouncements

In April 2008, the FASB issued FSP No. 142-3, "Determination of the Useful Life of Intangible Assets". FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets". FSP 142-3 is effective for fiscal years beginning after December 15, 2008. Therefore, we will be required to adopt FSP 142-3 for the fiscal year beginning October 1, 2010. We are currently evaluating the impact of FSP No. 142-3 on our consolidated financial position and results of operations.

In May 2008, the FASB issued SFAS No. 162 (SFAS 162), The Hierarchy of Generally Accepted Accounting Principles. SFAS 162 sets forth the level of authority to a given accounting pronouncement or document by category. Where there might be conflicting guidance between two categories, the more authoritative category will prevail. SFAS 162 becomes effective 60 days after the SEC approves the PCAOB's amendments to AU Section 411 of the AICPA Professional Standards. SFAS 162 is not expected to have a material impact on our financial statements.

In June 2008, FASB issued EITF Issue No. 07-5 (EITF 07-5), Determining whether an Instrument (or Embedded Feature) is indexed to an Entity's Own Stock. EITF No. 07-5 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early application is not permitted. Paragraph 11(a) of SFAS No. 133 - specifies that a contract that would otherwise meet the definition of a derivative but is both (a) indexed to the Company's own stock and (b) classified in stockholders' equity in the statement of financial position would not be considered a derivative financial instrument. EITF 07-5 provides a new two-step model to be applied in determining whether a financial instrument or an embedded feature is indexed to an issuer's own stock and thus able to qualify for the SFAS No. 133 paragraph 11(a) scope exception. The adoption of EITF 07-5 is not expected to have a material impact on our financial statements.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events" ("SFAS 165"), which modifies the subsequent event guidance in AICPA AU Section 560. The three modifications to the subsequent events guidance in AU Section 560 are: 1) To name the two types of subsequent events either as recognized or non-recognized subsequent events, 2) To modify the definition of subsequent events to refer to events or transactions that occur after the balance sheet date, but before the financial statement are issued or available to be issued and 3) To require entities to disclose the date through which an entity has evaluated subsequent events and the basis for that date, i.e. whether that date represents the date the financial statements were issued or were available to be issued. The Company adopted this standard, as required, for the period ended June 30, 2009. Adoption of SFAS No. 165 did not have a material impact on the Company's consolidated financial statements.

NOTE 2 - Composition of Certain Balance Sheet Captions

Inventories, net of reserves, consist of the following:

	June 30, 2009	September 30, 2008
Raw materials	\$ 772,000	\$1,036,000
Work-in-process	708,000	722,000
Finished goods	602,000	826,000

Edgar Filing: TRIMEDYNE INC - Form 10-Q

-----	-----
\$2,082,000	\$2,584,000
=====	=====

8

For the nine months ended June 30, 2009 and 2008, the aggregate net realizable value of demonstration and evaluation lasers did not comprise a material amount in inventories.

Other current assets consist of the following:

	June 30, 2009	September 30, 2008
	-----	-----
Prepaid insurance	\$ 92,000	\$ 86,000
Royalty receivable	80,000	58,000
Prepaid Expenses	94,000	13,000
Short-term deposits	8,000	9,000
Prepaid income tax	2,000	5,000
	-----	-----
Total other current assets	\$ 276,000	\$ 171,000
	=====	=====

Property and equipment consist of the following:

	June 30, 2009	September 30, 2008
	-----	-----
Furniture and equipment	\$ 3,347,000	\$ 3,216,000
Leasehold improvements	619,000	619,000
Other	244,000	282,000
	-----	-----
	4,210,000	4,117,000
Less accumulated depreciation and amortization	(2,960,000)	(2,735,000)
	-----	-----
Total property and equipment	\$ 1,250,000	\$ 1,382,000
	=====	=====

Accrued expenses consist of the following:

	June 30, 2009	September 30, 2008
	-----	-----
Accrued vacation	\$ 183,000	\$ 187,000
Accrued commissions	148,000	51,000
Customer deposits	104,000	13,000
Sales and use tax	69,000	67,000
Accrued salaries and wages	37,000	130,000
Accrued payroll taxes	3,000	8,000
Accrued professional expenses	--	4,000
Other	8,000	9,000
	-----	-----
Total accrued expenses	\$ 552,000	\$ 469,000
	=====	=====

Edgar Filing: TRIMEDYNE INC - Form 10-Q

NOTE 3 - Notes Payable and Capital leases

Notes payable and capital leases consisted of the following at June 30, 2009 and September 30, 2008:

	June 30, 2009 -----
Capital lease agreement in connection with the purchasing of equipment bearing an effective interest rate of 8.69% per annum. The lease requires monthly payments of \$3,147 through September 2012.	\$ 77,00
Capital lease agreement in connection with the purchasing of equipment bearing an effective interest rate of 9.25% per annum. The lease requires monthly payments of \$4,979 through January 2013.	182,00
Capital lease agreement in connection with the purchasing of ERP software bearing an effective interest rate of 9.23% per annum. The lease requires monthly payments of \$526 through February 2013.	20,00
Capital lease agreement in connection with the purchasing of equipment bearing an effective interest rate of 8.82% per annum. The lease requires monthly payments of \$2,403 through March 2012.	70,00
Capital lease agreement in connection with the purchasing of equipment bearing an effective interest rate of 8.66% per annum. The lease requires monthly payments of \$2,386 through October 2010.	34,00
Capital lease agreement in connection with the purchasing of ERP software bearing an effective interest rate of 8.51% per annum. The lease requires monthly payments of \$3,195 through April 2011.	62,00
Finance agreement issued in connection with the purchasing of certain insurance policies. The note bears interest at 6.8% per annum and require monthly principal and interest payments of \$12,631 through March 2009.	-
9	
Finance agreement issued in connection with the purchasing of certain insurance policies. The note bears interest at 6.5% per annum and require monthly principal and interest payments of \$8,018 through March 2010.	70,00

Less: current portion	515,00 (236,00)

	\$ 279,00 =====

NOTE 4 - Commitments and Contingencies

Litigation

In February 2008, the Company and other manufacturers of lasers were named as defendants in a lawsuit in the State Court of Massachusetts by CardioFocus, Inc.

Edgar Filing: TRIMEDYNE INC - Form 10-Q

as allegedly infringing three of their now expired patents in 2002 -2006. The Company and two of the other defendants submitted a petition to the U.S. Patent and Trademark Office ("USPTO") to re-examine the patents to determine if they are valid, as did several of the other defendants. The Company and the other defendants petitioned the Court to stay the action, which is commonly done in patent cases, to save the court time in conducting a case on patents which may be later invalidated by the USPTO. The court granted the request of the Company and other defendants to stay the case for at least one year. The USPTO usually takes two to three years to reach a decision on the validity of patents. If the USPTO should find any of the patents to be valid, the Company has other defenses that we believe will enable it to successfully defend against any claims by CardioFocus, Inc. As of June 30, 2009, the Company has not recorded a provision for potential losses.

The Company is subject to various claims and actions which arise in the ordinary course of business. The litigation process is inherently uncertain, and it is possible that the resolution of any of the Company's existing and future litigation may adversely affect the Company. Management is unaware of any matters which are not reflected in the condensed consolidated statements of operations that may have material impact on the Company's financial position, results of operations or cash flows.

Guarantees and Indemnities

The Company has made certain indemnities and guarantees, under which it may be required to make payments to a guaranteed or indemnified party. The Company indemnifies its directors, officers, employees and agents to the maximum extent permitted under the laws of the State of California. In connection with its facility leases, the Company has indemnified its users of lasers for certain claims arising from the use of the lasers. The duration of the guarantees and indemnities varies, and in many cases is indefinite. These guarantees and indemnities do not provide for any limitation of the maximum potential future payments the Company could be obligated to make. Historically, the Company has not been obligated to make any payments for these obligations and no liabilities have been recorded for these indemnities and guarantees in the accompanying condensed consolidated balance sheets.

Risks and Uncertainties

The Centers for Medicare and Medicaid Services (CMS), the agency of the U.S. Government that administers the Medicare Program, recently announced a decision to deny reimbursement for thermal intradiscal procedures (TIPs). Thermal procedures to treat spinal discs typically entail the use of electrothermal (ET) or radiofrequency (RF) energy to heat or coagulate the nucleus of the disc, a spongy, gelatinous material that absorbs shocks when people run, jump or are injured, to prevent damage to the vertebra.

CMS, however, included the use of laser energy in its denial of reimbursement, as the early lasers used in spinal disc treatment, Nd:YAG and KTP lasers, emit continuous wave (CW) energy at a constant level, which is thermal, like ET or RF energy. The Company's pulsed Holmium Lasers emit pulsed energy, which is highly absorbed by water in the cells, which is rapidly turned to steam, vaporizing the tissue. The tissue cools between the pulses, which last a few hundred microseconds (millionths of a second), and only a small amount of heating or coagulation occurs.

The Company filed an objection to CMS' lumping its pulsed Holmium Lasers with ET, RF and older, thermal Nd:YAG and KTP lasers, few if any of which are still in use in the treatment of spinal discs, and the Company attached ten (10) published papers on clinical studies of Holmium laser energy that support our position.

Edgar Filing: TRIMEDYNE INC - Form 10-Q

While the Company disagrees with CMS' decision, very few disc treatments with its lasers are performed on persons of Medicare age (65 and older), as herniated and ruptured discs typically affect people of an average age of about 45. As a result, the effect of CMS' decision is not expected to significantly affect sales of lasers and side firing laser needles used in such procedures.

10

NOTE 5 - Other Income

During the three month period ended June 30, 2009 and 2008, the Company recorded \$80,000 and \$94,000, respectively, in royalties in connection with the terms of a settlement agreement. During the nine month period ended June 30, 2009 and 2008, the Company recorded \$202,000 and \$314,000, respectively, in royalties in connection with the terms of the same settlement agreement. These royalties are included in other income in the accompanying condensed consolidated financial statements.

NOTE 6 - Related Party Transactions

Cardiomedics, Inc. ("Cardiomedics"), a privately held corporation in which the Chairman/CEO of Trimedyne, Inc. holds a majority interest and is a member of the Board of Directors. The COO/President of the Company is also a board member of Cardiomedics.

On April 7, 2006, the Company entered into an agreement to employ Cardiomedics as a consultant to provide graphics arts services, since the Company did not have any employees with experience in the design and production of brochures and other marketing materials. Under this agreement, Cardiomedics will provide the services of a graphics art specialist at a rate comparable to those presently prevailing in the market in the design and production of marketing materials. During the nine months ended June 30, 2009 and 2008, the Company incurred \$7,000 and \$28,000, respectively in expense for the services provided under the agreement.

NOTE 7 - Segment Information

The Company's segments consist of individual companies managed separately with each manager reporting to the Chief Executive Officer. Revenues, and operating or segment profit, are reflected net of inter-segment sales and profits. Segment profit is comprised of net sales less operating expenses. Other income and expense and income taxes are not allocated and reported by segment since they are excluded from the measure of segment performance reviewed by management.

Data with respect to these operating activities for the three and nine months ended June 30, 2009 and 2008 are as follows:

For the Three Months Ended June 30, 2009
(Unaudited)

Products	Service and Rental	Total

For the Three

Products

Edgar Filing: TRIMEDYNE INC - Form 10-Q

Net revenues	\$ 1,364,000	\$ 704,000	\$ 2,068,000	\$ 778,000
Cost of revenues	858,000	392,000	1,250,000	606,000

Gross profit	506,000	312,000	818,000	172,000
Operating expenses:				
Selling, general and administrative	501,000	152,000	653,000	486,000
Research and development	317,000	--	317,000	419,000

Income (loss) from operations	\$ (312,000)	\$ 160,000	(152,000)	\$ (733,000)
=====				
Other:				
Interest income			4,000	
Interest expense			(11,000)	
Loss on disposal of equipment			--	
Royalty income			80,000	
Settlements and recoveries			1,000	
Income taxes			(4,000)	

Net loss			\$ (82,000)	
=====				

11

	For the Nine Months Ended June 30, 2009 (Unaudited)			For the Nin
	Products	Service and Rental	Total	Products
	-----			-----
Net revenues	\$ 3,386,000	\$ 1,924,000	\$ 5,310,000	\$ 2,603,000
Cost of revenues	2,228,000	1,172,000	3,400,000	1,768,000

Gross profit	1,158,000	752,000	1,910,000	835,000
Expenses:				
Selling, general and administrative	1,585,000	457,000	2,042,000	1,435,000
Research and development	931,000	--	931,000	994,000

Income (loss) from operations	\$ (1,358,000)	\$ 295,000	(1,063,000)	\$ (1,594,000)
=====				
Other:				
Interest income			11,000	
Interest expense			(36,000)	
Gain (loss) on disposal of equipment			12,000	
Royalty income			202,000	
Settlements and recoveries			10,000	
Income taxes			(8,000)	

Edgar Filing: TRIMEDYNE INC - Form 10-Q

Net loss \$ (872,000)
=====

Sales and gross profit to customers by similar products and services for the three and nine months ended June 30, 2009 and 2008 were as follows:

	For the three months ended June 30, (Unaudited)		For the nine months ended June 30, (Unaudited)
	2009	2008	2009
	-----	-----	-----
By similar products and services:			
Revenues:			
Products:			
Laser equipment and accessories	\$ 467,000	\$ 182,000	\$ 1,107,000
Delivery and disposable devices	897,000	596,000	2,279,000
Service and rental	704,000	607,000	1,924,000
	-----	-----	-----
Total	\$ 2,068,000	\$ 1,385,000	\$ 5,310,000
	=====	=====	=====
Gross profit			
Products:			
Laser equipment and accessories	\$ 147,000	\$ 22,000	\$ 253,000
Delivery and disposable devices	359,000	150,000	905,000
Service and rental	312,000	196,000	752,000
	-----	-----	-----
Total	\$ 818,000	\$ 368,000	\$ 1,910,000
	=====	=====	=====

Sales in foreign countries for the quarters ended June 30, 2009 and June 30, 2008 accounted for approximately 29% and 13% of the Company's total sales, respectively. Sales in foreign countries for the nine months ended June 30, 2009 and June 30, 2008 accounted for approximately 26% and 21% of the Company's total sales, respectively. The breakdown by geographic region is as follows:

	Three months ended June 30, 2009	Three months ended June 30, 2008	Nine months ended June 30, 2009	Nine months ended June 30, 2008
	-----	-----	-----	-----
Asia	\$ 327,000	\$ 44,000	\$ 873,000	\$ 361,000
Europe	235,000	38,000	335,000	176,000
Latin America	15,000	3,000	19,000	28,000
Middle East	2,000	--	3,000	80,000
Australia	18,000	96,000	127,000	109,000
Africa	1,000	--	1,000	--
Other	--	--	--	99,000
	-----	-----	-----	-----
	\$ 598,000	\$ 181,000	\$ 1,358,000	\$ 853,000
	=====	=====	=====	=====

Edgar Filing: TRIMEDYNE INC - Form 10-Q

All long-lived assets were located in the United States during the nine months ended June 30, 2009 and 2008. Total segment assets for the Products segment were \$5,310,000 and Service and Rental were \$1,675,000 at June 30, 2009. Total segment assets differ from total assets on a consolidated basis as a result of unallocated corporate assets primarily comprised of immaterial amounts of property and equipment, etc.

13

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The statements, other than statements of historical fact, included in this report are forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "estimate," "anticipate," "plan," "seek," or "believe." We believe that the expectations reflected in such forward-looking statements are accurate. However, we cannot assure you that such expectations will occur. Our actual future performance could differ materially from such statements. Potential risks and uncertainties include, among other factors, general business conditions, government regulations governing medical device approvals and manufacturing practices, competitive market conditions, success of the Company's business strategy, delay of orders, changes in the mix of products sold, availability of suppliers, concentration of sales in markets and to certain customers, changes in manufacturing efficiencies, development and introduction of new products, fluctuations in margins, timing of significant orders, and other risks and uncertainties currently unknown to management. You should not unduly rely on these forward-looking statements, which speak only as of the date of this report. Except as required by law, we are not obligated to release publicly any revisions to these forward-looking statements to reflect events or circumstances occurring after the date of this report or to reflect the occurrence of unanticipated events.

This section should be read in conjunction with our condensed unaudited consolidated financial statements and the related notes thereto as of March 31, 2009 and for the three and six months then ended, which are included elsewhere in this report, with the audited consolidated financial statements and related notes thereto as of September 30, 2008 and for the year then ended, included in our Form 10-K filed with the Securities and Exchange Commission ("SEC") on January 13, 2009 and with other company filings made with the SEC.

RESULTS OF OPERATIONS

Method of Presentation

The unaudited condensed consolidated financial statements include the accounts of Trimedyne, Inc., its wholly owned subsidiary Mobile Surgical Technologies, Inc. ("MST") and its 90% owned subsidiary, Cardiodyne.

Quarter Ended June 30, 2009 Compared to Quarter ended June 30, 2008

During the quarter ended June 30, 2009, net revenues were \$2,068,000 as compared to \$1,385,000 for the same period of the previous year, a \$683,000 or 49% increase. Net sales from lasers and accessories increased by \$285,000 or 157% to \$467,000 during the three months ended June 30, 2009 from \$182,000 in the same

Edgar Filing: TRIMEDYNE INC - Form 10-Q

period of the prior year. Net sales from delivery and disposable devices increased by \$301,000 or 51% to \$897,000 during the three months ended June 30, 2009 from \$596,000 in the same period of the prior year. Export sales increased by \$417,000 or 230% to \$598,000 from \$181,000 for the same quarter of the prior year. The increases in export sales was primarily due to an increase in laser sales to the international market primarily for use in spine procedures. Net sales from service and rental increased by \$97,000 or 16% to \$704,000 from \$607,000 for the same quarters. This increase was primarily due to an increase in case revenues from MST as a result of the addition of sales personnel and the expansion of its service business.

Cost of sales during the quarter ended June 30, 2009 was \$1,250,000 or 60% of net revenues as compared to \$1,017,000 or 73% the prior year quarter. Gross profit from the sale of lasers and accessories was 31% as compared to 12% for the prior year three-month period. The increase in gross profit for lasers and accessories was primarily the result of a volumizing difference due to a higher production of units created by the 157% increase in sales during the current year quarter as compared to the prior year quarter. Gross profit from the sale of delivery and disposable devices was 40% as compared to 25% for the prior year three-month period. The increase in gross profit was primarily the result of a volumizing difference due to a higher production of units created by the 51% increase in sales of delivery systems during the current year quarter as compared to the prior year quarter. Gross profit from revenue received from service and rentals was 44% as compared to 32% for the prior year three-month period. The higher gross profit for the current nine-month period was primarily attributable to a lower cost of sales for our subsidiary, MST, which was the result of decreased repairs to MST's laser fleet combined with higher margins received from increases in procedures which have a higher bill rate.

Selling, general and administrative expenses increased in the current quarter to \$653,000 from \$602,000 in the prior year quarter, an increase of \$51,000 or 8%. The increase in selling, general and administrative expenses during the current three-month period was primarily due to increases of \$89,000 in commission expense, which was the result of an increase in commissionable revenues combined with new agreements with our international distributors, property tax of \$6,000, depreciation expense of \$4,000, \$4,000 in payroll related expenses, and bad debt expense of \$11,000, offset by decreases in \$26,000 in legal expense, \$20,000 in accounting fees, and marketing expense of \$17,000.

14

Research and development expenditures for the quarter ended June 30, 2009 decreased \$102,000 or 24% to \$317,000 as compared to \$419,000 in the quarter ended June 30, 2008. This decrease was primarily the result of extraordinary expenses incurred during the prior year quarter ended June 30, 2008 relating to the development of our VaporMax(R) product combined with a temporary turnover in staff during the current year quarter ended June 30, 2009.

Other income, net, decreased by \$7,000 or 9% to \$74,000 in the quarter ended June 30, 2009 from \$81,000 in the same quarter of the prior year.

For the current quarter, the Company had a net loss of \$82,000 or \$0.00 per share, based on 18,365,960 basic weighted average number of common shares outstanding, as compared to a net loss of \$585,000 or \$0.03 per share, based on 18,365,960 basic weighted average number of common shares outstanding in the same quarter of the previous year.

Edgar Filing: TRIMEDYNE INC - Form 10-Q

Nine Months Ended June 30, 2009 Compared to Nine Months Ended June 30, 2008

During the nine months ended June 30, 2009, net revenues were \$5,310,000 as compared to \$4,090,000 for the same period of the previous year, a \$1,220,000 or 30% increase. Net revenues from lasers and accessories increased by \$494,000 or 81% to \$1,107,000 during the nine months ended June 30, 2009 from \$613,000 in the same period of the prior year. Net revenues from delivery and disposable devices increased by \$289,000 or 15% to \$2,279,000 during the nine months ended June 30, 2009 from \$1,990,000 for the same period of the prior year. During the nine months ended June 30, 2009 export sales increased by \$505,000 or 59% to \$1,358,000 as compared to \$853,000 in the same period of the prior year. The increases in export sales was primarily due to an increase in laser sales to the international market primarily for use in spine procedures. Net sales from service and rental increased by \$437,000 or 29% to \$1,924,000 from \$1,487,000 for the same quarters in the prior year. This increase was primarily due to an increase in case revenues from MST as a result of the addition of sales personnel and the expansion of its service business.

Cost of sales during the nine months ended June 30, 2009 was \$3,400,000 or 64% of net revenues as compared to \$2,897,000 or 71% for the same period of the prior year. Gross profit from the sale of lasers and accessories was 23% as compared to 12% for the prior year nine-month period. The increase in gross profit for lasers and accessories was primarily the result of a volumizing difference due to a higher production of units created by the 81% increase in sales during the current nine-month period as compared to the prior nine-month period. Gross profit from the sale of delivery and disposable devices was 40% as compared to 38% for the prior year nine-month period. The increase in gross profit was primarily the result of a volumizing difference due to a higher production of units created by the 15% increase in sales of delivery systems during the current nine-month period as compared to the prior nine-month period. Gross profit from revenue received from service and rentals was 39% as compared to 24% for the prior year nine-month period. The higher gross profit for the current nine-month period was primarily attributable to a lower cost of sales for our subsidiary, MST, which was the result of decreased repairs to MST's laser fleet combined with higher margins received from increases in procedures which have a higher bill rate.

For the nine months ended June 30, 2009, selling, general and administrative expenses totaled \$2,042,000 as compared to \$1,780,000 for the same period of the previous year, a \$262,000 or an 15% increase. The increase in selling, general and administration expense was primarily due to increases in commissions expense of \$135,000, which was the result of an increase in commissionable revenues combined with new agreements with our international distributors, payroll related expenses of \$42,000, accounting and audit expense of \$42,000, property tax of \$16,000, depreciation expense of \$36,000, professional certifications expense of \$6,000, bank charges of \$5,000, and bad debt expense of \$21,000, offset by decreases in sales and marketing expense of \$34,000 and legal expense of \$13,000.

During the nine months ended June 30, 2009, research and development expenses decreased to \$931,000 from \$994,000 in the prior year nine-month period, a decrease of \$63,000 or 6%.

Other income decreased by \$142,000 or 37% to \$191,000 in the current nine-month period from \$327,000 in the previous nine-month period of fiscal 2008. During the nine months ended June 30, 2009, royalty income decreased \$112,000 to \$202,000 or 36% as compared to \$314,000 in the prior year nine-month period. Interest income decreased \$37,000 or 77% to \$11,000 as compared to \$48,000 during the same prior year period due to lower bank interest rates combined with a lower cash balance in interest bearing accounts. The decreases in other income were offset by a \$12,000 gain of the disposal of assets combined with \$10,000 in settlements and recoveries.

Edgar Filing: TRIMEDYNE INC - Form 10-Q

For the nine months ended June 30, 2009, the Company had net loss of \$872,000 or \$0.05 per share, based on 18,365,960 basic weighted average number of common shares outstanding, as compared to a net loss of \$1,254,000, or \$0.07 per share, based on 18,365,960 basic weighted average number of common shares outstanding in the same period of the previous year, resulting from the above mentioned factors.

15

Liquidity and Capital Resources

At June 30, 2009, the Company had working capital of \$3,777,000 compared to \$4,625,000 at September 30, 2008. Cash increased by \$69,000 to \$2,076,000 from \$2,007,000 at the fiscal year ended September 30, 2008. We believe our existing working capital will be sufficient to meet Trimedyne's operating needs, and the operating needs of our 100% owned laser rental subsidiary for the next twelve months. During the nine-month period ended June 30, 2009, net cash provided operating activities was \$318,000, which was the result of a lower net loss and the significant decrease in accounts receivable and inventory balances from year end. Net cash used in investing activities was \$127,000 due to the purchase of equipment. Net cash used in financing activities during the current nine-month period was \$122,000, which was the result of payments on debt. If we fail to operate profitably, or if we undertake the development, testing and marketing of additional new products in the future, we will likely need to raise substantial additional capital. There can be no assurance that we will be able to operate profitably in the future.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do not hold any derivative instruments and do not engage in any hedging activities.

ITEM 4T. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management has evaluated, under the supervision and with the participation of our principal executive officer and principal financial officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 (the "Exchange Act"). Based on that evaluation, our chief executive officer and chief financial officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective in ensuring that information required to be disclosed in our Exchange Act reports is (1) recorded, processed, summarized and reported in a timely manner, and (2) accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes In Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over

Edgar Filing: TRIMEDYNE INC - Form 10-Q

financial reporting.

LIMITATIONS ON THE EFFECTIVENESS OF INTERNAL CONTROLS

The Company's management, including the Chief Executive Officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will necessarily prevent all fraud and material error. An internal control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of the control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the internal control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, control may become inadequate because of changes in conditions, and/or the degree of compliance with the policies or procedures may deteriorate.

16

PART II Other Information

ITEM 1. Legal Proceedings

In February 2008, the Company and other manufacturers of lasers were named as defendants in a lawsuit in the State Court of Massachusetts by CardioFocus, Inc. as allegedly infringing three of their now expired patents in 2002 -2006. The Company and two of the other defendants submitted a petition to the U.S. Patent and Trademark Office ("USPTO") to re-examine the patents to determine if they are valid, as did several of the other defendants. The Company and the other defendants petitioned the Court to stay the action, which is commonly done in patent cases, to save the court time in conducting a case on patents which may be later invalidated by the USPTO. The court granted the request of the Company and the other defendants to stay the case for at least one year. The USPTO usually takes two to three years to reach a decision on the validity of patents. If the USPTO should find any of the patents to be valid, the Company has other defenses that we believe will enable it to successfully defend against any claims by CardioFocus, Inc.

ITEM 1A. Risk Factors. Not Applicable.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds
None

ITEM 3. Defaults Upon Senior Securities
None

ITEM 4. Submission of Matters to Vote of Security Holders

Edgar Filing: TRIMEDYNE INC - Form 10-Q

None

ITEM 5. Other Information
None

ITEM 6. Exhibits

(a) Exhibits

- 31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Marvin P. Loeb
- 31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Jeffrey S. Rudner
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Marvin P. Loeb
- 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Jeffrey S. Rudner

17

SIGNATURE PAGE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned hereunto duly authorized.

TRIMEDYNE, INC.

Date: August 14, 2009

/s/ Marvin P. Loeb

Marvin P. Loeb
Chairman and
Chief Executive Officer

Date: August 14, 2009

/s/ Jeffrey S. Rudner

Jeffrey S. Rudner
Principal Accounting Officer

18