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TRIMEDYNE INC
Form 10-Q
May 24, 2010

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

FORM 10-Q

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

For the quarterly period ended March 31, 2010

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

(STATE OR OTHER JURISDICTION
OF INCORPORATION)

36-3094439

(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 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

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the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (ss. 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See 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

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

As of May 21, 2010, there were outstanding 18,365,960 shares of registrant's Common Stock.

TRIMEDYNE, INC.

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TRIMEDYNE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

ASSETS	March 31, 2010	Mar
	-----	-----
Current assets:		
Cash and cash equivalents	\$ 822,000	\$
Trade accounts receivable, net of allowance for doubtful accounts of \$12,000 at March 31, 2010 and September 30, 2009	774,000	
Inventories	2,656,000	
Other current assets	122,000	
	-----	-----
Total current assets	4,374,000	
Property and equipment, net	1,030,000	
Other	80,000	
Goodwill	544,000	
	-----	-----
Total Assets	\$ 6,028,000	\$
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 384,000	\$
Accrued expenses	455,000	
Deferred revenue	84,000	
Accrued warranty	40,000	
Income tax payable	29,000	
Current portion of note payable and capital leases	164,000	
	-----	-----
Total current liabilities	1,156,000	
Note payable and capital leases, net of current portion	151,000	
Deferred rent	34,000	
Long term warrant liability	29,000	
	-----	-----
Total liabilities	1,370,000	
	-----	-----
Commitments and contingencies		

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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 at March 31, 2010 and September 30, 2009, 18,365,960 shares outstanding at March 31, 2010 and September 30, 2009	186,000	
Additional paid-in capital	51,232,000	
Accumulated deficit	(46,047,000)	
	-----	-----
Treasury stock, at cost (101,609 shares)	5,371,000 (713,000)	
	-----	-----
Total stockholders' equity	4,658,000	
	-----	-----
Total liabilities and stockholder's equity	\$ 6,028,000	\$
	=====	=====

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended March 31,		Six Mon Mar
	2010	2009	2010
	-----	-----	-----
Net revenues	\$ 1,727,000	\$ 1,632,000	\$ 3,381,000
Cost of revenues	1,126,000	1,074,000	2,202,000
	-----	-----	-----
Gross profit	601,000	558,000	1,179,000
Operating expenses:			
Selling, general and administrative	659,000	673,000	1,288,000
Research and development	316,000	318,000	621,000
	-----	-----	-----
Total operating expenses	975,000	991,000	1,909,000
	-----	-----	-----
Loss from operations	(374,000)	(433,000)	(730,000)
Other income, net	71,000	87,000	132,000
	-----	-----	-----
Loss before provision for income taxes	(303,000)	(346,000)	(598,000)
Provision (benefit) for income taxes	4,000	(1,000)	9,000
	-----	-----	-----
Net loss	\$ (307,000)	\$ (345,000)	\$ (607,000)
	=====	=====	=====

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Net loss per share:			
Basic	\$ (0.02)	\$ (0.02)	\$ (0.03)
	=====	=====	=====
Diluted	\$ (0.02)	\$ (0.02)	\$ (0.03)
	=====	=====	=====
Weighted average number of shares outstanding:			
Basic	18,365,960	18,365,960	18,365,960
	=====	=====	=====
Diluted	18,365,960	18,365,960	18,365,960
	=====	=====	=====

See accompanying notes to condensed consolidated financial statements

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

	Six Months Ended March 31,	
	2010	2009
	-----	-----
Cash flows from operating activities:		
Net loss	(607,000)	(790,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	10,000	23,000
Depreciation and amortization	167,000	181,000
Change in fair value of warrant liability	(4,000)	
Gain on disposal of assets	--	(12,000)
Changes in operating assets and liabilities:		
Trade accounts receivable	214,000	141,000
Inventories	(390,000)	274,000
Other assets	111,000	84,000
Accounts payable	(65,000)	119,000
Accrued expenses	(41,000)	22,000
Income tax payable	9,000	13,000
Deferred revenue	(16,000)	
Accrued warranty	(14,000)	(9,000)
Deferred rent	(17,000)	(10,000)
	-----	-----
Net cash used in operating activities	(644,000)	36,000
	-----	-----
Cash flows from investing activities:		
Purchase of property and equipment	(29,000)	(112,000)
	-----	-----
Net cash used in investing activities	(29,000)	(112,000)
	-----	-----
Cash flows from financing activities:		
Payments on debt	(126,000)	(150,000)

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Net cash used in financing activities	(126,000)	(150,000)
Net decrease in cash and cash equivalents	(799,000)	(226,000)
Cash and cash equivalents at beginning of period	1,621,000	2,007,000
Cash and cash equivalents at end of period	\$ 822,000	\$ 1,781,000

Supplemental disclosure of cash flow information:

No cash was paid for income taxes during the six months ended March 31, 2010 and cash paid during the prior year six-month period ended March 31, 2009 was \$5,000. Cash paid for interest during the six months ended March 31, 2010 and 2009 was approximately \$18,000 and \$25,000, respectively.

See accompanying notes to condensed consolidated financial statements

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TRIMEDYNE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010
(UNAUDITED)

NOTE 1 - Summary of Significant Accounting Policies

Principles of Consolidation

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

Managements' Plans

The Company's working capital has declined and we have incurred losses from developing a new side firing optical fiber device and from operations during the past four years. There can be no assurance that the Company will be able to maintain or achieve sales growth to offset these losses, or that the Company will again become profitable. Based on its current cash flow projections, the Company expects its existing resources will be sufficient to fund operations through November 30, 2010. The accompanying financial statements have been prepared assuming the Company will continue as a going concern. However, management is unsure if the Company's liquidity and anticipated revenues will be sufficient to meet its obligations as they become due for the next 12 months from the balance sheet date. This raises substantial doubt about the Company's ability to continue as a going concern. The Company has taken various steps to reduce its costs through a reduction in personnel positions and overhead costs and deferring partial salaries of some of the members of its management beginning in April. The Company renegotiated its lease on its facility in Lake Forest, California and signed a new lease agreement which will result in a savings of over \$111,000 in rent expense through the next twelve months. The

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Company plans to raise additional capital through the sale of notes, debentures, equity capital or other Company assets. There is no assurances that these efforts will be successful.

Unaudited Interim Financial Information

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America for interim financial information, and pursuant to the instructions to Form 10-Q promulgated by the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all information and disclosures required by generally accepted accounting principles for complete financial statement presentation. In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the Company's consolidated financial position as of March 31, 2010 and the results of its operations and its cash flows for the six months ended March 31, 2010 and 2009. Results for the six months ended March 31, 2010 are not necessarily indicative of the results to be expected for the year ending September 30, 2010.

While management believes that the disclosures presented are adequate to make the information not misleading, it is suggested that these condensed consolidated financial statements be read in conjunction with the condensed consolidated financial statements and the notes included in the Company's 2009 annual report on Form 10-K for the year ended September 30, 2009.

Stock-Based Compensation

The fair value of stock-based awards is calculated using the Black-Scholes option pricing model. The Black-Scholes model requires subjective assumptions regarding future stock price volatility and expected time to exercise, which greatly affect the calculated values. The expected term of options granted is derived from historical data on employee exercises and post-vesting employment termination behavior. The risk-free rate selected to value any particular grant is based on the U.S. Treasury rate that corresponds to the pricing term of the grant effective as of the date of the grant. The expected volatility is based on the Company's historical volatilities of its common stock. These factors could change in the future, affecting the determination of stock-based compensation expense in future periods. During the three months ended March 31, 2010, there were no stock options granted.

As of March 31, 2010, there was approximately \$12,655 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.

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The following table summarizes stock-based compensation expense related to employee and director stock options under ASC No. 718 for the six months ended March 31, 2010 and 2009, which was allocated as follows:

	Three Months Ended		
	March 31, 2010	March 31, 2009	March
	-----	-----	-----
Stock-based compensation included in:			

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Cost of revenues	\$ 1,000	\$ 3,000
Research and development expenses	\$ 1,000	\$ 1,000
Selling, general, and administrative expenses	\$ 3,000	\$ 8,000

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 Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards ("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 inventory, accounts payable and notes payable approximate their respective fair values due to the short-term nature of these instruments. At March 31, 2010, the warrant liability was recorded under a level two assumption; see Note 4 for discussion of the valuation techniques used to measure the fair value of the warrant liability.

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. No customer concentrations noted as of March 31, 2010.

At March 31, 2010, the Company had cash balances of \$595,000 in excess of federally insured limits.

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 six months ended March 31, 2010 and 2009, outstanding options of 80,000 and 65,000, respectively, were excluded from the diluted net loss per share as the effects would have been anti-dilutive.

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Segment Information

The Company reports information about operating segments, as well as disclosures about products and services, geographic areas and major customers (see Note 7). Operating segments are defined as revenue-producing components of the enterprise, which are generally used internally for evaluating segment performance.

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Recently Issued or Adopted Accounting Pronouncements

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. On October 1, 2009, the Company adopted the standard with no impact on its financial statements.

Effective October 1, 2009, the Company adopted 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 had an impact on the Company's financial statements and position due to certain warrants in which the exercise price resets upon certain events. See Note 4 for discussion.

In January 2010, the FASB amended authoritative guidance for improving disclosures about fair-value measurements. The updated guidance requires new disclosures about recurring or nonrecurring fair-value measurements including significant transfers into and out of Level 1 and Level 2 fair-value measurements and information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair-value measurements. The guidance also clarified existing fair-value measurement disclosure guidance about the level of disaggregation, inputs, and valuation techniques. The guidance became effective for interim and annual reporting periods beginning on or after December 15, 2009, with an exception for the disclosures of purchases, sales, issuances and settlements on the roll-forward of activity in Level 3 fair-value measurements. Those disclosures will be effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The Company does not expect that the adoption of this guidance will have a material impact on the consolidated financial statements.

NOTE 2 - Composition of Certain Balance Sheet Captions

Inventories, net of reserves, consist of the following:

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	March 31, 2010	September 30, 2009
Raw materials	\$ 1,069,000	\$ 848,000
Work-in-process	916,000	800,000
Finished goods	671,000	618,000
	-----	-----
	\$ 2,656,000	\$ 2,266,000
	=====	=====

For the six months ended March 31, 2010 and 2009, 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:

	March 31, 2010	September 30, 2009
Royalty receivable	\$ 73,000	\$ 93,000
Prepaid insurance	13,000	66,000
Other receivables	--	34,000
Prepaid other	24,000	20,000
Prepaid income tax	2,000	5,000
Prepaid Rent	2,000	--
Short-term deposits	8,000	8,000
	-----	-----
Total other current assets	\$ 122,000	\$ 226,000
	=====	=====

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Property and equipment consist of the following:

	March 31, 2010	September 30, 2009
Furniture and equipment	\$ 3,360,000	\$ 3,354,000
Leasehold improvements	642,000	619,000
Other	244,000	244,000
	-----	-----
	4,246,000	4,217,000
Less accumulated depreciation and amortization	(3,216,000)	(3,049,000)
	-----	-----
Total property and equipment	\$ 1,030,000	\$ 1,168,000
	=====	=====

Accrued expenses consist of the following:

	March 31, 2010	September 30, 2009
Accrued vacation	\$ 176,000	\$ 182,000
Accrued salaries and wages	64,000	62,000
Sales and use tax	68,000	75,000
Customer deposits	29,000	4,000
Accrued commissions	74,000	145,000
Accrued bonuses	20,000	--
Accrued payroll taxes	12,000	11,000

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Accrued 401(k)	--	9,000
Other	12,000	9,000
	-----	-----
Total accrued expenses	\$ 455,000	\$ 497,000
	=====	=====

NOTE 3 - Notes Payable and Capital leases

Notes payable and capital leases consists of the following at March 31, 2010 and September 30, 2009:

	March 31, 2010

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.	\$ 53,000
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.	145,000
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.	16,000
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.	53,000
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.	12,000
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.	36,000
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.	--

	\$ 315,000
Less: current portion	(164,000)

	\$ 151,000
	=====

NOTE 4 - Outstanding Warrant Liability

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Effective October 1, 2009 we adopted the provisions of EITF 07-5, "Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock" ("EITF 07-5"). EITF 07-5 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," and to any freestanding financial instruments that are potentially settled in an entity's own common stock. Both standards were codified into ASC 815. As a result of adopting EITF 07-5, 212,000 of our issued and outstanding common stock purchase warrants previously treated as equity pursuant to the derivative treatment exemption were no longer afforded equity treatment. These warrants have an exercise price of \$1.14 and expire in January 2012. As such, effective October 1, 2009 we reclassified the fair value of these common stock purchase warrants, which have exercise price reset features, from equity to liability status as if these warrants were treated as a derivative liability since their date of issue in January 2007. On October 1, 2009, we reclassified from additional paid-in capital, as a cumulative effect adjustment, \$204,000 to beginning retained earnings and \$35,000 to a long-term warrant liability to recognize the fair value of such warrants on such date. The fair value of these common stock purchase warrants declined to \$29,000 as of March 31, 2010. As such, we recognized a gain of approximately \$6,000 from the change in fair value of these warrants for the six months ended March 31, 2010.

These common stock purchase warrants were initially issued in connection with our January 2007 issuance and sale of 2.65 million shares of common stock. The common stock purchase warrants were not issued with the intent of effectively hedging any future cash flow, fair value of any asset, liability or any net investment in a foreign operation. The warrants do not qualify for hedge accounting, and as such, all future changes in the fair value of these warrants will be recognized currently in earnings until such time as the warrants are exercised or expire. These common stock purchase warrants do not trade in an active securities market, and as such, we estimate the fair value of these warrants using the Black-Scholes option pricing model using the following assumptions:

	March 31, 2010	October 1, 2009
	-----	-----
Annual dividend yield	--	--
Expected life (in years)	1.76	2.26
Risk free interest rate	1.02%	2.20%
Expected annual volatility	113.7%	103.0%

Expected volatility is based primarily on historical volatility. Historical volatility was computed using weekly pricing observations for recent periods that correspond to expected remaining life of the warrant. We believe this method produces an estimate that is representative of our expectations of future volatility over the expected term of these warrants. We currently have no reason to believe future volatility over the expected remaining life of these warrants is likely to differ materially from historical volatility. The expected life is based on the remaining term of the warrants. The risk-free interest rate is based on U.S. Treasury securities.

NOTE 5 - Commitments and Contingencies

Litigation

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 against it during the three months ended March 31, 2010. The Company has insurance to cover product

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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, the Company 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 prior to their date of expiration. The Company 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. One of Cardiofocus' patents was declared invalid and an aggregate of three claims of the other two patents were declared valid by the USPTO, only one of which may pertain to the type of laser we manufacture.

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The court issued a stay of the proceedings until October 14, 2009. On October 14, 2009, the defendants (including Trimedyne) sought to extend the stay of the proceedings until October 14, 2010, or until the USPTO's reexamination proceedings have concluded. In March 2010, the court refused to extend the stay and allowed the lawsuit to proceed.

As of March 31, 2010, the Company believes it has adequate defenses to this lawsuit and intends to defend itself vigorously and thus has not provided a provision for losses.

Guarantees and Indemnities

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

Risks and Uncertainties

The Centers for Medicare and Medicaid Services (CMS), the agency of the U.S. Government that administers the Medicare Program, does not reimburse for thermal intradiscal procedures to treat spinal discs including the use of the Company's pulsed Holmium Lasers. 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.

NOTE 6 - Other Income

During the six months ended March 31, 2010 and 2009, the Company recognized \$141,000 and \$122,000, respectively, in royalties in connection with the terms

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of a 2005 OEM agreement from Lumenis, Inc. These royalties are included in other income in the accompanying statements of operations.

NOTE 7 - Segment Information

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

Data with respect to these operating activities for the three and six months ended March 31, 2010 and 2009 are as follows:

	For the Three Months Ended March 31, 2010 (Unaudited)			For the Three
	Products	Service and Rental	Total	Products
Revenue	\$ 1,067,000	\$ 660,000	\$ 1,727,000	\$ 1,038,000
Cost of sales	746,000	380,000	1,126,000	708,000
<hr/>				
Gross profit	321,000	280,000	601,000	330,000
Expenses:				
Selling, general and administrative	492,000	167,000	659,000	523,000
Research and development	316,000	--	316,000	318,000
<hr/>				
Net Income (loss) from operations	\$ (487,000)	\$ 113,000	(374,000)	\$ (511,000)
<hr/>				
Other:				
Interest income			1,000	
Interest expense			(8,000)	
Royalty income			73,000	
Gain on disposal of assets			--	
Other income			1,000	
Gain on change in fair value of warrant liability			4,000	
Income taxes			4,000	
<hr/>				
Net loss			\$ (307,000)	
<hr/>				

	For the Six Months Ended March 31, 2010 (Unaudited)			For the Six
	Products	Service and Rental	Total	Products
<hr/>				

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Revenue	\$ 2,018,000	\$ 1,363,000	\$ 3,381,000	\$ 2,022,000
Cost of sales	1,428,000	774,000	2,202,000	1,370,000
Gross profit	590,000	589,000	1,179,000	652,000
Expenses:				
Selling, general and administrative	954,000	334,000	1,288,000	1,084,000
Research and development	621,000	--	621,000	614,000
Income (loss) from operations	\$ (985,000)	\$ 255,000	(730,000)	\$ (1,046,000)
Other:				
Interest income			1,000	
Interest expense			(18,000)	
Royalty income			141,000	
Gain on disposal of equipment			--	
Gain on change in fair value of warrant liability			6,000	
Other income			4,000	
Income taxes			9,000	
Net loss			\$ (607,000)	

Sales and gross profit to customers by similar products and services for the three and six months ended March 31, 2009 and 2008 were as follows:

	For the Three Months Ended March 31, (Unaudited)		For the Six Mo (Un
	2010	2009	2010
By similar products and services:			
Revenues:			
Products:			
Laser equipment and accessories	\$ 252,000	\$ 315,000	\$ 513,000
Delivery and disposable devices	815,000	723,000	1,505,000
Service and rental	660,000	594,000	1,363,000
Total	\$ 1,727,000	\$ 1,632,000	\$ 3,381,000
Gross profit			
Products:			
Laser equipment and accessories	\$ 30,000	\$ 35,000	\$ 60,000
Delivery and disposable devices	291,000	295,000	530,000
Service and rental	280,000	228,000	589,000
Total	\$ 601,000	\$ 558,000	\$ 1,179,000

Sales in foreign countries for the quarters ended March 31, 2010 and 2009, accounted for approximately 24% and 20%, respectively, of the Company's total sales. Sales in foreign countries for the six months ended March 31, 2010 and 2009 accounted for approximately 21% and 23%, respectively, of the Company's total sales. The breakdown by geographic region is as follows:

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	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009	Six Months Ended March 31, 2010	Six Months Ended March 31, 2009
Asia	\$ 336,000	\$ 183,000	\$ 468,000	\$ 547,000
Europe	46,000	51,000	108,000	100,000
Latin America	26,000	4,000	40,000	4,000
Middle East	1,000	1,000	4,000	1,000
Australia	14,000	98,000	103,000	109,000
Other	--	--	2,000	--
	\$ 423,000	\$ 337,000	\$ 725,000	\$ 761,000

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All long-lived assets were located in the United States during the six months ended March 31, 2010 and 2009. Total segment assets for the Products segment were \$4,469,000 and Service and Rental were \$1,537,000 at March 31, 2010. 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.

The Company evaluated subsequent events through the issuance date of the financial statements, May 21, 2010, and has disclosed the events identified within this filing.

NOTE 8 - Related Party Transactions

During the six-month period ended March 31, 2010, the Company has a receivable of \$15,000 in connection with services performed for Cardiomedics, Inc., a company owned by our Chief Executive Officer.

NOTE 9 - Subsequent Events

On May 5, 2010, the Company signed an agreement to renew the lease for its facility located at 25901 Commercenter Drive in Lake Forest California. The lease begins June 1, 2010, expires on May 31, 2013, and contains two sixty-month options to extend the lease at the then prevailing market rent. The rent for the first year is at \$24,108 per month, a decrease of \$6,314 or 21.8% from the present lease rate, with the first four months at \$12,054, a decrease of \$18,368 or 60.4% from the present lease rate. The reduction will result in a savings of over \$111,000 during the next twelve months. The lease contains two increases occurring at the end of 12 months and 24 months, for \$29,561 and \$30,422, respectively, with the first increase including a month's free rent.

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

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FORWARD-LOOKING STATEMENTS

This information should be read in conjunction with the condensed consolidated financial statements and notes thereto included in Item 1 of Part I of this Quarterly Report and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended September 30, 2009 contained in our 2009 Annual Report on Form 10-K.

The statements contained in this Quarterly Report on Form 10-Q that are not historical facts may contain forward-looking statements that involve a number of known and unknown risks and uncertainties that could cause actual results to differ materially from those discussed or anticipated by management. 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. We do not undertake any duty to update forward-looking statements after the date they are made or to conform them to actual results or to changes in circumstances or expectations.

OVERVIEW

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 for use in orthopedics, urology, ear, nose and throat 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.

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.

CRITICAL ACCOUNTING POLICIES

Revenue Recognition

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements require the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of

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contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Our management periodically evaluates the estimates and judgments made. Management bases its estimates and judgments on historical experience and on various factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates as a result of different assumptions or conditions.

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The methods, estimates, and judgment we use in applying our most critical accounting policies have a significant impact on the results we report in our financial statements. The SEC has defined "critical accounting policies" as those accounting policies that are most important to the portrayal of our financial condition and results, and require us to make our most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based upon this definition, our most critical estimates relate to the fair value of warrant liabilities. We also have other key accounting estimates and policies, but we believe that these other policies either do not generally require us to make estimates and judgments that are as difficult or as subjective, or it is less likely that they would have a material impact on our reported results of operations for a given period. For additional information see Note 2, "Summary of Significant Accounting Policies" in the notes to our reviewed financial statements appearing elsewhere in this quarterly report and our annual audited financial statements appearing on Form 10-K. Although we believe that our estimates and assumptions are reasonable, they are based upon information presently available, and actual results may differ significantly from these estimates.

RESULTS OF OPERATIONS

Method of Presentation

The unaudited condensed consolidated financial statements include the accounts of Trimedyne, Inc., MST and its 90% owned subsidiary, Cardiodyne.

Quarter ended March 31, 2010 compared to quarter ended March 31, 2009

During the quarter ended March 31, 2010, net revenues were \$1,727,000 as compared to \$1,632,000 for the same period of the previous year, a \$95,000 or 5.8% increase. Net sales from lasers and accessories decreased by \$63,000 or 20.0% to \$252,000 during the three months ended March 31, 2010 from \$315,000 in the same period of the prior year. Lasers carry a high selling price and are subject to a longer, less predictable, closing period which, as a result, can create larger variances between periods. Net sales from delivery and disposable devices increased by \$92,000 or 12.7% to \$723,000 in the current quarter from \$723,000 in the same quarter of the prior year. Net sales from service and rental increased by \$66,000 or 11.1% to \$660,000 from \$594,000 for the same quarters. The increase in service and rental revenue was 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 during the latter part of the prior fiscal year. Export sales increased by \$86,000 or 25.5%.

Cost of sales during the quarter ended March 31, 2010 was \$1,126,000 or 65.2% of net revenues as compared to \$1,074,000 or 65.8% the prior year three-month period. Gross profit from the sale of lasers and accessories was 11.9% as compared to a gross profit of 11.1% for the prior year three-month period. The gross profit from the sale of delivery and disposable devices was 35.7% as compared to 40.8% for the prior year three-month period. This decrease in gross

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profit was primarily due to lower production rates resulting from a temporary shutdown of production due to repairs in the manufacturing facility. Gross profit from revenue received from service and rentals were 42.4% as compared to 38.3% for the prior year three-month period. This increase in gross profit was primarily due to MST's changing its product mix which resulted in higher revenues with greater margins while maintaining its existing overhead.

Selling, general and administrative expenses decreased in the current quarter to \$659,000 from \$673,000 in the prior year quarter, an decrease of \$14,000 or 2.1%. The decrease in selling, general and administrative expenses during the current three-month period compared to the prior year quarter was primarily the result of decreases in commissions expense of \$23,000, insurance related expense of \$17,000, outside administrative services of \$16,000, payroll related expense of \$10,000, professional fees related to accounting of \$6,000, and a reduction of bad debt expense of \$6,000, offset by increases in marketing expense of \$16,000, taxes and licenses expense of \$12,000 and recruiting expense related to MST, Inc. of \$6,000.

Research and development expenditures for the quarter ended March 31, 2010, decreased \$2,000 or 0.6% to \$316,000 as compared to \$318,000 in the quarter ended March 31, 2009. The continuing expenditure for research and development was primarily a result of the Company continuing its product development efforts in developing its new Side-Firing Laser Fibers for sale by the Company, Lumenis, Ltd. and Boston Scientific Corporation.

Other income, net, decreased by \$16,000 or 18.4% to \$71,000 in the quarter ended March 31, 2010 from \$87,000 in the same quarter of the prior year. During the three months ended March 31, 2010, royalty income decreased \$4,000 to \$73,000 as compared to \$77,000 in the prior year three-month period. During the prior year quarter ended March 31, 2009, \$12,000 was recognized as gain on depreciated equipment used as a trade-in on newer equipment for MST.

For the quarters ended March 31, 2010 and 2009, the Company had a net loss of \$307,000 or \$0.02 per share, as compared to a net loss of \$345,000 or \$0.02 per share, respectively, based on 18,365,960 basic weighted average number of common shares outstanding, resulting from the above mentioned factors.

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Six months ended March 31, 2010 compared to six months ended March 31, 2009

During the six months ended March 31, 2010, net revenues increased to \$3,381,000 as compared to \$3,242,000 for the same period of the previous year, a \$139,000 or 4.3% increase. Net sales from lasers and accessories decreased by \$127,000 or 19.8% to \$513,000 during the six months ended March 31, 2010 from \$640,000 in the same period of the prior year. Lasers carry a high selling price and are subject to a longer, less predictable, closing period which, as a result, can create larger variances between periods. Net revenues from delivery and disposable devices increased by \$123,000 or 8.9% to \$1,505,000 during the six months ended March 31, 2010 from \$1,382,000 for the same period decreased by \$30,000 or 3.9% to \$731,000 as compared to \$761,000 in the same period of the prior year. Net revenues from service and rental increased by \$143,000 or 11.7% to \$1,363,000 from \$1,220,000 for the same quarter of the prior year. The increase in service and rental revenue was 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 during the latter part of the prior fiscal year.

Cost of sales during the six months ended March 31, 2010 were \$2,202,000 or

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65.1% of net revenues as compared to \$2,150,000 or 66.3% for the same period of the prior year. Gross profit from the sale of lasers and accessories was 11.7% as compared to 18.5% for the prior year six-month period. The decrease in gross profit was due to a higher percentage of overhead being absorbed in a lower production level as a result of decreasing laser sales. Gross profit from the sale of delivery and disposable devices was 35.2% as compared to 38.6% for the prior year six-month period. This decrease in gross profit was primarily due to due to a higher percentage of overhead being absorbed by lower production rates resulting from a temporary shutdown of production due to repairs in the manufacturing facility during the current quarter. Gross profit from revenue received from service and rentals were 43.2% as compared to 36.1% for the prior year six-month period. This increase in gross profit was primarily due to MST's changing its product mix which resulted in higher revenues with greater margins while maintaining its existing overhead.

For the six months ended March 31, 2010, selling, general and administrative expenses totaled \$1,288,000 as compared to \$1,389,000 for the same period of the previous year, a \$101,000 or 7.3% decrease. The decrease in selling, general and administrative expenses during the current six-month period was primarily the result of decreases in commissions expense of \$44,000, accounting fees of \$27,000, outside services of \$27,000, , insurance expense of \$18,000, legal expense of \$12,000, travel expense of \$11,000, and \$7,000 for bad debt, offset by increases payroll related expenses of \$25,000, taxes and licenses expense of \$14,000 and \$6,000 in employee recruiting expense, specifically for MST.

During the six months ended March 31, 2010, research and development expenses increased to \$621,000 from \$614,000 in the prior year six-month period, an increase of \$7,000 or 1.4%. This increase was a result the Company continuing its product development efforts in developing its new Side-Firing Laser Fibers for sale by the Company, Lumenis, Ltd. and Boston Scientific Corporation.

Other income increased by \$7,000 or 5.6% to \$132,000 in the current six-month period from \$125,000 in the previous six-month period. During the six months ended March 31, 2010, royalty income increased \$19,000 to \$141,000 as compared to \$122,000 in the prior year six-month period. Interest income decreased \$6,000 to \$1,000 as compared to \$7,000 during the same prior year period as a result of lower maintained balances in interest bearing accounts along with declining interest rates. During the current six-month period ended March 31, 2009, a gain of \$7,000 was recorded for the decrease in fair market value of liability for long term warrants. During the prior year \$12,000 was recognized as gain on depreciated equipment used as a trade-in on newer equipment for MST.

For the six months ended March 31, 2010 and 2009, the Company had a net loss of \$607,000 or \$0.03 per share, as compared to a net loss of \$790,000 or \$0.04 per share, respectively, based on 18,365,960 basic weighted average number of common shares outstanding, resulting from the above mentioned factors.

Liquidity and Capital

At March 31, 2010, the Company had working capital of \$3,218,000 compared to \$3,772,000 at the end of the fiscal year ended September 30, 2009. Cash decreased by \$799,000 to \$822,000 from \$1,621,000 at the fiscal year ended September 30, 2009. During the six month period ended March 31, 2010, net cash used in operating activities was \$644,000. Net cash used in investing activities was \$29,000 for the purchase of equipment. Net cash used in financing activities during the same three month period was \$126,000, which was the result of payments on debt incurred for the servicing of loans for equipment and certain insurance policies.

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The Company's working capital has declined and we have incurred losses from developing a new side firing optical fiber device and from operations during the past four years. There can be no assurance that the Company will be able to maintain or achieve sales growth to offset these losses, or that the Company will again become profitable. Based on its current cash flow projections, the Company expects its existing resources will be sufficient to fund operations through November 30, 2010. The accompanying financial statements have been prepared assuming the Company will continue as a going concern. However, management is unsure if the Company's liquidity and anticipated revenues will be sufficient to meet its obligations as they become due for the next 12 months from the balance sheet date. This raises substantial doubt about the Company's ability to continue as a going concern. The Company has taken various steps to reduce its costs through a reduction in personnel positions and overhead costs and deferring partial salaries of some of the members of its management beginning in April. The Company renegotiated its lease on its facility in Lake Forest, California and signed a new lease agreement which will result in a savings of over \$111,000 in rent expense through the next twelve months. The Company plans to raise additional capital through the sale of notes, debentures, equity capital or other Company assets. There is no assurances that these efforts will be successful.

As the result of the Company and Lumenis, Ltd. of Yokneam, Israel ("Lumenis") settling the Company's lawsuit against Lumenis for patent infringement, unfair competition and trade libel, in June 2003, the Company entered into a Terms of Settlement Agreement, and two years later, on August 24, 2005, the Company entered into an OEM Agreement with Lumenis. Under these Agreements, Lumenis is required to purchase all of its requirements for side firing optical fiber devices (emitting laser energy at an angle less than 75 degrees or greater) and 75% of its requirements for angled firing optical devices (emitting laser energy at an angle less than 75 degrees) from the Company, subject to certain conditions, and to pay the Company a royalty of 7.5% of its quarterly sales for all such devices not purchased from the Company through July 21, 2014.

Lumenis is one of the world's largest manufacturers of medical lasers with annual sales of approximately \$250 million. Lumenis markets certain of its products through Boston Scientific Corporation in the United States and Japan and through Lumenis' direct sales force and distributors in other countries.

The Company has spent a significant amount of money to complete the development of its new reliable, durable and fast-vaporizing side firing optical fiber device, primarily for sale to Lumenis under the above Agreements. As of the date of this report, however, Lumenis has not completed certain of the requirements called for under the OEM Agreement necessary to the Company's commencing sales of its devices to Lumenis, including the testing of 30 of the Company's devices and reporting the results to the Company within the proscribed time period, and Lumenis has not commenced its audit of the Company's quality system.

In response to this, in February 2010, the Company submitted an addendum to the OEM Agreement to Lumenis, setting forth firm timelines for completion of the above steps and Lumenis' commencing the purchasing of these devices from the Company, with monetary penalties during the implementation of the timelines and larger monetary penalties if these timelines are missed. As of this date, Lumenis has not agreed to the terms of such addendum, and therefore, the Company has given Lumenis until May 31, 2010 to execute this addendum, with whatever reasonable changes are made in the timelines to which the parties may mutually agree.

OFF BALANCE SHEET ARRANGEMENTS

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None.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK. N/A

ITEM 4. CONTROLS AND PROCEDURES

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

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

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PART II Other Information

ITEM 1. Legal Proceedings

In February, 2008, the Company 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 prior to their date of expiration. The Company 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. One of Cardiofocus' patents was declared invalid and an aggregate of three claims of the other two patents were declared valid by the USPTO, only one of which may pertain to the type of laser we manufacture.

The court issued a stay of the proceedings until October 14, 2009. On October 14, 2009, the defendants (including Trimedyne) sought to extend the stay of the proceedings until October 14, 2010, or until the USPTO's reexamination proceedings have concluded. In March 2010, the court refused to extend the stay and allowed the lawsuit to proceed.

As of March 31, 2010, the Company believes it has adequate defenses to this lawsuit and intends to defend itself vigorously and thus has not provided a provision for losses.

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

Item 3. Defaults Upon Senior Securities
None

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Item 4. Removed and Reserved

Item 5. Other Information
None

Item 6. Exhibits

(a) Exhibits

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

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SIGNATURE PAGE

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

TRIMEDYNE, INC.

Date: May 24, 2010

/s/ Marvin P. Loeb

Marvin P. Loeb
Chairman and
Chief Executive Officer

Date: May 24, 2010

/s/ Jeffrey S. Rudner

Jeffrey S. Rudner
Principal Financial Officer

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