TRIMEDYNE INC
Form 10-K
January 14, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 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 NO. 0-10581

TRIMEDYNE, INC.

(Exact Name of Registrant as Specified in its Charter)

NEVADA	36-3094439
(STATE OR OTHER JURISDICTION OF INCORPORATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)
25901 COMMERCENTRE DRIVE LAKE FOREST, CALIFORNIA (ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	92630 (ZIP CODE)

Registrant's Telephone Number, Including Area Code:

(949) 951-3800

Securities Registered Pursuant to Section 12(b) of the Act:
NONE

Securities Registered Pursuant to Section 12(g) of the Act:
Common Stock, $.01 Par Value per Share
(Title of Class)

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [_] No [X]

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes [_] No [X]

Indicate by check mark whether the registrant (1) has filed all reports 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 [_]

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrants knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [_]

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

Large accelerated filer	|_|	Accelerated filer	|_|
Non-accelerated filer	|_|	Smaller reporting company	|X|

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act of 1934). Yes [ ] No [X]

The aggregate market value of voting stock held by non-affiliates of registrant on January 12, 2010 based upon the closing price of the common stock on such date was approximately $1,915,637

As of January 12, 2010, there were outstanding 18,365,960 shares of registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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PART I

ITEM 1. BUSINESS

FORWARD LOOKING STATEMENTS

In addition to historical information, this Annual Report contains forward-looking statements. These forward-looking statements are subject to

certain risks and uncertainties that could cause actual results to differ materially from those reflected in these forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in the section entitled "Management's Discussion and Analysis or of Financial Condition and Results of Operations". Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's opinions only as of the date hereof. The Company undertakes no obligation to revise or publicly release the results of any revision to these forward-looking statements. Readers shouldcarefully review the risk factors described in other documents the Company files from time to time with the U.S.Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q filed by the Company in fiscal year 200 9.

GENERAL

Trimedyne, Inc. (the "Company", "we", "our" or "us") is engaged in the development, manufacturing and marketing of 80 and 30 watt Holmium "cold" pulsed lasers ("Lasers") and a variety of disposable and reusable, fiber optic laser energy delivery devices ("Fibers", "Needles" and "Tips") for use in a broad array of medical applications.

Our Lasers, Fibers, Needles and Tips have been cleared for sale by the U.S. Food and Drug Administration ("FDA") for use in orthopedics, urology, ear, nose and throat ("ENT") surgery, gynecology, gastrointestinal surgery, general surgery and other medical specialties. Many of the medical procedures in which our Lasers, Fibers, Needles and Tips are used are being reimbursed by Medicare and most insurance companies and health plans.

Our 100% owned subsidiary, Mobile Surgical Technologies, Inc. ("MST"), is engaged in the rental of lasers, along with the services of a trained operator and, if requested, the provision of applicable Fibers, Needles or Tips, on a "fee per case" basis to hospitals, surgery centers, group practices and individual physicians in Texas and nearby areas. MST's revenues and those of our field service department represented about 30% of our revenues in the fiscal year ended September 30, 2009.

The principal market for our Lasers and Side Firing Needles is presently in orthopedics to treat herniated (bulging) and ruptured lumbar, thoracic and cervical discs in the spine, two of the four major causes of lower back, neck and leg pain, typically on an outpatient basis. Our Lasers and Tips are also used in orthopedics to treat damage in joints, such as the knee, shoulder, elbow, hip, ankle and wrist, in outpatient, arthroscopic procedures.

THE UROLOGY MARKET

While our Lasers and Fibers are presently used in urology to fragment stones in the kidney, ureter and bladder, we have developed a new, proprietary, Side Firing Laser Fiber for use with our Holmium Lasers and other Holmium Lasers with a compatible connector to vaporize a portion of the prostate to treat benign prostatic hyperplasia or "BPH", commonly called an enlarged prostate. Enlargement of the prostate causes difficulty in urinating and an urgency to urinate, which often causes the patient to wake-up, interrupting his sleep.

We will market this new Fiber under our VaporMAX registered trademark through a limited number of commission sales representatives in the United States and by distributors in certain foreign countries.

In 2005, we entered into an OEM Agreement with Lumenis, Ltd. of Yokneam, Israel ("Lumenis"), as a result of our settling our patent infringement and unfair competition lawsuit against Lumenis. Under this Agreement, Lumenis agreed to purchase 100% of its needs for side firing laser fibers and 75% of its needs for angled firing laser fibers from us, subject to our laser fibers meeting certain

performance standards and satisfactory completion of an audit of our manufacturing process and quality system.

We have developed a differently appearing Side Firing Laser Fiber, which functions in substantially the same manner as our VaporMAX(R) Side Firing Fiber, for use with 80 and 100 watt Holmium Lasers manufactured by Lumenis. Lumenis is one of the world's largest manufacturers of medical lasers, has revenues exceeding 250 million per year and has a large worldwide sales force. Lumenis distributes its Holmium Lasers and Angled Firing Laser Fibers through Boston Scientific Corporation ("Boston Scientific") in the United States and Japan.

The Side Firing Fibers we will be manufacturing for Lumenis will be distributed for Lumenis in the U.S. and Japan by Boston Scientific under Lumenis' DuraMAX trademark and by Lumenis' large sales organization elsewhere throughout the world. This will not begin until Boston Scientific and Lumenis successfully complete their quality audit of our manufacturing process and quality system, which is expected to take several months from the time they start this process.

THE ENLARGED PROSTATE MARKET

An enlarged prostate affects about 50% of men over age 55, and a higher percentage of men at advanced ages. While drugs are used to treat millions of men with an enlarged prostate, when the drugs are no longer able to adequately treat this condition, removal of the prostate is needed to open a channel to permit proper urine flow.

Each year, about 200,000 men in the United States and an estimated one million men in foreign countries are treated with a procedure using radiofrequency ("RF") energy or laser energy to remove a portion of the prostate to open a channel for urine flow. While RF energy is used to do this, laser vaporization or resection of the prostate is becoming increasingly popular, as the laser procedure typically reduces procedural bleeding and can be performed on an outpatient basis, whereas the RF procedure usually entails a hospital stay, significant bleeding, a variety of adverse effects and a recuperation period of days to weeks.

As a result, when Boston Scientific and Lumenis begin selling our new Side Firing Fiber for use with Lumenis' Holmium Lasers, we believe sales of these Fibers by Boston Scientific's and Lumenis' large sales organizations will contribute substantially to our revenues.

The development of our new Side Firing Fiber for use with our 80 watt Holmium Lasers and Lumenis' 80 and 100 watt Holmium Lasers took longer than expected, due to obstacles imposed by the high peak powers and other characteristics of Holmium Lasers, which make them excellent at vaporizing tissue, but also makes them very hard on the glass components of the Fibers. Our new Side Firing Fiber has been shown in our bench testing on animal tissue, using Lumenis' 100 watt Holmium Laser at full power, to vaporize tissue faster and to be significantly more durable than the Side Firing Fibers presently being manufactured by Lumenis and marketed by Boston Scientific and Lumenis. Our new Side Firing Fiber was also tested by an Independent Testing Laboratory, using Lumenis' 100 watt Holmium Laser at full power, that confirmed our successful testing of its vaporization rate and durability on Lumenis' Holmium Laser.

Our new Side Firing Fiber has been cleared for sale by the FDA.

We have delivered a number of our new Side Firing Fibers to Boston Scientific for laboratory testing and a number of our new Side Firing Fibers to Lumenis for physician evaluation, which is presently underway. Lumenis' initial report on their physician evaluations was very favorable.

PROBLEMS ENCOUNTERED IN DEVELOPING THE NEW SIDE FIRING FIBER

Holmium Lasers emit very short pulses of laser energy. At 80 watts, our Holmium Lasers emit pulses of energy with a duration or pulse width of about 400 microseconds, with a peak pulse power level of up to 9,000 watts. The laser energy is transmitted from the laser through an optical fiber to a tip designed to direct the laser energy to the side at an angle of about 80 to 90 degrees.

Holmium Laser energy is highly absorbed by water. When tissue is struck by the laser beam, water in the cells is almost instantly turned to steam, vaporizing the tissue. As a result, Holmium Lasers vaporize tissue more efficiently than most other lasers whose energy can be transmitted through conventional optical fibers, such as KTP Lasers, whose energy is highly absorbed by hemoglobin in blood, and Diode lasers, whose energy is moderately absorbed in both hemoglobin and water.

KTP and Diode lasers, at very high power, can vaporize tissue, but can also cause significant charring and thermal damage to the remaining tissue. Charred tissue is removed from the body by macrophages and other mechanisms. Macrophages emit harsh chemicals to dissolve char and other foreign matter, which causes the patient to experience irritation at the vaporization site in the prostate for a week or longer.

Holmium lasers are able to vaporize tissue with little or no charring or damage to the remaining tissue. However, the very high power energy pulses of Holmium Lasers cause a steam bubble to almost instantly be formed in a sort of explosion. These explosions of steam typically occur at a rate of about 25 times per second with our Holmium Lasers and at a rate of about 50 times per second with Lumenis' Holmium Lasers.

When the steam bubble collapses between pulses, it causes an acoustic shock, which can damage the glass components in the tip of the Fibers. And, the water and steam heated by the laser energy can act as a catalyst for erosion of the glass surface at the tip of the optical fiber, which can damage the Fiber's tip. Furthermore, when the laser energy strikes the tissue, some of the laser energy is reflected back into the tip of the optical fiber. This can cause thermal damage that affects the integrity of the Fiber's tip.

The combination of the above described steam explosions, the shock waves from the collapse of the steam bubbles and laser energy reflected back from tissue can damage and, ultimately, fracture the glass enclosure of the Fiber's tip, reducing the Side Firing Fiber's vaporization rate and useful lifetime.

As a result of the above described problems, it took us much longer than anticipated to develop a durable, fast vaporizing, Side Firing Fiber for use with our 80 watt Holmium Lasers. We have begun physician evaluations by a number of our customers and prospective customers to obtain orders and have begun marketing our VaporMAX(R) Side Firing Fiber for use with our Holmium Lasers and other Holmium Lasers with a compatible connector for the treatment of enlarged prostates.

PARTICULAR PROBLEMS ENCOUNTERED WHEN USING LUMENIS' 100 WATT HOLMIUM LASER

We encountered a more difficult problem in developing a similar Side Firing Fiber for use with Lumenis' 100 watt Holmium Lasers. At 100 watts of power, Lumenis' Holmium Laser produces 25% more laser energy than our 80 watt Holmium Laser, and its pulse width or duration is about 250 microseconds at this power level, with a peak pulse power of up to 11,000 watts.

In addition to the optical fiber's tip having to emit 25% more energy per pulse, since the pulse width of Lumenis' 100 watt Holmium Laser is about one-half that of our 80 watt Holmium Laser, 25% more power must be transmitted through the tip of the optical fiber at about twice the number of pulses per second as with our 80 watt Holmium Laser, and the steam explosions at the surface of the tip of the Fiber are more powerful, the acoustic shocks caused by the collapse of the steam bubble are more intense and the amount of laser energy reflected from the tissue, which can damage the tip of the Fiber, is greater.

As a result, developing a fast vaporizing, durable, Side Firing Fiber for use with Lumenis' 100 watt Holmium Lasers proved to be a formidable challenge. However, our testing of the new Fiber on Lumenis' 100 watt Laser at full power and the Independent Testing Laboratory's testing on Lumenis' 100 watt Laser at full power demonstrated its faster vaporization rate and durability on an animal tissue model.

A very significant portion of our management and R & D efforts over the past year were devoted to the development of the new Side Firing Laser Fiber for use with Lumenis' 100 watt Holmium Lasers and our 80 watt Holmium Lasers.

THE MARKET FOR OUR LASERS AND FIBERS IN UROLOGY

Side firing laser fibers to treat an enlarged prostate typically sell for about $650 or more and are labeled "single use" and should be discarded after one use. However, we are told some illicit re-use of these fibers occurs in the United States and Europe and is common throughout the rest of the world, where government reimbursement, insurance plans and self-pay patients cannot afford such expensive devices.

Our Lasers and our FlexMAX(R) plain, straight-ahead firing Fibers are used in urology to fragment stones in the kidney, ureter or bladder in "lithotripsy" procedures. However, our plain, straight-ahead firing Fibers are reusable and are used an average of about 20-30 times. As a result, revenues from the sale of $400 plain Fibers to fragment stones do not result in as significant sales revenues as those expected from the use of single use, disposable Side Firing Fibers with our Holmium Lasers and others to treat enlarged prostates.

THE ORTHOPEDIC MARKET

Our Side Firing Laser Needles are used with our Holmium Lasers to treat herniated or ruptured lumbar, thoracic or cervical discs in the spine in minimally invasive procedures, which are typically performed on an outpatient basis in as little as 30-40 minute procedures, usually with only local anesthesia. The lower back, leg and neck pain disappears on the operating table, and the patient walks out with only a Band Aid(R) on the puncture (stitches may not be required). Most patients can return to light activities in a few days. Clinical Studies on our disc procedures, published in medical journals, show success rates (good or excellent results, based on pain scores) of 85% to 94%.

Approximately 600,000 conventional surgical laminectomy or discectomy procedures are performed each year in the United States to treat herniated or ruptured discs. These surgeries typically require general anesthesia and entail a two to three day or longer hospital stay, some bleeding, post-operative pain and a recovery period of a month or longer, often with physical therapy or exercise

programs for up to six months. Conventional surgery to treat herniated or ruptured discs in the spine, published in medical journals, show the success rates of disc surgery to be only 40% to 77%, based on similar pain scores.

While our laser procedures to treat herniated or ruptured spinal discs have demonstrated higher success rates, fewer adverse effects and typically do not require hospitalization, which are common to the conventional surgical procedures to treat herniated or ruptured spinal discs, and are less costly to third party payors, before surgeons can perform our laser procedures, they must attend a one or more training courses in which they practice the procedure on cadavers. In addition to difficulty in convincing busy surgeons to take two to three days away from their practice to attend a training course, we incur substantial costs in conducting the training courses.

In addition, surgeons are generally paid more by Medicare and insurance companies for performing conventional disc surgery than for our outpatient laser rocedures, reducing their desire to take time away from their practice to attend a training course for a lower-paying procedure. However, once experienced in our shorter procedure, many spinal surgeons are able to perform two, three or more of our laser procedures a day, compared to usually one procedure a day for conventional surgery.

Since we can afford to conduct (or participate with makers of endoscopes used in these procedures) in only a few training courses each year in the U.S. and only occasionally in Europe, Latin America and Asia, our spinal disc market is expected to grow only if we are able to conduct or participate in a larger number of training courses. If our sales continue to grow, we plan to expand the marketing of our Holmium Lasers and Side Firing Fibers for treating herniated or ruptured spinal discs By conducting or participating in more training courses.

OTHER MARKETS

Our Lasers, Fibers, Needles and Tips are also used in a variety of other procedures in gynecology, ear, nose and throat surgery, gastrointestinal surgery and general surgery.

We also plan to develop new optical fiber devices for use with our Holmium Lasers and others to treat other conditions. Developing new optical fiber devices for new medical applications entails considerable risk. While we have almost twenty years of experience in designing, developing, manufacturing and marketing Holmium Lasers and Side Firing Laser Fibers, we cannot assure that any new optical fiber devices or different lasers we attempt to develop for new applications can be completed at a reasonable cost or in a timely manner, will be clinically successful, can compete successfully in the marketplace or be profitable to us.

THE LASER RENTAL MARKET

Many hospitals, surgery centers and physicians are reluctant to purchase "big ticket" medical equipment, such as our Lasers, which sell for $55,000 to $127,000, particularly for new medical procedures. Hospitals also traditionally suffer from a lack of funds to buy expensive medical equipment, and they prefer to avoid having to train their staff to operate new, complex equipment. As a result, laser rental companies have been formed in the United States and elsewhere to fill this void. These companies typically provide lasers, endoscopes and other types of medical equipment, along with a trained operator,

to hospitals, surgery centers and physicians on a "fee per case" basis.

Mobile Surgical Technologies, Inc. ("MST") was organized in 1997 to rent lasers with a trained operator to hospitals, surgery centers and physicians in Texas on a "fee per case" basis. We acquired MST in late 2000 and expanded its "fee per case" rental Business. MST is particularly well suited to our introduction and testing of new laser products. If requested, MST also supplies Side Firing or plain Fibers or Tips and includes their price in the "per case" fee.

We also plan to rent lasers, without an operator, to hospitals and surgery centers in other states on a month-to-month basis. When a surgeon is trained to perform a new procedure, such as our Laser procedures for treating an enlarged prostate or a herniated or ruptured disc in the spine, instead of waiting for his hospital or surgery center to purchase the Laser, the hospital or surgery center can rent it on a "per case" basis or for a fixed monthly rental.

When the hospital's or surgery center's staff has been trained and is comfortable with the patient results, the volume of patients and the amount third-party payors are reimbursing for the procedure, they can buy the Laser, lease it under a conventional, long term lease or continue to rent it. Since the six to twelve month average delay in purchasing "big ticket" medical equipment is eliminated, the hospital or surgery center can immediately start buying Fibers, Needles and Tips from us, which typically carry higher profit margins than our Lasers.

LICENSE AGREEMENTS

The Company has license agreements with a number of universities and inventors, under which royalties on sales, if any, are payable. Sales of products covered by these licenses are presently not material. Patent applications have been filed with the U.S. Patent Office and U.S. Patents covering certain of the Company's products have been issued to officers and employees of the Company, all of which have been assigned to the Company without royalty. The Company's patent applications are currently being processed by the U.S. Patent Office and, to the Company's knowledge, are proceeding in the normal course of review.

RESEARCH AND DEVELOPMENT

From its inception to September 30, 2009, an aggregate of $53,127,000 has been expended by the Company for research and development ("R&D"), including clinical and regulatory activities, of which $1,316,000 and $1,311,000 was expended during the fiscal years ended September 30, 2009 and 2008, respectively. As it has in the past, the Company expects to contract with unaffiliated hospitals and research institutions for the clinical testing of its developmental products.

MANUFACTURING AND SUPPLY AGREEMENTS

The Company believes that it has adequate engineering, design and manufacturing facilities (see "PROPERTIES" section herein).

The Company has supply agreements with several suppliers for components and materials used in the production of its products. However, the Company has no long-term volume commitments. The materials used in the Company's products, consisting primarily of certain plastics, optical fibers, lenses, various metal alloys, lasers and laser assemblies and components used in the manufacture of its lasers are, in most cases, available from several vendors. The Company has, on occasion, experienced temporary delays or increased costs in obtaining these

materials. An extended shortage of required materials and supplies could have an adverse effect upon the revenue and earnings of the Company. In addition, the Company must allow for significant lead time when procuring certain materials and supplies. Where the Company is currently using only one source of supply, the Company believes that a second source could be obtained within a reasonable period of time. However, no assurance can be given that the Company's results of operations would not be adversely affected until a new source could be located.

Resulting for a prior settled patent litigation with Lumenis, Inc. ("Lumenis"), Lumenis has agreed to pay a 7.5% royalty to us on their sales of certain side-firing and angled-firing devices manufactured by Lumenis or purchased by Lumenis from third-party suppliers. In addition, Lumenis agreed to purchase 75% of its Angled-Firing (60 degree to 75 degree firing) and 100% of its Side-Firing (75 degree to 90 degree) Devices from the Company under an OEM Supply Agreement. The OEM Agreement was executed on September 8, 2005, and the Company is developing a special version of its VaporMAX(TM) Side-Firing Device exclusively for Lumenis, under Lumenis' DuraMAX trademark, for use with Lumenis' Holmium lasers for their cleared indications for use, which include the treatment of benign prostatic hyperplasia or "BPH", commonly referred to as an enlarged prostate.

MARKETING

The principal markets for the Company's current products are hospitals with orthopedic, urology, ENT, gynecology, gastrointestinal, general surgery and other surgical operating room facilities, as well as outpatient surgery centers. In the United States, this market represents approximately 5,500 hospitals, as well as 1,000 or more outpatient surgery centers. Any new products the Company develops will, if cleared for sale by the FDA and marketed, be sold to hospitals and outpatient surgery centers, as well as to physicians for use in their offices. The Company anticipates marketing only those products which are customarily sold to the same customer groups to whom its Lasers and Fibers, Needles and Tips are presently marketed. There is no assurance as to the extent to which the Company will be able to penetrate these markets.

At September 30, 2009, the Company had marketing arrangements for the sale of its Lasers, Fibers, Needles and Tips with a limited number of straight commission sales representatives in the United States. Outside the United States, the Company sells its products through 23 independent distributors who sell various medical products in approximately 25 foreign countries. Our U.S. sales representatives and our foreign distributors devote only a portion of their time to selling our products. The Company presently employs a Vice President of Sales who directs the Company's sales activities in the United States and elsewhere.

The Company intends in the future to increase the number of domestic sales representatives and appoint additional distributors in foreign countries for the purpose of expanding sales of the Company's VaporMAX Fiber, its Side Firing Needles for treating spinal discs and other products. There is no assurance that the Company will be able to enter into marketing arrangements with any sales persons or distributors, as the Company is devoting limited resources to these activities, or that the Company will be able to maintain its existing selling arrangements.

GOVERNMENT REGULATION

All of the Company's products are, and will in the future, be subject to extensive governmental regulation and supervision, principally by the FDA and comparable agencies in other countries. The FDA regulates the introduction, advertising, manufacturing practices, labeling and record keeping of all drugs and medical devices. The FDA has the power to seize adulterated or misbranded devices, require removal of devices from the market, enjoin further manufacture

or sale of devices, and publicize relevant facts regarding devices.

Prior to the sale of any of its products, the Company is required to obtain marketing clearance or approval for each product from the FDA and comparable agencies in foreign countries. Extensive clinical testing of each product, which is both costly and time-consuming, may be required to obtain such approvals. The Company's business would be adversely affected if it were unable to obtain such approvals or to comply with continuing regulations of the FDA and other governmental agencies. In addition, the Company cannot predict whether future changes in government regulations might increase the cost of conducting its business or affect the time required to develop and introduce new products. The Company's facilities were inspected by the FDA in September 2008 and no deficiencies in the Company's compliance with the FDA's requirements were cited by the FDA.

Specific areas of regulation by the FDA and other related matters are described in detail below.

INVESTIGATIONAL DEVICE EXEMPTION

Before a new medical device may be used for investigational research in the United States, an Investigational Device Exemption ("IDE") application must be approved by the FDA. In order to obtain an IDE, the sponsor of the investigational research must first obtain approval for the research from an Institutional Review Board or Committee ("IRB") established for this purpose at the institution (e.g. hospital, medical center, etc.) at which the research is to be conducted.

510(k) PREMARKET NOTIFICATION

The procedure for obtaining clearance from the FDA to market a new medical device involves many steps, such as IDE's and PMA's (see "Premarket Approval"). However, if a device is substantially equivalent to a product marketed prior to May 28, 1976, or a comparable product subsequently cleared by the FDA under a 510(k) Premarket Notification, a 510(k) Premarket Notification may be filed to establish the device's equivalence. The FDA's review process can take three months or longer. However, if additional testing or data are requested by the FDA, it is common for the overall review process to be extended.

All of the Company's currently marketed lasers and fiber-optic laser energy delivery devices were cleared for sale under 510(k) Notifications. However, some or all of the new products the Company plans to develop may require extensive clinical trials and the filing of a PMA, which will entail substantially more cost over a significantly longer period of time.

PREMARKET APPROVAL

Under the Medical Device Amendments of 1976, all medical devices are classified by the FDA into one of three classes. A "Class I" device is one that is subject only to general controls, such as labeling requirements and good manufacturing practices ("GMP"). A "Class II" device is one that is subject to general controls and must comply with performance standards established by the FDA. A "Class III" device is one for which general controls and performance standards alone are insufficient to assure safety and effectiveness, unless the device qualifies for sale under a 510(k) Premarket Notification. Such devices require clinical testing to establish their safety and efficacy in treating specific diseases or conditions, and a Premarket Approval ("PMA"). Application for the intended use must be approved by the FDA before the device can be marketed in the United States. A device is generally classified as a Class I, II, or III

device based on recommendations of advisory panels appointed by the FDA.

The filing of a PMA Application entails a rigorous review by the FDA, which can take one year or longer, unless additional testing or data are requested by the FDA, in which case the review process can be considerably longer. The Company believes the majority of its urology, orthopedic and other surgical products can be cleared for sale pursuant to 510(k) Premarket Notifications, which in some cases may require limited clinical trials, although such cannot be assured.

There is no assurance that required PMA approvals or 510(k) clearances for any new products the Company may develop can be obtained or that 510(k) clearances for the Company's present products can be maintained. The failure to maintain 510(k) clearances for existing products or to obtain needed PMA approvals or 510(k) clearances for new products might have a material adverse effect on the Company's future operations.

INSPECTION OF PLANTS

The FDA also has authority to conduct detailed inspections of manufacturing plants, to determine whether or not the manufacturer has followed its GMP requirements, which are required for the manufacture of medical devices. Additionally, the FDA requires reporting of certain product defects and prohibits the domestic sale or exportation of devices that do not comply with the law. The Company's manufacturing facility was inspected by the FDA in September 2008 and no deficiencies in the Company's compliance with the FDA's requirements were cited by the FDA. The Company believes it is currently in compliance in all material respects with these regulatory requirements, and expects that the processes and procedures in place will satisfy the FDA, although such cannot be assured.

STATE REGULATION

Federal law preempts states or their political subdivisions from regulating medical devices. Upon application, the FDA may permit state or local regulation of medical devices which is either more stringent than federal regulations or is required because of compelling local conditions. To date, and to the best of the Company's knowledge, only California has filed such an application. On October 5, 1980, the FDA granted partial approval to such application, effective December 9, 1980. The California requirements which have been exempted from preemption have not had a materially adverse effect on the Company.

INSURANCE REIMBURSEMENT

To permit the users of the Company's products to obtain reimbursement under Federal health care programs such as Medicare, the Company may be required to demonstrate, in an application to the Centers for Medicare and Medicaid Services ("CMS"), at either the local or federal level or both, the safety and efficacy of its products and the benefit to patients therefrom which justify the cost of such treatment. Criteria for demonstrating such benefits are in the process of being defined by CMS, and there does not yet exist a clear method or requirement to receive approval for reimbursement. There is no assurance that such an application, if made, will be approved by CMS. Most private health insurance companies and state health care programs have standards for reimbursement similar to those of CMS. If an application for reimbursement of a product is not approved by CMS, private insurers and/or health care programs, marketing of such product would be adversely affected.

COST OF COMPLIANCE WITH FDA AND OTHER APPLICABLE REGULATIONS

The costs of complying with FDA and other governmental regulations prior to the sale of approved products are reflected mainly in the Company's R&D expenditures. The cost of first obtaining an IDE for a product and, after having developed a product which in the Company's view is safe and effective, obtaining a PMA approval therefore, as well as making the necessary application to CMS in order to establish insurance reimbursability for treatments utilizing such product, adds significantly to the cost of developing and bringing a product to market over what such cost would have been if such regulatory requirements did not exist.

Such regulatory requirements also lengthen the time which is required to develop and commence marketing a product. These delays increase the Company's R&D costs by (a) lengthening the time during which the Company must maintain and bear the carrying costs of a given research and development effort and (b) delaying the time when the Company can commence realizing revenues from sales of a product, during which time, however, the Company must nevertheless continue to bear administrative and overhead costs. It is, however, not possible for the Company to quantify or estimate in advance the direct and indirect costs of complying with such regulatory requirements, particularly since the expense and difficulty of such compliance can vary greatly, depending upon the nature of the product, its intended use, the technological success of the R&D effort and the results of clinical testing of its products.

To the extent applicable regulations require more rigorous testing than might otherwise be deemed necessary by the Company, the costs entailed in conducting testing of its products by such institutions (and fees or royalties, if any, payable to them) may be deemed in part a cost to the Company of compliance with such regulatory requirements.

EMPLOYEES

On September 30, 2009, the Company had 59 full-time employees, of whom 12 were employed by MST. Of the remainder, 36 were engaged in production and engineering, one in sales and marketing, and 10 in general and administrative functions. On September 30, 2009, the Company had five part-time employees of whom three were engaged in production and R&D, and two in general and administrative functions.

The Company may require additional employees in the areas of administration, product development, research, production, regulatory affairs, quality control, sales and marketing in the future. There is intense competition for capable, experienced personnel in the medical device and laser fields, and there is no assurance the Company will be able to obtain new qualified employees when required.

Management believes its relations with its employees are good.

PATENTS AND PATENT APPLICATIONS

As of September 30, 2009, the Company owned or had licenses to 19 U.S. Patents and 2 foreign and 6 U.S. patent applications. The validity of one of the U.S. Patents covering the Company's 80 watt Holmium Laser was challenged by a competitor in the U.S. in an action before the U.S. Patent and Trademark Office ("USPTO"). In December 1996, the USPTO upheld the validity of all of the claims of this Patent. There is no assurance that (a) any patents will be issued from the pending applications, (b) any issued patents will prove enforceable, (c) the Company will derive any competitive advantage therefrom or (d) that the Company's products may not infringe patents owned by others, licenses to which may not be available to the Company. To the extent that pending patent applications do not issue, the Company may be subject to more competition. There

can also be no assurance that the already patented products, methods and processes will be medically useful or commercially viable. The issuance of patents on some but not all aspects of a product may be insufficient to prevent competitors from essentially duplicating the product by designing around the patented aspects. The Company is obligated, under certain of its patent licenses, to make royalty payments. Part of the Company's R&D activities will be directed towards obtaining additional patent rights, which may entail future royalty and minimum payment obligations.

COMPETITION

The Company faces competition from a number of both small and large companies in the medical field. The larger companies include Medtronic, Inc., Johnson & Johnson, Boston Scientific, Inc., Lumenis, Inc., American Medical Systems Holdings, Inc., Olympus, Inc., and others, all of which have greater financial resources, R&D and manufacturing facilities, technical skills, management staffs and/or sales and marketing organizations than the Company's.

Among the smaller companies with which the Company competes are: Dornier, Inc., PhotoMedex, Inc., Lisa Lasers, Convergent, Inc. and others, certain of which are publicly held.

INSURANCE

The Company has a commercial general liability insurance policy, including an umbrella policy, providing coverage in the aggregate amount of $5,000,000 and a products liability insurance policy providing coverage in the amount per occurrence of $5,000,000. There is no assurance that such amounts of insurance will be sufficient to protect the Company's assets against claims by users of its products. Although there have been no successful claims against the Company, there is no assurance the Company will be able to maintain such liability insurance in force in the future at an acceptable cost, or at all, in which case the Company's assets would be at risk in the event of successful claims against it. Successful claims in excess of the amount of insurance then in force could have a serious adverse effect upon the Company's financial condition and its future viability. The Company does not carry director and officer liability insurance, but does have indemnification agreements covering its officers and directors.

FOREIGN OPERATIONS

In fiscal 2009 and 2008, sales of products in foreign countries accounted for approximately 25.2% and 24.6%, respectively, of the Company's total sales. See "Marketing" herein for information on the marketing of the Company's products in foreign countries.

ITEM 2. PROPERTIES

The Company currently occupies approximately 28,700 sq. ft, office, R&D, manufacturing and warehouse facility at 25901 Commercentre Drive, Lake Forest, CA 92630. The lease became effective April 1, 2006, and has a five-year term with two five-year renewal options. The lease agreement provides for rent of $29,251 per month through July 2009, and then for a 4% rental increase effective on August 2009.

The Company's subsidiary, MST, currently occupies approximately 1,500 square feet of office space in Dallas, Texas, which it leases at a rental of $1,688 per

month through August 2010.

Management considers all of its facilities to be well maintained and adequate for its purposes.

ITEM 3. LEGAL PROCEEDINGS

We are subject to various claims and actions that arise in the ordinary course of business. The litigation process is inherently uncertain, and it is possible that the resolution of any future litigation may adversely affect us.

The Company had no product liability lawsuits commenced againt it during the year ended September 30, 2009. The Company has insurance to cover product liability claims. This insurance provides the Company with $5,000,000 of coverage for each occurrence with a general aggregate coverage of $5,000,000. Trimedyne's liability is limited to a maximum of $50,000 per occurrence unless the judgment against the Company exceeds the $5,000,000 insurance coverage. In such case, Trimedyne would be liable for any liability in excess of $5,000,000.

In February, 2008, we and six other laser manufacturers were sued in the district court of Massachusetts by CardioFocus, Inc., alleging infringement of three of their now expired U.S. Patents, which limits their claim for royalties to six years from their date of expiration. We and two other laser companies joined in a petition to the U.S. Patent & Trademark Office ("USPTO") to re-examine these patents and declare them invalid. The other four defendants likewise individually requested a re-examination of these patents and a declaration of invalidity by the USPTO. The court issued a stay of the proceedings until October 14, 2009. On October 14, 2009, the defendents (including Trimedyne) sought to extend the stay of the proceedings until October 14, 2010, or until the reexamination proceedings have concluded for all three patents-in-suit, whichever is sooner. CardioFocus has opposed the defendant's motion and, as of this filing, we have not received any determination from the court.

No amount of monetary or other damages is stated in CardioFocus's preliminary case filings and, because the patents are expired, CardioFocus is not entitled to anything other than monetary damages. We have not established a reserve for any damages in the event these patents are finally declared valid by the USPTO in a non-appealable decision.

In the event the litigation is restarted, the Company will defend itself vigorously.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the Company's quarter ended September 30, 2009, no matters were submitted to a vote of securities holders.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

A. MARKET INFORMATION

Since November 18, 2003, the Company's Common Stock has been quoted on the Over-The-Counter Bulletin Board under the symbol "TMED." The following table sets forth the high and low closing sales prices for the Common Stock for each quarterly period within the Company's two most recent fiscal years:

2008	High	Low
Quarter ended:		
December 31, 2007	$ 0.89	$ 0.60
March 31, 2008	0.62	0.33
June 30, 2008	0.48	0.33
September 30, 2008	0.33	0.21

2009	High	Low
Quarter ended:		
December 31, 2008	$ 0.22	$ 0.08
March 31, 2009	0.29	0.13
June 30, 2009	0.26	0.18
September 30, 2009	0.49	0.20

Such over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

B. HOLDERS OF COMMON STOCK

As of September 30, 2009, there were approximately 1,000 holders of record of the Company's Common Stock and an estimated 9,000 additional holders who maintain the beneficial ownership of their shares in "Street Name".

C. DIVIDENDS

The Company has never paid cash dividends on its Common Stock, and does not anticipate paying cash dividends in the foreseeable future. Any future determination as to the payment of cash dividends will be dependent upon the Company's financial condition and results of operations and other factors then deemed relevant by the Board of Directors.

D. SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table provides information as of September 30, 2009 with respect to shares of the Company's common stock that may be issued through its employee compensation plans:

	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	NUMBER OF SECURITIES REMAINING AVAILABLE FOR FUTURE ISSUANCE UNDER EQUITY COMPENSATION PLANS (EXCLUDING SECURITIES REFLECTED IN COLUMN (a))

PLAN CATEGORY	(a)	(b)	(c)
Equity compensation plans approved by security holders	168,329	$ 1.42	--
Equity compensation plans not approved by security holders	1,348,450	$ 1.12	963,100
Total	1,516,779	$ 1.15	963,100

Recent Sales of Unregistered Securities

None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

ITEM 6. SELECTED FINANCIAL DATA - N/A

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OFF-BALANCE SHEET ARRANGEMENTS

None.

CRITICAL ACCOUNTING POLICIES

REVENUE RECOGNITION AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Company's revenues include revenues from the sale of delivery and disposable devices, the sale and rental of laser equipment and accessories, and service contracts for lasers manufactured by the Company.

In accordance with Staff Accounting Bulletin 104, "Revenue Recognition," the Company recognizes revenue from products sold once all of the following criteria for revenue recognition have been met: (i) persuasive evidence that an arrangement exists, (ii) the products have been shipped, (iii) the prices are fixed and determinable and not subject to refund or adjustment, and (iv) collection of the amounts due is reasonably assured.

Revenues from the sale of Lasers, Fibers, Needles and Tips are recognized upon shipment and passage of title of the products, provided that all other revenue recognition criteria have been met. Generally, customers are required to insure the goods from the Company's place of business. Accordingly, the risk of loss transfers to the customer once the goods have been shipped from the Company's warehouse. The Company sells its products primarily through commission sales

representatives in the United States and distributors in foreign countries. In cases where the Company utilizes distributors, it recognizes revenue upon shipment, provided that all other revenue recognition criteria have been met, and ownership risk has transferred. In general, the Company does not have any post shipment obligations such as installation or acceptance provisions. All domestic Lasers are sold with a one year warranty which includes parts and labor. All international Lasers are sold with a one year parts only warranty. As each Laser sale is recognized, a liability is accrued for estimated future warranty costs.

The Company utilizes distributors for international sales only. All Lasers sales are non-returnable. Our international distributors typically locate customers for Lasers before ordering and in general do not maintain inventories. The Company's return policy for Laser accessories, delivery and disposable devices sold to distributors is as follows: 1) The Company will accept returns of any unopened, undamaged, standard catalogue items (except laser systems) within sixty (60) days of invoice date. Acceptable returned products will be subject to a 20% restocking fee, 2) A return authorization number is required for all returns. The number can be obtained by contacting the Customer Service Department, and 3) Should a product be found defective at the time of initial use, the Company will replace it free of charge.

The Company offers service contracts on its Lasers. These service contracts are offered at different pricing levels based on the level of coverage, which include periodic maintenance and different levels of parts and labor to be provided. Since the service contracts have a twelve-month term, the revenue of each service contract is deferred and recognized ratably over the term of each service contract.

Trimedyne rents its Lasers for a flat monthly charge for a period of years or on a month-to-month basis, or on a fee per case basis, sometimes with a minimum monthly rental fee. During the fiscal years ended September 30, 2009 and 2008, two Lasers, respectively, were being rented by Trimedyne, each on a month-to-month basis. For these lasers, rental revenue is recorded ratably over the rental period. MST generally enters into rental service contracts with customers for a two year period which, unless cancelled, are renewed on an annual basis after the initial period. During the rental service contract period customers do not maintain possession of any rental equipment unless it is for the Company's convenience. Customers are billed on a fee per case basis for rentals, which includes the services of the laser operator and, in some cases, the use of a reusable or single use laser delivery device. Revenue from these rental service contracts is recognized as the cases are performed.

Allowances for doubtful accounts are estimated based on estimates of losses related to customer receivable balances. Estimates are developed based on historical losses, adjusting for current economic conditions and, in some cases, evaluating specific customer accounts for risk of loss. The establishment of reserves requires the use of judgment and assumptions regarding the potential for losses on receivable balances. Though we consider these balances adequate and proper, changes in economic conditions in specific markets in which we operate could have a material effect on reserved balances required. Our credit losses in 2009 and 2008, were less than one percent of revenues.

INVENTORIES

Inventories consist of raw materials and component parts, work in process and

finished Lasers. Inventories are recorded at the lower of cost or market, cost being determined principally by use of the average-cost method, which approximates the first-in, first-out method. Cost is determined at the actual cost for raw materials, and at production cost (materials, labor and indirect manufacturing overhead) for work-in-process and finished goods.

Laser units located at medical facilities for sales evaluation and demonstration purposes or those units used for development and medical training are included in inventory since the lasers will ultimately be sold. These units are written down to reflect their net realizable values.

We write-down our inventory for estimated obsolescence equal to the net realizable value of the obsolete inventory. Product obsolescence may be caused by changes in technology discontinuance of a product line, replacement products in the marketplace or other competitive situations. We maintain a reserve on inventories that we consider to be slow moving or obsolete, to reduce the inventory to their net estimated realizable value. Once specific inventory is written-down, the write-down is permanent until the inventory is physically disposed of.

GOODWILL

We account for goodwill and acquired intangible assets in accordance with ASC No. 350 "Intangible Goodwill and Other", 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. We have one reporting unit, our service and rental group, to which goodwill is assigned.

ASC No. 350 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, we 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, we 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, we determined there was no impairment of the goodwill as of September 30, 2009.

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets, such as property and equipment and purchased intangibles

subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the asset is measured by comparison of its carrying amount to undiscounted future cash flows the asset is expected to generate. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the asset exceeds its fair market value. Estimates of expected future cash flows represent our best estimate based on currently available information and reasonable and supportable assumptions. Any impairment recognized is permanent and may not be restored. To date, we have not recognized any impairment of long-lived assets.

DEFERRED TAXES

We record a valuation allowance to reduce the deferred tax assets to the amount that is more likely than not to be realized. We have considered estimated future taxable income and ongoing tax planning strategies in assessing the amount needed for the valuation allowance. Based on these estimates, all of our deferred tax assets have been reserved. If actual results differ favorably from those estimates used, we may be able to realize all or part of our net deferred tax assets. Such realization could positively impact our operating results and cash flows from operating activities.

STOCK-BASED COMPENSATION

We account for equity based compensation under the provisions of ASC No. 718, "Compensation, Stock Compensation" ("ASC 718"). ASC 718 requires the recognition of the fair value of equity-based compensation in operations. The fair value of our stock option awards are estimated using a Black-Scholes option valuation model. This model requires the input of highly subjective assumptions and elections including expected stock price volatility and the estimated life of each award. In addition, the calculation of equity-based compensation costs requires that we estimate the number of awards that will be forfeited during the vesting period. The fair value of equity-based awards is amortized over the vesting period of the award and we elected to use the straight-line method for awards granted after the adoption of ASC 718.

RISKS AND UNCERTAINTIES

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.

CONSOLIDATED RESULTS OF OPERATIONS FOR FISCAL YEARS 2009 AND 2008

The following table sets forth certain items in the consolidated statements of income as a percentage of net revenues for the years ended September 30, 2009 and 2008:

	Year Ended September 30,	
	2009	2008
	------	------

Net revenues	100.0%	100.0%
Cost of sales	62.5	70.9
Selling, general and administrative expenses	36.1	40.4
Research and development expenses	17.7	22.3
Interest expense	0.6	0.6
Other income, net	4.5	6.8
Income taxes	0.4	0.2
Net loss	(12.2)	(27.0)

NET REVENUES

Net revenues increased $1,551,000 or 26.4% in fiscal 2009 to $7,422,000 from $5,871,000 in fiscal 2008. Net sales from Lasers and accessories increased by $488,000 or 43.8% to $1,599,000 during the fiscal year ended September 30, 2009 from $1,111,000 during the prior fiscal year, primarily due to international sales. Sales from Fibers, Needles and Tips increased by $398,000 or 14.6% to $3,119,000 during the current fiscal year ended September 30, 2009 from $2,721,000 during the prior fiscal year. The increase in sales from Fibers, Needles and Tips was primarily due an increase in Needles and Tips sold for use in spinal procedures. International export revenues increased $425,000 or 29.4% to $1,869,000 during fiscal 2009 from $1,444,000 during fiscal 2008 primarily due to sales in foreign countries where our products are sold through non-stocking distributors who are paid commissions, resulting in higher invoiced prices offset by commissions and customers taking advantage of volume discount pricing for lasers. Net revenues from "per case" rentals and field service and rental increased by $665,000 or 32.6% in fiscal 2009 to $2,704,000 from $2,039,000 in fiscal 2008, primarily due to an increase in per case revenues from MST as a result of the addition of sales personnel and the expansion of its service business.

COST OF GOODS SOLD

Cost of sales in fiscal 2009 was approximately 63% of net revenues, compared to 71% in fiscal 2008. Gross profit from the sale of lasers and accessories was 23% in the fiscal year ended September 30, 2009 as compared to 6% for the prior year fiscal period, primarily due to sales in foreign countries where product is sold through non-stocking distributors who are paid commissions, resulting in higher margins offset by commissions. Gross profit from the sale of Fibers, Needles and Tips during the fiscal year ended September 30, 2009 was 43% as compared to 41% for the prior fiscal year period. The increase in gross profit was primarily the result of a volumizing difference due to a higher production of units created by the 14.6% increase in sales of delivery systems during the current year as compared to the prior year offset by a non-recurring year-end adjustment of $54,000 to reserve obsolete and slow moving inventory. Gross profit from revenue received from service and per case rentals was 41% in the current fiscal year as compared to 26% for the prior fiscal year period. The higher gross profit for the current year 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 per case rate.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative ("SG&A") expenses increased 13% to $2,683,000 in fiscal 2009, compared to $2,373,000 in fiscal 2008. The $310,000

increase in fiscal 2009 was primarily the result of increases in commission expense of $196,000, $38,000 in administrative payroll expense, $30,000 in bonus expense for MST, $43,000 in temporary administrative staff, $25,000 in professional fees, $21,000 in bad debt expense and property expense of $5,000, and $18,000 in depreciation and amortization, offset by decreases in legal expense of $30,000, sales tax expense of $10,000 recruiting expense of $12,000, stock-based compensation of $15,000.

RESEARCH AND DEVELOPMENT (R&D) EXPENSES

R&D expenses increased $5,000 or 0.4% to $1,316,000 in fiscal 2009, compared to $1,311,000 in fiscal 2008. R&D as a percentage of net revenues decreased to 17.7% of net revenues in fiscal 2009 as compared to 21.8% in fiscal year 2008. R&D spending in fiscal 2009 was higher as we are nearing the completion of our product development efforts in readying its new Side-Firing Fibers for use with its Lasers and Lumenis' Holmium Lasers.

OTHER INCOME AND EXPENSE

Total other income, net decreased $66,000 or 16.5% to $333,000 in fiscal 2009 from $399,000 in fiscal 2008. Interest income decreased by $40,000 or 75.5% to $13,000 in fiscal 2009 compared to $53,000 in fiscal 2008. The levels of cash available for investment in interest bearing securities were $1,621,000 and $2,007,000 as of September 30, 2009 and 2008, respectively. The decrease in interest income was due to our decrease in the levels of cash available for investment in interest bearing securities due to negative cash flows along with lower interest rates paid by institutions during fiscal 2009. Income from royalties decreased $79,000 or 21% to $295,000 in fiscal 2009 from $374,000 in fiscal 2008. This decrease was due to royalties received from Lumenis based on a percentage of Lumenis' sales of side-firing and angled-firing devices manufactured by Lumenis, as stipulated in the settlement agreement entered into on November 17, 2003 between Lumenis, Inc. and us. During the fiscal year ended September 30, 2009 and 2008, the Company incurred a gain from the sale of assets of $12,000 and a loss from the sale of assets of $17,000, respectively. During the current fiscal year, we accrued a provision for state income tax of $20,000 for MST.

NET LOSS

As a result of the above, the net loss in fiscal 2009 was $909,000, compared to a net loss of $1,590,000 in fiscal 2008.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows

In fiscal 2009, net cash used in operating activities was $54,000, as compared to net cash used of $878,000 in fiscal 2008. Net cash used in investing activities was $136,000 in fiscal 2009, compared to net cash used of $143,000 in fiscal 2008. The increase in cash used in investing activities in fiscal 2009 as compared to fiscal 2008 was primarily due to the purchasing of additional equipment. Net cash used in financing activities during fiscal 2009 and 2008 was $196,000 and $151,000, respectivley, for payments on debt comprising of equipment leases and financed insurance premiums.

Liquidity and Management's Plans

At September 30, 2009, we had working capital of $3,772,000 compared to $4,625,000 at the end of the previous fiscal year ended September 30, 2008. Cash decreased by $386,000 to $1,621,000 at September 30, 2009 from $2,007,000 at the fiscal year ended September 30, 2008. We believe that existing cash flows are sufficient to fund operations through September 30, 2010; however, we have

incurred losses from operations for the past two years. There can be no assurance that we will be able to maintain or achieve sales growth in the next 12 months, or that the Company will be profitable. Thus, it is possible that additional working capital in the next 12 months may be required. If necessary, we will raise additional debt and/or equity capital, sell some of our assets, reduce our costs by eliminating certain personnel positions and reducing certain overhead costs in order to fund operations. There is no assurance that our efforts to do so will be successful.

Recently Issued Accounting Standards

In May 2009, the FASB issued ASC 855 "Subsequent Events" (formerly SFAS No. 165, Subsequent Events). FASB ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. ASC 855 is effective for interim and annual financial periods ending after June 15, 2009. The Company adopted ASC 855 during the nine months ended June 30, 2009. The Company evaluated subsequent events through the issuance date of the financial statements, January 13, 2010, and has disclosed the events identified within this filing.

In June 2009, the FASB issued ASC 105 "Generally Accepted Accounting Principles" (formerly SFAS No. 168 The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162). ASC 105 establishes the FASB Accounting Standards Codification as the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. ASC 105, which changes the referencing of financial standards, is effective for interim or annual financial periods ending after September 15, 2009. The Company adopted ASC 105 during the fiscal year ended September 30, 2009 with no impact to its financial statements, except for the changes related to the referencing of financial standards.

In April 2008 the FASB issued FASB Staff Position No. FAS 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP 142-3"). This pronouncement 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 Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("FAS 142"). This pronouncement aims to improve the consistency between the useful life of a recognized intangible asset under FAS 142 and the period of expected cash flows used to measure the fair value of the asset under FAS 141(R). The provisions of FSP 142-3 were incorporated into the Codification within ASC Subtopic 350-30 "General Intangibles other than Goodwill" and are effective for fiscal years beginning after December 15, 2008. The Company is currently in the process of determining the impact that adoption of this Statement will have on its financial statements.

Effective October 1, 2009, the Company will adopte the provisions of Emerging Issues Task Force 07-5, "Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock" ("EITF 07-5"), which has been codified into ASC 815 . The guidance applies to any freestanding financial instruments or embedded features that have the characteristics of a derivative, as defined by SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," (which was codified into ASC 815) and to any freestanding financial instruments that are potentially settled in an entity's own common stock. The guidance is expected to have an impact on the Company's financial statements and position due to certain warrants in which the exercise price resets upon certain events.

The Company is currently evaluating the impact of the adoption.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements required by Item 8 of this Annual Report are set forth in the index on page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

Item 9A(T). Controls and Procedures

Disclosure Controls and Procedures

Our management has evaluated, under the supervision and with the participation of our chief executive officer and chief 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 within the time periods specified in the Securities and Exchange Commission's rules and forms, 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.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of September 30, 2009, based on the criteria set forth in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under such criteria, our management concluded that our internal control over financial reporting was effective as of the fiscal year ended September 30, 2009.

This Annual Report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. We were not required to have, nor have we engaged our independent registered public accounting firm to perform, an audit on our internal control over financial reporting pursuant to the rules of the Securities and Exchange Commission that permit us to provide only management's report in this Annual Report.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the fourth quarter of fiscal 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

DIRECTORS AND EXECUTIVE OFFICERS

The following persons served as our officers and directors in fiscal 2009.

Name	Age	Position
Marvin P. Loeb	83	Chairman and CEO
Glenn D. Yeik	42	President, COO, and Director
Brian T. Kenney	53	V.P. - Global Sales and Marketing
Donald Baker	80	Director

MARVIN P. LOEB has been a director of our Company since 1980, Chairman of the Board since March 1981, Chief Executive Officer from April 1991 to November 2000 and since July 2001. He has been the Chairman of the Board of Cardiodyne, Inc. (formerly Trioptic Laser, Inc., a 90% owned, inactive subsidiary of the Company) since May 1992. Since May 1986, he has been Chairman, CEO and a director of Cardiomedics, Inc., a privately held company which developed and is marketing a circulatory assist device. Since November 1988, he has been Chairman of Ultramedics, Inc., a privately held company whose principal interest is its investment in Cardiomedics, Inc. Mr. Loeb has been President of Master Health Services, Inc., a family held medical consulting firm, since 1973, and Marvin P. Loeb and Company, a family held patent licensing firm, since 1983. Mr. Loeb holds an honorary Doctor of Science Degree from Pacific States University and a Bachelor of Science Degree from the University of Illinois.

GLENN D. YEIK has been our President, Chief Operating Officer, and Director since September 2003. Since October 2004, he has been a Director of Cadiomedics, Inc., a privately held company which developed and is marketing a circulatory assist device. Before September 2003, he was our Executive Vice President from April 2002 to September 2003 and Vice President Product Development from March 2000 to April 2002 to September 2003. Mr. Yeik was Manager and Director of Electronic Systems at AngioTrax, Inc. from May 1998 to March 2000. He was our Manager, Laser Engineering from May 1994 to May 1998 and our Senior Electrical Engineer from July 1992 to May 1994. Before joining Trimedyne, Mr. Yeik was a Software Engineer at Cardiac Science, Inc. from June 1991 to July 1992. Mr. Yeik received a Bachelor of Science of Engineering Degree in Electrical Engineering from LeTourneau University. Mr. Yeik is Mr. Loeb's son-in-law.

BRIAN T. KENNEY has been our Vice President of Sales and Marketing since January 2000. Mr. Kenney had been our Director of International Sales from January 1999 to January 2000. Before joining Trimedyne, Mr. Kenney held sales and sales management positions with Exogen, a division of Smith & Nephew from April 1996

to November 1999, U.S. Surgical Corporation from January 1982 to December 1984, Stryker Corporation/Endoscopy Division from May 1988 to December 1992, and Surgical Laser Technologies from January 1993 to February 1996. Mr. Kenney is a graduate of the University of Oklahoma with a Bachelors Degree in Business Administration in Marketing and Finance.

DONALD BAKER has been a director of our Company since May 1983. He also has been a director of Cardiodyne, Inc. since August 1996. Mr. Baker retired after 39 years as a partner of the law firm of Baker & McKenzie. He holds a J.D.S. degree from the University of Chicago Law School. Mr. Baker was a Director of the management committee of the Mid-America Committee of Chicago for many years, a director of various medical technology companies and is currently on the board of Cardiomedics, Inc., of Irvine, CA. He is a member of the Chicago and American Bar Associations.

Family Relationships

Our director Glenn Yeik is the son-in-law of our Chairman Marvin Loeb. Other then the foregoing, there are no family relationships among the individuals comprising our board of directors, management and other key personnel.

Involvement in Certain Legal Proceedings

During the past five years, none of the following have occurred that are material to an evaluation of the ability or integrity of any director, person nominated to become a director, executive officer, promoter or control person of the Company:

1. Any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;

2. Any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);

3. Being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; and

4. Being found by a court of competent jurisdiction (in a civil action) , the Commission or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated.

Compliance With Section 16(a) of the Exchange Act

Section 16(a) of the Exchange Act requires "insiders," including our executive officers, directors and beneficial owners of more than 10% of our common stock, to file reports of ownership and changes in ownership of our common stock with the Securities and Exchange Commission and to furnish us with copies of all Section 16(a) forms they file. Based solely on our review of the copies of such forms received by us, or written representations from reporting persons, we

believe that our insiders complied with all applicable Section 16(a) filing requirements during 2008.

Changes to Nominating Process

There have been no changes to the nominating process or adoption of procedures by which security holders may recommend nominees to our board of directors.

Audit Committee

Don Baker is our Audit Committee member and non-board member. Mr. Baker is an "audit committee financial expert" in accordance with SEC rules. Because we are not a listed issuer, members of our Audit Committee are not subject to the independence requirements of any national securities exchange or association.

REPORT OF THE AUDIT COMMITTEE

The following Report of the Audit Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent we specifically incorporate this Report by reference therein.

The Audit Committee of the Board of Directors operates pursuant to a written charter. Our Audit Committee charter is available on our website, www.trimdeyne.com. The Committee met once and acted by unanimous written consent during fiscal 2009 to fulfill its responsibilities. To ensure independence, the Audit Committee also meets separately with the Company's independent registered public accounting firm and members of management. The sole member of the Audit Committee is a non-employee, non-board member and satisfies the SEC requirements with respect to independence, financial sophistication and experience.

The role of the Audit Committee is to oversee the Company's financial reporting process on behalf of the Board of Directors. Management of the Company has the primary responsibility for the Company's consolidated financial statements as well as the Company's financial reporting process, principles and internal controls. The independent registered public accounting firm is responsible for performing an audit of the Company's financial statements and expressing an opinion as to the conformity of such consolidated financial statements with generally accepted accounting principles.

In this context, the Audit Committee has reviewed and discussed the audited financial statements of the Company as of and for the year ended September 30, 2009, with management and the independent registered public accounting firm. These reviews included discussion with the outside independent registered public accountants of matters required to be discussed pursuant to Statement on Auditing Standards No. 61 (Communication with Audit Committees). In addition, the Audit Committee has received the written disclosures required by PCAOB Rule 3526, and it has discussed with the independent registered public accountants its independence with respect to the Company.

Based on the reports and discussions described above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2009, for filing with the Securities and Exchange Commission.

/s/ Don Baker
December 31, 2009

Other Committees

The Board intends to appoint such persons and form such committees as are

required to meet the corporate governance requirements imposed by the national securities exchanges. Therefore, we intend that a majority of our directors will eventually be independent directors and at least one director will continue to qualify as an "audit committee financial expert." Additionally, the Board is expected to appoint a nominating committee and compensation committee, and to adopt charters relative to each such committee. Until further determination by the Board, the full Board will undertake the duties of the compensation committee and nominating committee.

Code of Ethics

We have formally adopted a written code of ethics that applies to our board of directors, principal executive officer, principal financial officer and employees; it can be found on our website at www.trimedyne.com.

Compliance With Section 16(A) of the Exchange Act

Not applicable.

ITEM 11. EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

All executives are employed as salaried employees on an "at-will" basis. The issuance of all bonuses, stock and option awards are discretionary and are approved by the Board of Directors. No bonuses, stock, or option awards were granted to executive officers during the fiscal year ended September 30, 2009.

Our company does not provide its executives with perquisites and does not have any deferred compensation programs or retirement programs other than our 401(k) plan, which is generally available to all employees. All of our full-time employees are eligible to enroll in our health, dental and life and disability insurance programs.

The following table sets forth the information required by Securities and Exchange Commission Regulation S-B Item 402 as to the compensation paid or accrued by us for the years ended September 30, 2009 and 2008 for services rendered in all capacities, by all persons who served as our executive officers who earned more than $100,000 in combined salary, stock option awards and other compensation in fiscal 2009:

Name and Principal Position	Year	Salary ($)	Option Awards ($)(2)	All Other Compensation ($)(3)	Total ($)
Marvin P. Loeb.....	2009	$ 121,257	0	$ 6,996	$ 128,253
CEO and Chairman	2008	$ 121,257	0	$ 6,996	$ 128,253
Glenn D. Yeik.....	2009	$ 159,135	0	$ 21,421	$ 180,556
COO, President, and Director	2008	$ 159,135	14,110	$ 18,240	$ 195,035
Brian T. Kenney, V.P.....	2009	$ 120,000	0	$ 105,954	$ 225,954
	2008	$ 120,000	0	$ 86,234	$ 206,234

(1) Amounts shown include cash and non-cash compensation earned and received by

our executive officers.

(2) This column represents the dollar amount recognized for financial statement reporting purposes with respect to the 2009 and 2008 fiscal year for the fair value of stock options granted to the named executive officers in accordance with ASC 718. We did not grant awards to named executive officers in fiscal 2009 or 2008. For additional information on the valuation assumptions used by us in calculating these amounts refer to Note 2 to Consolidated Financial Statements incorporated by reference in this Form 10-K. The amounts reported in the Summary Compensation Table for these awards may not represent the amounts the named executive officers will actually realize from the awards. Whether and to what extent, a named executive officer realizes value will depend on stock price fluctuations and the named executive officer's continued employment. Additional information on all outstanding awards is reflected in the Outstanding Equity Awards at 2009 Fiscal Year-End table.

(3) Amounts of Other Compensation shown for the above listed officers include the cost of (i) car allowances and expenses and (ii) costs to us of 401(k) matching contributions (iii) accrued vacation and (iv)commissions.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END

	Option Awards				
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date
Marvin P. Loeb	30,000			1.25	4/04/2011
	48,000			2.75	4/18/2010
Glenn D. Yeik	50,000			0.14	1/14/2013
	22,000			0.50	8/13/2013
	30,000			0.50	4/15/2012
	75,000			0.60	4/15/2015
	100,000			0.92	3/31/2016
	25,000			1.25	4/04/2011
	48,000			3.84	3/20/2010
Brian T. Kenney	20,000			0.50	4/15/2012
	50,000			1.25	4/04/2011
	15,000			2.75	4/18/2010

None of Messrs. Loeb, Yeik, or Kenney exercised any options during fiscal year 2009.

DIRECTOR COMPENSATION IN FISCAL YEAR 2008 AND 2009

Each non-employee director who is appointed to the committee to administer our 2003 Non-Qualified Stock Option Plan (the "Committee") is entitled to a grant of 30,000 options to purchase shares every three years, beginning the day the director is so appointed, for so long as he or she serves on the Committee. The options vest in equal amounts over three years.

DIRECTOR COMPENSATION FISCAL YEAR 2008

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($) (1)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensatio ($)
Donald Baker			10,172			

Mr. Baker did not exercise any options during fiscal year 2008

1) This column represents the dollar amount recognized for financial statement reporting purposes with respect to the 2008 fiscal year for the fair value of stock options granted to directors, in 2008 as well as prior years, in accordance with SFAS 123R. Portions of awards granted over several years are included. For additional information on the valuation assumptions used by the Company in calculating these amounts refer to Note 2 to Consolidated Financial Statements incorporated by reference in this Form 10-K. The amounts reported in the Summary Compensation Table for these awards may not represent the amounts the directors will actually realize from the awards. Whether and to what extent, a director realizes value will depend on stock price fluctuations and the director's continued service on the Board.

No such grants were given during the fiscal year ended September 30, 2009.

Compensation Committee Interlocks and Insider Participation

During 2009, we did not have a compensation committee or another committee of the board of directors performing equivalent functions. Instead the entire board of directors performed the function of compensation committee. Our board of directors approved the executive compensation, however, there were no deliberations relating to executive officer compensation during 2009.

Compensation Committee Report

None.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth the name of and address of each beneficial owner of more than five percent of the Company's Common Stock known to the Company, each director of the Company, each named executive officer, and all directors and executive officers as a group, the number of shares beneficially owned by such persons as of September 30, 2009 and the percent of the class so owned. In computing the number of shares beneficially owned by a person and the percentage of ownership of that person, shares of common stock subject to options held by that person that are currently exercisable, as appropriate, or will become exercisable within 60 days of the reporting date are deemed outstanding, even if they have not actually been exercised. Those shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of any other person.

Each person named in the table has sole investment and sole voting power with respect to the shares of Common Stock set forth opposite his name, except as otherwise indicated. All shares are directly owned or are held for the stockholder in street name, except as otherwise indicated.

TITLE OF CLASS	NAME AND ADDRESS OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP
	MAJOR SHAREHOLDERS	
Common Stock $.01 Par Value	Marvin P. Loeb, Chairman & CEO (1) 25901 Commercentre Drive Lake Forest, CA 92630	2,555,028
	Corsair Capital, LLC. (6) 717 Fifth Avenue, 24 Floor New York, NY 10022	1,140,000
	Seth Hamot and his associates c/o Costa Brava Partnership III L.P. 420 Boylston Street Boston, MA 02116	1,013,536
	Bruce J. Haber and his associates 145 Huguenot Street, Suite 405 New Rochelle, NY 10801	931,653
	OTHER DIRECTORS AND EXECUTIVE OFFICERS	
	Donald Baker, Director (2) 544 Earlston Road Kenilworth, IL 60043	110,000
	Glenn D. Yeik, Pres. COO (3)(5)	580,351
	Brian T. Kenney, V.P. (4)(5)	120,000
	All Directors and Executive Officers as a Group (5 persons)	3,334,375

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* Indicates less than 1%

(1) Consists of 2,555,028 Shares owned by Mr. Loeb and his wife, adult children, grandchildren and trusts for their benefit, of which Mr. Loeb is

not a beneficiary, and Options to purchase 78,000 Shares.
(2) Consists of 50,000 Shares and Options to purchase 40,000 Shares.
(3) Consists of 230,351 Shares, and Options to purchase 350,000 Shares.
(4) Consists of 35,000 Shares and Options to purchase 85,000 Shares.
(5) Address is 25901 Commercentre Drive Lake Forest, CA 92630
(6) Consists of Shares owned by funds managed by Corsair Capital, LLC.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

During the prior fiscal year ended September 30, 2008, we incurred $7,600 of legal services with a Director, of which $3,800 was paid during the that fiscal year.

During the fiscal year ended September 30, 2009, no such transactions occurred.

Director Independence

Presently, we are not required to comply with the director independence requirements of any securities.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Principal Accountant Fees And Services

The following table sets forth fees billed to us by our Independent Registered Public Accounting Firm during the fiscal years ended September 30, 2009 and September 30, 2008 for: (i) services rendered for the audit of our annual financial statements and the review of our quarterly financial statements, (ii) services by our auditors that are reasonably related to the performance of the audit or review of our financial statements and that are not reported as Audit Fees, (iii) services rendered in connection with tax compliance, tax advice and tax planning, and (iv) all other fees for services rendered. "Audit Related Fees" consisted of consulting regarding accounting issues. "All Other Fees" consisted of fees related to the issuance of consents for our Registration Statements and this Annual Report.

		September 30, 2009	2008
(i)	Audit Fees	35,000	42,900
(ii)	Audit Related Fees	24,000	30,750
(iii)	Tax Fees	8,500	7,250
(iv)	All Other Fees	1,700	37,622

During the fiscal year ended September 30, 2009, dbbMckennon billed $16,000 in "Audit Fees" which arte included above. All other amounts disclosed were billed by McKennon Wilson & Morgan.

POLICY ON AUDIT COMMITTEE PRE-APPROVAL OF AUDIT AND PERMISSIBLE NON-AUDIT SERVICES OF INDEPENDENT AUDITOR

The audit committee is responsible for pre-approving all audit and permitted

non-audit services to be performed for us by our independent registered public accounting firm.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENTS SCHEDULES

(a) Financial Statements.

See "Index to Consolidated Financial Statements" included in this report at Page F-1.

(b) Exhibits

Filed Previously:

10(b) Development, Supply and License Agreement with C.R. Bard, Inc., dated June 28, 1991.

10(c) Industrial Lease (for Barranca Parkway headquarters) with Griswold Controls dated June 19, 1991, and Addendum thereto dated July 1, 1991.

10(d) Patent Licensing Agreement with Royice B. Everett, M.D. (covering the Lateralase Catheter) dated April 1, 1988 as amended.

10(f) Addendum to Industrial Lease with Griswold Controls dated September 14, 1993

10(i)* Amendment to Development Supply and License Agreement with C.R. Bard dated June 14, 1994.

10(j) Industrial Lease (for Bake Parkway headquarters) with Buckhead Industrial Properties, Inc, dated October 25, 2000.

10(k) Industrial Lease effective July 26, 2005

21.1 Subsidiaries
31.1 Rule 13a-14(a)/ 15d-14(a) Certification
31.2 Rule 13a-14(a)/ 15d-14(a) Certification
32.1 Certification Pursuant to 18 U.S.C. section 1350
32.2 Certification Pursuant to 18 U.S.C. section 1350

* The Company requested and received confidential treatment for portions of those exhibits marked with an asterisk (*).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Trimedyne, Inc.

Date: January 13, 2010 /s/ Marvin P. Loeb

Marvin P. Loeb,

Chairman, and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Marvin P. Loeb Marvin P. Loeb	Chairman of the Board of Directors & CEO	January 13, 2010
/s/ Glenn D. Yeik Glenn D. Yeik	President, COO Director	January 13, 2010
/s/ Donald Baker Donald Baker	Director	January 13, 2010
/s/ Jeffrey S. Rudner Jeffrey S. Rudner	Treasurer & Principal Accounting Officer	January 13, 2010

TRIMEDYNE, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Financial Statements:

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Trimedyne, Inc.

We have audited the accompanying consolidated balance sheet of Trimedyne, Inc. and its subsidiaries (the "Company") as of September 30, 2009, and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit on its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Trimedyne, Inc. and their subsidiaries as of September 30, 2009, and the consolidated results of their operations and its cash flow the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ dbbmckennon
Newport Beach, California
January 13, 2010

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Trimedyne, Inc.

We have audited the accompanying consolidated balance sheet of Trimedyne, Inc. and its subsidiaries (the "Company") as of September 30, 2008, and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an

opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit on its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Trimedyne, Inc. and their subsidiaries as of September 30, 2008, and the consolidated results of their operations and its cash flow the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ McKennon Wilson & Morgan, LLP
Irvine, California
January 13, 2009

TRIMEDYNE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS

	As of September 30,	
	2009	2008
Current assets:		
Cash and cash equivalents	$ 1,621,000	$ 2,007,000
Trade accounts receivable, net of allowance for doubtful accounts of $12,000 and $12,000, respectively	988,000	954,000
Inventories	2,266,000	2,584,000
Other current assets	226,000	171,000
Total current assets	5,101,000	5,716,000

Property and equipment, net	1,168,000	1,382,000
Other	87,000	83,000
Goodwill	544,000	544,000
	$ 6,900,000	$ 7,725,000

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	$ 449,000	$ 256,000
Accrued expenses	497,000	469,000
Deferred revenue	100,000	75,000
Accrued warranty	54,000	54,000
Income tax payable	20,000	--
Current portion of note payable and capital leases	209,000	237,000
Total current liabilities	1,329,000	1,091,000
Note payable and capital leases, net of current portion	232,000	400,000
Deferred rent	51,000	73,000
Total liabilities	1,612,000	1,564,000
Commitments and contingencies		
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 September 30, 2009 and 2008	186,000	186,000
Additional paid-in capital	51,461,000	51,425,000
Accumulated deficit	(45,646,000)	(44,737,000)
	6,001,000	6,874,000
Treasury stock, at cost (101,609 shares)	(713,000)	(713,000)
Total stockholders' equity	5,288,000	6,161,000
	$ 6,900,000	$ 7,725,000

See accompanying notes to consolidated financial statements

TRIMEDYNE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	For The Years Ended September 30,

	2009	2008
Net revenues:		
Products	$ 4,718,000	$ 3,832,000
Service and rental	2,704,000	2,039,000
	7,422,000	5,871,000
Cost of sales:		
Products	3,029,000	2,657,000
Service and rental	1,608,000	1,506,000
	4,637,000	4,163,000
Gross profit	2,785,000	1,708,000
Selling, general and administrative expenses	2,683,000	2,373,000
Research and development expenses	1,316,000	1,311,000
Loss from operations	(1,214,000)	(1,976,000)
Other income (expense):		
Interest income	13,000	53,000
Royalty income	295,000	374,000
Interest expense	(48,000)	(38,000)
Creditor settlements and recoveries	61,000	27,000
Gain (loss) on disposal of equipment	12,000	(17,000)
Total other income, net	333,000	399,000
Loss before provision for income taxes	(881,000)	(1,577,000)
Provision for income taxes	28,000	13,000
Net loss	$ (909,000)	$ (1,590,000)
Basic and diluted net loss per share	$ (0.05)	$ (0.09)
Basic and diluted weighted average common shares outstanding:	18,365,960	18,365,960

See accompanying notes to consolidated financial statements

TRIMEDYNE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-In	Accumulated	Treasur
	Shares	Amount	Capital	Deficit	Stock
Balances at October 1, 2007	18,467,569	$ 186,000	$ 51,373,000	$(43,147,000)	$ (713,
Share-based compensation expense	--	--	52,000	--	
Net loss	--	--	--	(1,590,000)	
Balances at September 30, 2008	18,467,569	186,000	51,425,000	(44,737,000)	(713,
Share-based compensation expense	--	--	36,000	--	
Net loss	--	--	--	(909,000)	
Balances at September 30, 2009	18,467,569	$ 186,000	$ 51,461,000	$(45,646,000)	$ (713,

See accompanying notes to consolidated financial statements

TRIMEDYNE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For The Years Ended September 30,	
	2009	2008
Cash flows from operating activities:		
Net loss	$ (909,000)	$ (1,590,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	36,000	52,000
Depreciation and amortization	362,000	315,000
Changes in operating assets and liabilities:		
Trade accounts receivable	(34,000)	(380,000)
Inventories	318,000	407,000
Other assets	(59,000)	167,000
Accounts payable	193,000	44,000
Note from related party	--	9,000
Accrued expenses	28,000	42,000
Deferred revenue	25,000	30,000
Accrued warranty	--	27,000

Deferred rent	(22,000)	(18,000)
Income tax payable	20,000	--
(Gain) loss on disposal of fixed assets	(12,000)	17,000
Net cash used in operating activities	(54,000)	(878,000)
Cash flows from investing activities:		
Purchase of property and equipment	(136,000)	(143,000)
Net cash used in investing activities	(136,000)	(143,000)
Cash flows from financing activities:		
Principal payments on capital leases and debt	(196,000)	(151,000)
Net cash used in financing activities	(196,000)	(151,000)
Net decrease in cash and cash equivalents	(386,000)	(1,172,000)
Cash and cash equivalents at beginning of year	2,007,000	3,179,000
Cash and cash equivalents at end of year	$ 1,621,000	$ 2,007,000

Cash paid for income taxes in the years ended September 30, 2009 and 2008 was $8,000 and $13,000, respectively. Cash paid for interest in the years ended September 30, 2009 and 2008 was $48,000 and $38,000, respectively.

Supplemental disclosure of non-cash investing activity:

During the fiscal year ended September 30, 2008, the Company financed the purchases of equipment with $651,000 in note and lease agreements.

During the fiscal year ended September 30, 2009, the Company financed the purchase of certain insurance policies with an $85,000 note. During the fiscal year ended September 30, 2008, the Company financed the purchase of certain insurance policies with a $134,000 note.

See accompanying notes to consolidated financial statements

TRIMEDYNE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND BUSINESS

Trimedyne, Inc. ("Trimedyne") and its subsidiaries (collectively "the Company") are engaged primarily in the manufacture and sale of lasers, and disposable and reuseable fiber-optic laser devices in the medical field. The Company's operations include the provision of services and rental of lasers and other

medical equipment to hospitals and surgery centers on a "fee-per-case" basis in the Southwestern United States, through its wholly owned subsidiary Mobile Surgical Technologies, Inc. ("MST"), located in Dallas, Texas. The Company's operations are primarily located in Southern California with distribution of its products worldwide (see Note 9).

Managements' Plans

We have incurred losses from operations for the past two years. However, we believe that existing cash flows are sufficient enough to fund operations through September 30, 2010. There can be no assurance that we will be able to maintain or achieve sales growth in the next 12 months, or that the Company will be profitable. Thus, it is possible that additional working capital in the next 12 months may be required. If necessary, we will raise additional debt and/or equity capital to fund operations through the sale of some of our assets and reduce ours costs by eliminating certain personnel positions and reducing certain overhead costs in order to reduce our losses. There are no assurances that our plans will be successful.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In June 2009, the Financial Accounting Standards Board ("FASB") issued revised accounting guidance which establishes the FASB Accounting Standards Codification ("ASC") as the authoritative source for accounting principles of non-governmental entities to conform to United States Generally Accepted Accounting Principles ("GAAP") used in the preparation of financial statements. The ASC is not intended to change existing guidance for public companies. The new guidance is effective for interim and annual reporting periods ending after September 15, 2009.

Principles of Consolidation

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

Concentration of Credit Risk and Customer Concentration

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 September 30, 2009 two customers accounted for 19% and 11% of the Company's receivables. During the years ended September 30, 2008 two customers accounted for 24% and 12% of the Company's receivables. The Company performs limited credit evaluations of its customers and generally does not require collateral. The Company maintains reserves for potential credit losses. The Company considers the following factors when determining if collection of a fee is reasonably assured: customer credit-worthiness, past transaction history with the customer, current economic industry trends and changes in customer payment terms. In some cases in regards to new customers, management requires payment in full or letters of credit before goods are shipped or services are performed. If these factors do not indicate collection is reasonably assured, revenue is deferred until collection becomes reasonably assured, which is generally upon receipt of cash. During fiscal 2009 and 2008, credit losses were not significant.

Cash and Cash Equivalents

The Company considers all highly liquid investments with insignificant interest rate risk and original maturities of three months or less from the date of purchase to be cash equivalents. The carrying amounts of cash and cash

equivalents approximate their fair values.

At September 30, 2009, the Company had cash balances in excess of federally insured limits of $250,000 in the amount of $1,333,661.

Inventories

Inventories consist of raw materials and component parts, work-in-process and finished goods consisting of lasers and dispensing systems. Inventories are recorded at the lower of cost or market, cost being determined principally by use of the average-cost method, which approximates the first-in, first-out method. Cost is determined at the actual cost for raw materials, and at production cost (materials, labor and indirect manufacturing overhead) for work-in-process and finished goods.

Laser units located at medical facilities for sales evaluation and demonstration purposes or those units used for development and medical training are included in inventory since the lasers will ultimately be sold. These units are written down to reflect their net realizable values. Writedowns are considered permanent reductions at cost basis of the related inventories.

Goodwill

The Company accounts for goodwill and acquired intangible assets in accordance with ASC No. 350 "Intangible and Other", 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.

ASC No. 350 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, 2009, 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, 2009.

Impairment of Long-Lived Assets

Long-lived assets, such as property and equipment and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the asset is measured by comparison of its carrying amount to undiscounted future net cash flows the asset is expected to generate. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the asset exceeds its fair market value. Estimates of expected future cash flows represent management's best estimate based on currently available information and reasonable and supportable assumptions. Any impairment recognized is permanent and may not be restored. To date, the Company has not recognized any impairment of long-lived assets.

Stock-Based Compensation

The Company accounts for equity based compensation under the provisions of ASC No. 718, "Compensation, Stock Compensation" ("ASC 718"). ASC 718 requires the recognition of the fair value of equity-based compensation in operations. The fair value of the Company's stock option awards are estimated using a Black-Scholes option valuation model. This model requires the input of highly subjective assumptions and elections including expected stock price volatility and the estimated life of each award. In addition, the calculation of equity-based compensation costs requires that the Company estimate the number of awards that will be forfeited during the vesting period. The fair value of equity-based awards is amortized over the vesting period of the award and the Company elected to use the straight-line method for awards granted after the adoption of ASC 718.

As stock-based compensation expense recognized in the consolidated statements of operations for the fiscal year ended September 30, 2009 and 2008 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS No. 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The estimated average forfeiture rate for fiscal year ended September 30, 2008 of approximately 5% is based on historical forfeiture experience and estimated future employee forfeitures. The estimated term of option grants for the fiscal year ended September 30, 2008 was five years.

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 for the fiscal year ended September 30, 2008 is primarily 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. The assumptions used for options granted during the fiscal year ended September 30, 2008, are as follows:

Expected term	5 years
Expected stock volatility	94%
Risk free rate	3.07%
Dividend yield	--%

The weighted-average grant date fair value of options granted during the fiscal year ended September 30, 2008 was $0.29 per option.

There were no options granted or exercised during the fiscal year ended September 30, 2009.

As of September 30, 2009, there was approximately $41,017 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 three years, which is consistent with the vesting period.

The following table summarizes stock-based compensation expense related to employee and director stock options under ASC No. 718 for the fiscal years ended September 30, 2009 and 2008, which was allocated as follows:

	Fiscal Years Ended September 30,	
	2009	2008
Stock-based compensation included in:		
Cost of revenues	$ 5,000	$ 10,000
Research and development expenses	5,000	5,000
Selling, general, and administrative expenses	26,000	37,000
	$36,000	$ 52,000

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

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements", which has been codified into Accounting Standards Codification 825 ("ASC 825"). The standard defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. ASC 825

does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. In February 2008, the FASB deferred the effective date of ASC 825 by one year for certain non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). On October 1, 2008, we adopted the provisions of ASC 825, except as it applies to those nonfinancial assets and nonfinancial liabilities for which the effective date has been delayed by one year, which we adopted on October 1, 2009. The adoption of ASC 825 did not have a material effect on our financial position or results of operations. The book values of cash, accounts receivable and accounts payable approximate their respective fair values due to the short-term nature of these 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 September 30, 2009 and 2008 due to the short term nature of these instruments.

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 year ended September 30, 2009 and 2008, outstanding options of 41,364 and 60,842, respectively, were excluded from the diluted net loss per share as the effects would have been anti-dilutive.

Revenue Recognition

The Company's revenues include revenues from the sale of reusable and disposable Fibers, Needles, and Tips, the sale and rental of Lasers and accessories, and service contracts for Lasers manufactured by the Company.

The Company recognizes revenue from products sold once all of the following criteria for revenue recognition have been met: (i) persuasive evidence that an arrangement exists, (ii) the products have been shipped, (iii) the prices are fixed and determinable and not subject to refund or adjustment, and (iv) collection of the amounts due is reasonably assured.

Revenues from the sale of fibers, needles, and tips and lasers are recognized upon shipment and passage of title of the products, provided that all other revenue recognition criteria have been met. Generally, customers are required to insure the goods from the Company's place of business. Accordingly, the risk of loss transfers to the customer once the goods have been shipped from the Company's warehouse. The Company sells its products primarily through commission sales representatives in the United States and distributors in foreign countries. In cases where the Company utilizes distributors, it recognizes revenue upon shipment, provided that all other revenue recognition criteria have been met, and ownership risk has transferred. In general, the Company does not

have any post shipment obligations such as installation or acceptance provisions. All domestic laser systems are sold with a one year warranty which includes parts and labor. All international lasers systems are sold with a one year parts only warranty. As each laser sale is recognized, a liability is accrued for estimated future warranty costs.

The Company utilizes distributors for international sales only. All laser system sales are non-returnable. Our international distributors typically locate customers for lasers before ordering and in general do not maintain inventories. The Company's return policy for laser accessories, fibers, needles, and tips sold to distributors is as follows: (1) the Company will accept returns of any unopened, undamaged, standard catalogue items (except laser systems) within sixty (60) days of invoice date. Acceptable returned products will be subject to a 20% restocking fee, (2) a return authorization number is required for all returns, which can be obtained by contacting the Customer Service Department, and (3) should a product be found defective at the time of initial use, the Company will replace it free of charge.

The Company offers service contracts on its lasers. These service contracts are offered at different pricing levels based on the level of coverage, which include periodic maintenance and different levels of parts and labor to be provided. Since the service contracts have a twelve-month term, the revenue of each service contract is deferred and recognized ratably over the term of the service contract.

Trimedyne rents its lasers for a flat monthly charge for a period of years or on a month-to-month basis, or on a fee-per-case basis, which sometimes includes a minimum monthly rental fee. During both fiscal years ended September 30, 2009 and 2008, two lasers were rented by Trimedyne, each on a month-to-month basis. For these lasers, rental revenue is recorded ratably over the rental period. MST generally enters into rental service contracts with customers for a two year period, which unless cancelled, are renewed on an annual basis after the initial period. During the rental service contract period customers do not maintain possession of any rental equipment unless it is for the Company's convenience. Customers are billed on a fee-per-case basis for rentals, which includes the services of the laser operator and, in some cases, the use of a reusable or single use Fiber, Needle, and Tip. Revenue from these rental service contracts is recognized as the cases are performed.

Shipping and Handling Costs

Costs incurred for shipping and handling are included in cost of equipment and services revenues at the time the related revenue is recognized. Amounts billed to a customer for shipping and handling are reported as revenues. Previously the Company included such revenues as an offset to costs of goods sold. The change in classification did not have a significant impact on the presentation of the Company's financial statements for the fiscal year ended September 30, 2009.

Product Warranty Costs

The Company provides warranties for certain products and maintains warranty reserves for estimated product warranty costs at the time of sale. In estimating its future warranty obligations, the Company considers various relevant factors, including the Company's stated warranty policies and practices, the historical frequency of claims and the cost to replace or repair its products under warranty. The following table provides a summary of the activity related to the Company's accrued warranty expense:

	For The Years Ended September 30,	
	2009	2008
Balance at beginning of period	$ 54,000	$ 27,000
Charges to costs and expenses	93,000	74,000
Costs incurred	(93,000)	(47,000)
Balance at end of period	$ 54,000	$ 54,000

Research and Development Costs

All research and development costs, including licensing costs, are charged to expense as incurred. In accordance with this policy, all costs associated with the design, development and testing of the Company's products have been expensed as incurred.

Income Taxes

The Company uses the asset and liability method of SFAS No. 109 "Accounting for Income Taxes," which has been codified into ASC 740, which requires the recognition of deferred tax liabilities and assets for expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities. Management provides a valuation allowance for deferred tax assets when it is more likely than not that all or a portion of such assets will not be recoverable based on future operations.

In July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109 ("FIN 48")" which has been codified into ASC 740. ASC 740 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with ASC, describes a recognition threshold and measurement attribute for the recognition and measurement of tax positions taken or expected to be taken in a tax return and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. ASC 740 is effective for fiscal years beginning after December 15, 2006. The cumulative effect of adopting ASC 740 was required to be reported as an adjustment to the opening balance of retained earnings (or other appropriate components of equity) for that fiscal year, presented separately. The adoption of ASC 740 did not have a material impact to the Company's financial statements.

Property and Equipment

Property and equipment is recorded at cost. Depreciation of property and equipment is calculated on a straight-line basis over the estimated useful lives of the assets ranging from three to ten years. Leasehold improvements are amortized on a straight-line basis over the lesser of the useful lives or the term of the lease. Depreciation expense for the years ended September 30, 2009 and 2008, was $362,000 and $315,000, respectively.

Segment Information

The Company reports information about operating segments, as well as disclosures about products and services, geographic areas and major customers (see Note 9). Operating segments are defined as revenue-producing components of the enterprise, which are generally used internally for evaluating segment performance.

Recently Issued Accounting Pronouncements

In May 2009, the FASB issued ASC 855 "Subsequent Events" (formerly SFAS No. 165, Subsequent Events). FASB ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. ASC 855 is effective for interim and annual financial periods ending after June 15, 2009. The Company adopted ASC 855 during the nine months ended June 30, 2009. The Company evaluated subsequent events through the issuance date of the financial statements, January 13, 2010, and has disclosed the events identified within this filing.

In June 2009, the FASB issued ASC 105 "Generally Accepted Accounting Principles" (formerly SFAS No. 168 The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162). ASC 105 establishes the FASB Accounting Standards Codification as the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. ASC 105, which changes the referencing of financial standards, is effective for interim or annual financial periods ending after September 15, 2009. The Company adopted ASC 105 during the fiscal year ended September 30, 2009 with no impact to its financial statements, except for the changes related to the referencing of financial standards.

In April 2008 the FASB issued FASB Staff Position No. FAS 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP 142-3"). This pronouncement 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 Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("FAS 142"). This pronouncement aims to improve the consistency between the useful life of a recognized intangible asset under FAS 142 and the period of expected cash flows used to measure the fair value of the asset under FAS 141(R). The provisions of FSP 142-3 were incorporated into the Codification within ASC Subtopic 350-30 "General Intangibles other than Goodwill" and are effective for fiscal years beginning after December 15, 2008. The Company is currently in the process of determining the impact that adoption of this Statement will have on its financial statements.

Effective October 1, 2009, the Company will adopte the provisions of Emerging Issues Task Force 07-5, "Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock" ("EITF 07-5"), which has been codified into ASC 815 . The guidance applies to any freestanding financial instruments or embedded features that have the characteristics of a derivative, as defined by SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," (which was codified into ASC 815) and to any freestanding financial instruments

that are potentially settled in an entity's own common stock. The guidance is expected to have an impact on the Company's financial statements and position due to certain warrants in which the exercise price resets upon certain events. The Company is currently evaluating the impact of the adoption.

NOTE 3. COMPOSITION OF CERTAIN BALANCE SHEET CAPTIONS

Inventories consist of the following:

	As of September 30,	
	2009	2008
Raw materials	$ 848,000	$ 1,036,000
Work-in-process	800,000	722,000
Finished goods	618,000	826,000
	$ 2,266,000	$ 2,584,000

For the fiscal years ended September 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:

	As of September 30,	
	2009	2008
Royalty receivable	$ 93,000	$ 58,000
Other receivables	34,000	--
Prepaid insurance	66,000	86,000
Deposits	8,000	9,000
Prepaid income tax	5,000	5,000
Other	20,000	13,000
Total other current assets	$ 226,000	$ 171,000

Property and equipment, net consists of the following:

	As of September 30,	
	2009	2008
Furniture and equipment	$ 3,354,000	$ 3,216,000
Leasehold improvements	619,000	619,000
Other	244,000	282,000
	$ 4,217,000	$ 4,117,000
Less accumulated depreciation and amortization	(3,049,000)	(2,735,000)
	$ 1,168,000	$ 1,382,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2009, equipment purchased under capital leases had a cost of $651,000 and accumulated depreciation of $176,000.

Accrued expenses consist of the following:

	As of September 30,	
	2009	2008
Accrued vacation	182,000	$ 187,000
Accrued salaries and wages	62,000	130,000
Sales and use tax	75,000	67,000
Accrued professional fees	--	4,000
Customer deposits	4,000	13,000
Commissions	145,000	51,000
Accrued payroll tax	11,000	8,000
Accrued 401(k)	9,000	--
Other	9,000	9,000
Total accrued expenses	$ 497,000	$ 469,000

NOTE 4. ACQUISITION OF CPT

On August 6, 2008, the Company, through its subsidiary MST, acquired certain assets and assumed certain liabilities of CPT Services, Inc. ("CPT") for an aggregate cash purchase price of $21,000. CPT provided laser service and repair services similar to the MST. The acquisition assisted MST in the expansion of its services.

Since the assets acquired constituted a business, the acquisition has been accounted for using the purchase method of accounting in accordance with SFAS No. 141, which was codified into ASC 805, whereby the estimated purchase price has been allocated to tangible and intangible net assets acquired based upon their fair values at the date of acquisition.

The purchase price of CPT has been allocated to assets acquired and liabilities assumed based on their estimated fair values determined by management as follows:

Property and equipment	$ 129,000
Intangible asset - customer list	30,000
Notes and leases payable	(138,000)
Cash paid	$ 21,000

The customer relationships are considered an intangible asset and are being amortized over the estimated useful live of five years from the date of the acquisition. The estimated useful life was determined based upon the historical lives of the customer base. The pro-forma financial statements have not been provided as they are insignificant to the Company's financial statements. During the fiscal year ended September 30, 2009, the Company amortized $7,000 of the intangible asset to costs of goods sold. As of September 30, 2009, the carrying value of the intangible asset was $23,000.

TRIMEDYNE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. NOTES PAYABLE AND CAPITAL LEASES

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

	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.	$ 69,000
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.	170,000
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.	19,000
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.	64,000
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.	27,000
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.	53,000
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.	39,000
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.	--
	$ 441,000
Less: current portion	(209,000)
	$ 232,000

The Company leases certain equipment under capital leases with terms ranging from three to five years. Future annual minimum lease payments are as follows as of September 30, 2009:

2010	$ 196,000
2011	155,000
2012	80,000
2013	23,000

Total minimum lease payments	454,000
Less amount representing interest	(52,000)
Present value of future minimum lease payments	402,000
Less current portion of capital lease payments	(170,000)
Capital lease obligations, net of current portion	$ 232,000

TRIMEDYNE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6. INCOME TAXES

The deferred income tax balances at September 30, 2009 and 2008, are comprised of the following:

	September 30, 2009	2008
Deferred income tax assets (liabilities):		
Net operating loss carry forwards	$ 12,022,000	$ 12,422,000
Inventories	170,000	139,000
Reserves and accruals	379,000	252,000
Research and development credits	2,594,000	2,591,000
Depreciation and amortization	(34,000)	(72,000)
Other	(5,000)	4,000
Valuation allowance	(15,126,000)	(15,336,000)
	$ --	$ --

The valuation allowance for deferred tax assets decreased approximately $210,000 during the year ended September 30, 2009 and approximately $504,000 during the year ended September 30. 2008, primarily due to a portion of the Company's net operating loss carryforwards ("NOLS") for federal and state income tax reporting, as well as research and development tax credits that expired. For the years ended September 30, 2009 and 2008, the Company recorded a current provision for state income taxes of $28,000 and $13,000, respectively. There was not a provision for federal income taxes.

The Company's effective income tax rate differs from the statutory federal income tax rate as follows for the years ended September 30, 2009 and 2008:

	September 30, 2009	2008
Statutory federal income tax rate	(34.00) %	(34.00) %
Increase (decrease) in tax rate resulting from:		
State tax benefit, net of federal benefit	(2.10) %	(5.80) %
Other	(2.01) %	(0.03) %
Valuation Allowance	41.29 %	40.63 %

Effective income tax rate	3.18 %	0.80 %

At September 30, 2009, the Company had NOL carry forwards for Federal and California income tax purposes totaling approximately $34.4 million and $5.9 million, respectively. At September 30, 2008, the Company had NOL carry forwards for Federal and California income tax purposes totaling approximately $35.6 million and $5.0 million, respectively. Federal and California NOL's have begun to expire and fully expire in 2029 and 2014, respectively. The Tax Reform Act of 1986 includes provisions which may limit the new operating loss carry forwards available for use in any given year if certain events occur, including significant changes in stock ownership. In addition, the Company has R & D credits that have begun to expire and fully expire in 2029 for federal tax purposes.

NOTE 7. COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Company has two non-cancelable operating leases, which include a lease for MST's facility in Dallas, Texas, which expires in August 2010, and a lease for the Company's corporate office and manufacturing facility in Lake Forest, California, which expires in March 2011.

Future annual minimum lease payments under the above lease agreements, at September 30, 2009 are as follows:

Years ending September 30,	
2010	$ 385,000
2011	183,000
Total	$ 568,000

Rent expense for the years ended September 30, 2009 and 2008 was approximately $358,000.

Rent expense on the leases are recognized on a straight-line basis over the term of the lease. Therefore, rent expense on the leases does not correspond with the actual rent payments due. Additionally, as part of the Company's lease agreement of its facility in Lake Forest, California, the Company received $100,000 from the lessor as an allowance for leasehold improvements contributed by the Company. The unamortized portion of the $100,000 payment received is being recognized on a straight-line basis over the term of the lease as reduction to rent expense and the unamortized portion is included in deferred rent. The difference between the cumulative rent payments, net of the $100,000 allowance on leasehold improvements versus the cumulative rent expense on a straight-line basis is recorded as a deferred rent liability. As of September 30, 2009, this liability was $51,000.

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.

See Note 5 regarding capital leases.

Settlement and OEM Agreement

Under the terms of a settlement agreement with Lumenis, Inc. ("Lumenis"), Lumenis has agreed to pay a 7.5% royalty on their sales of certain side-firing and angled-firing devices manufactured by Lumenis. In addition, Lumenis agreed to purchase 75% of its Angled-Firing (60 to 75 degree firing) and 100% of its Side-Firing (75 to 90 degree) Fibers from the Company under an OEM agreement ("OEM Agreement"). The OEM Agreement was executed on September 8, 2005, under which the Company agreed to manufacture a special version of its VaporMAX(TM) Side-Firing Device exclusively for Lumenis, for use with Lumenis' Holmium lasers for their cleared indications for use, which include the treatment of benign prostatic hyperplasia or "BPH", commonly referred to as an enlarged prostate.

For the years ended September 30, 2009 and 2008 the Company recognized as income $295,000 and $374,000, respectively, in royalties from Lumenis. These amounts are all included as other income in the accompanying statements of operations.

Product Liability

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 consolidated financial statements 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 lessors for certain claims arising from the use of the facilities. 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 consolidated balance sheet.

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 its 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 proposed denial of reimbursement for Tips, 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. Each pulse of Holmium laser energy is absorbed by the 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. That is why our Holmium lasers are commonly referred to as "cold" vaporizing lasers.

The Company filed an objection to CMS' lumping our pulsed Holmium Lasers with ET, RF and older, thermal Nd:YAG and KTP lasers, few if any of which lasers are still in use in the treatment of spinal discs. We explained the different mechanisms of action, tissue effects and improved patient outcomes of pulsed Holmium laser energy, compared to those of ET, RF, Nd:YAG and KTP laser energy, and we attached ten (10) published papers on clinical studies of Holmium laser energy that support our position.

Regardless of our objection and ten published papers supporting our position, CMS refused to change its decision. Since most people suffering from a herniated or ruptured spinal disc are below Medicare age, we do not believe CMS's decision will have an adverse impact on our business. In the period since CMS's decision, our revenues significantly increased.

Litigation

In February, 2008, we and six other laser manufacturers were sued in the district court of Massachusetts by CardioFocus, Inc., alleging infringement of three of their now expired U.S. Patents, which limits their claim for royalties to six years from their date of expiration in 2006. We and two other laser companies joined in a petition to the U.S. Patent & Trademark Office ("USPTO") to re-examine these patents and declare them invalid. The other four defendants likewise individually requested a re-examination of these patents and a declaration of invalidity by the USPTO. The court issued a stay of the proceedings until October 14, 2009. On October 14, 2009, the defendents (including Trimedyne) sought to extend the stay of the proceedings until October 14, 2010, or until the reexamination proceedings have concluded for all three patents-in-suit, whichever is sooner. CardioFocus has opposed the defendant's motion and, as of this filing, we have not received any determination from the court.

No amount of monetary or other damages is stated in CardioFocus's preliminary case filings and, because the patents are expired, CardioFocus is not entitled to anything other than monetary damages. We have not established a reserve for any damages in the event these patents are finally declared valid by the USPTO in a non-appealable decision.

In the event the litigation is restarted, the Company will defend itself vigorously.

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NOTE 8. STOCKHOLDERS' EQUITY

Warrants

The following is a summary of warrants outstanding during the fiscal years ended September 30, 2009 and 2008:

	Shares of Common Stock Issuable Upon Exercise of Warrants	Weighted Average Exercise Price Per Share	Range o Exercis Prices
Outstanding, at September 30, 2008	212,000	$ 1.25	$
Issued	--	$	
Outstanding, at September 30, 2009	212,000	$ 1.25	$

Stock Options

The Company has adopted stock option plans that authorize the granting of options to key employees, directors, and consultants to purchase unissued common stock subject to certain conditions, such as continued employment. Options are generally granted at the fair market value of the Company's common stock at the date of grant, become exercisable over a period of five years from the date of grant, and generally expire in six or ten years specific to their respective plan. Forfeitures of stock options are returned to the Company and become available for grant under the respective plan. Upon exercise the Company issues new shares of common stock.

During fiscal 2008, the Board of Directors authorized the grant of non-qualified stock options to purchase 96,500 shares as follows:

Number of Options(1)	Option Exercise Price Per Share(2)
41,500	$0.38
30,000	$0.35
25,000	$0.77

(1) These options vest over five years and expire ten (10) years from the date of grant.
(2) Exercise price per share is based on the closing price of the Company's common stock on the date of grant.

There were no options granted during the fiscal year ended September 30, 2009.

Stock Options Outstanding:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggreg Intrin Valu
Options outstanding at October 1, 2007	1,426,979	$ 1.14		
Options granted	96,500	0.47		
Options exercised	--	--		
Options forfeited	(97,000)	1.04		
Options outstanding at September 30, 2008	1,426,479	$ 1.10	4.0	$ 4
Options granted	--	--		
Options exercised	--	--		
Options forfeited	(193,700)	0.63		
Options outstanding at September 30, 2009	1,232,779	$ 1.18	3.3	$ 37
Options exercisable at September 30, 2009	1,133,179	$ 1.20	2.9	$ 25

On August 13,2003 the Company's Board of Directors adopted the 2003 Non-statutory Stock Option Plan ("2003 Plan") for issuance of stock options to employees and others. Under the 2003 Plan, the Company reserved two million shares for issuance. As of September 30, 2009 and 2008, 1,015,550 and 852,550 options were available for issuance under the 2003 Plan, respectively.

The following table summarizes information concerning outstanding and exercisable options at September 30, 2009:

	OPTIONS OUTSTANDING			OPTIONS EXERCI	
Range of Exercise Prices	Outstanding as of 9/30/2009	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Exercisable as of 9/30/2009	We A Exer
$0.14 - $0.38	110,000	4.7	$0.23	86,000	
$0.39 - $0.94	477,179	4.1	$0.61	451,479	
$0.95 - $1.88	481,900	2.8	$1.31	432,000	
$1.89 - $2.61	16,000	0.7	$2.29	16,000	

$2.62 - $3.38	99,700	0.5	$2.75	99,700
$3.39 - $4.25	48,000	0.5	$3.84	48,000
	1,232,779	3.4	$1.18	1,133,179

The weighted-average grant date fair value of options granted during the fiscal years ended September 30, 2008 was $0.29 per option. There were no options granted during the fiscal year ended September 30, 2009. There were no options exercised during the fiscal years ended September 30, 2009 and 2008.

NOTE 9. EMPLOYEE BENEFIT PLAN

The Company has a 401(k) retirement savings plan (the "Retirement Plan"). Under the terms of the Retirement Plan, employees may, subject to certain limitations, contribute up to 15% of their total compensation. The Company contributes an additional $0.50 for each dollar of employee contributions up to 4% of eligible employee compensation. Employees become vested in the Company's contribution at 20% per year over five years. The Company's annual contributions to the Retirement Plan for the fiscal years ended September 30, 2009 and 2008 totaled $37,000 and $32,000, respectively.

NOTE 10. SEGMENT INFORMATION:

The Company's segments consist of individual companies managed separately with each manager reporting to the Chief Executive Officer. Revenue, 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.

TRIMEDYNE, INC. AND SUBSIDIARIES
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	For the year ended September 30, 2009:			For the year en	
	Product	Service and Rental	Total	Product	Serv Re
Revenues	$ 4,718,000	$2,704,000	$ 7,422,000	$ 3,832,000	$2,
Cost of sales	3,029,000	1,608,000	4,637,000	2,657,000	1,
Gross profit	1,689,000	1,096,000	2,785,000	1,175,000	
Expenses:					
Selling, general and administrative	2,039,000	644,000	2,683,000	1,877,000	
Research and development	1,316,000	--	1,316,000	1,311,000	

(Loss) income from operations	$(1,666,000)	$452,000	(1,214,000)	$(2,013,000)	$
Other income (expense):					
Interest income			13,000		
Royalty income			295,000		
Interest expense			(48,000)		
Creditor settlements and recoveries			61,000		
Gain (loss) on disposal of equipment			12,000		
(Loss) before provision for income taxes			(881,000)		
Provision for income taxes			28,000		
Net (loss)			$ (909,000)		

Sales in foreign countries in fiscal 2009 and 2008 accounted for approximately 25.2% and 24.6%, respectively, of the Company's total sales. The breakdown by geographic region is as follows:

	2009	2008
Asia	$1,048,000	$ 802,000
Europe	473,000	224,000
Latin America	118,000	118,000
Middle East	3,000	80,000
Australia	226,000	121,000
Africa	1,000	--
Other	--	99,000
	$1,869,000	$1,444,000

Sales and gross profit to customers by similar products and services for the fiscal year ended September 30, 2009 and September 30, 2008 were as follows:

	For the year ended September 30, 2009	2008
By similar products and services:		
Sales		
Products:		
Lasers and accessories	$ 1,599,000	$ 1,111,000
Fibers, Needles and Tips	3,119,000	2,721,000
Service and rental	2,704,000	2,039,000
Total	$ 7,422,000	$ 5,871,000
Gross profit		
Products:		
Lasers and accessories	$ 361,000	$ 66,000
Fibers, Needles and Tips	1,328,000	1,109,000
Service and rental	1,096,000	533,000
Total	$ 2,785,000	$ 1,708,000

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The Company had two lasers located outside the United States, one each in Canada and India, at September 30, 2009. Total segment assets for the Products segment were $5,152,000 and Service and Rental were $1,726,000 at September 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.

NOTE 11. RELATED PARTY TRANSACTIONS

During the fiscal year ended September 2008, the Company incurred $6,900 of legal services rendered by a Director, of which $1,000 was still outstanding and included in accounts payable as of September 30, 2008. There were no legal services incurred by any related party during the fiscal year ended September 30, 2009.

The Company entered into a service agreement with 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. Under the agreement, Trimedyne agreed to provide warranty service, periodic maintenance, and repair on Cardiomedics' heart assist devices for which Trimedyne billed Cardiomedics $40,000 on account and recorded as service income, including $29,000 during the year ended September 30, 2006. During the quarter ended March 31, 2006 Cardiomedics' account with Trimedyne, Inc. became delinquent and the Company ceased providing services to Cardiomedics. Cardiomedics also entered into a reimbursement agreement with the Company for business expenses incurred by the CEO/Chairman of the Company on behalf of Cardiomedics in the amount of $11,000.

The above balances due were consolidated and converted into a $51,000 promissory note (the "Note"). The Note bore interest at 8.0% per annum, and matured on March 31, 2008. During the fiscal year ended September 30, 2008 the Note was paid in full.

In connection with the above service agreement with Cardiomedics, the Company received $16,000 and $33,000, respectively, in service income during the fiscal years ended September 30, 2009 and 2008.

On April 7, 2006, the Company entered into an agreement to employ Cardiomedics as a consultant to provide graphics arts services, since the Company had no employee with experience in the design and production of brochures and other marketing materials. Under this agreement, Cardiomedics provides 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 years ended September 30, 2009 and 2008, the Company incurred $7,000 and $36,000, respectively, in expense for the services provided under the agreement, which was recorded to marketing expense, of which $4,000 was included in the balance of accounts payable at September 30, 2008.