TRIMEDYNE INC
Form 10-K
January 14, 2014

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, 2013

or

o 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.)

5 Holland #223
IRVINE, CALIFORNIA **92618**
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (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 o 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 o 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 o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (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 x No o

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. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o	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 o No x

The aggregate market value of voting and non-voting common equity stock held by non-affiliates of registrant on January 10, 2014 based upon the closing price of the common stock on such date was approximately $1,281,397. As of January 14, 2014 there were outstanding 18,395,960 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 on Form 10-K 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 should carefully review the risk factors described in other documents the Company files from time to time with the U.S. Securities and Exchange Commission, including Quarterly Reports on Form 10-Q filed by the Company in fiscal year 2013.

GENERAL

Trimedyne, Inc. (“Trimedyne”, 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 " Switch Tips") for use in a broad array of medical applications.

Our Lasers, Fibers, Needles and Switch 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 Switch Tips are used are being reimbursed by Medicare and most insurance companies and health plans, but these products are not being reimbursed by Medicare and many other third-party payers for their use in spinal applications.

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 Switch 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 48% of our revenues in the fiscal

year ended September 30, 2013.

The principal market for our 80 watt and 30 watt Holmium Lasers and Side Firing Needles is presently in orthopedics to treat herniated (bulging) and ruptured spinal discs (lumbar, thoracic and cervical), two of the four major causes of lower back, neck and leg pain. Our minimally-invasive spinal procedures are typically performed on an outpatient basis. Our Lasers and Switch Tips are also used in orthopedics to treat damage in joints, such as those in the spine and the knee, shoulder, elbow, hip, ankle and wrist, in minimally-invasive, outpatient, arthroscopic procedures, called Arthroscopy procedures.

We also sell Single Use and Reusable FlexMax(R) optical fibers ("Fibers") for use with our 80 watt and 30 watt Holmium Lasers (and those made by others with compatible connectors) for fragmenting urinary stones in the kidney, ureter or bladder, a procedure called "lithotripsy". Since lithotripsy is an established procedure that urologists know how to perform, little training is required, and sales of these Fibers and Lasers used with these Fibers represents our second market.

We introduced a fast vaporizing, very durable Side Firing VaporMAX(R) Laser Fiber for use in the Urology field with our 80 watt Holmium Lasers, (and 80 watt and 100 watt Holmium Lasers made by others with compatible connectors) for the treatment of benign prostatic hyperplasia or "BPH", commonly called an enlarged prostate. However, with our small sales force, sales of these Fibers have not been material.

We have recruited and trained a small number of distributors outside the U.S. to market our Lasers, Fibers, Needles and Switch Tips, but sales in this uncertain worldwide economy are more difficult to achieve than in the past.

THE UROLOGY MARKET

Due to our very small distributor sales organization and limited capital resources to support marketing of our products, sales of our Lasers, Fibers, Needles and Switch Tips in Urology have been less than we would like.

LICENSE AGREEMENT WITH LUMENIS

In August 2010, we entered into a Settlement and a Non-Exclusive License Agreement with Lumenis, Ltd. of Yokneam, Isreal ("Lumenis"), covering two of our patents. The License Agreement expires on July 31, 2014, the date on which the last of the patents expires. Lumenis is one of the largest manufacturer of medical lasers. Royalties paid under the License Agreement in the fiscal year ended September 30, 2013 were $98,000, and will no longer be paid after July 31, 2014.

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THE LITHOTRIPSY MARKET

Many people in the Unites States and elsewhere throughout the world develop stones in the kidney, some of which pass into the ureter, or develop in the bladder. Holmium Lasers are ideal for fragmenting these stones, as our Holmium Lasers produce very short, 350 microsecond pulses of energy, which can shatter or fragment stones of any hardness, composition or color. We manufacture Single use (disposable) and Reusable FLEXMAX(R) straight-ahead firing Fibers, for use in lithotripsy procedures.

THE SPINAL DISC MARKET

Our 80 watt and 30 watt Holmium Lasers (and those of others with compatible connectors) can be used to transmit laser energy through our Side Firing Laser Needles to treat herniated (contained) or ruptured (non-contained) spinal discs (lumbar, thoracic or cervical) in minimally- invasive procedures, which are typically performed on an outpatient basis in as little as 45 minutes, usually with only local anesthesia. The lower back, leg and neck pain typically is significantly reduced or eliminated on the operating table, and the patient walks out with a Band Aid(R) on the puncture (stitches are usually not required). Most patients can return to light activities in a few days and to work in a week or two. Clinical Studies on the use of our Lasers and Needles in spinal disc procedures, published in medical journals, show success rates (good or excellent results, based on accepted pain score criteria) of 80% 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 one to three day or longer hospital stay, bleeding, post-operative pain and a recovery period of a week or two or a month or longer, often with physical therapy or exercise programs for up to six months. Papers on conventional surgery to treat herniated or ruptured discs in the spine, published in medical journals, show the success rates of conventional disc surgery to be only 40% to 77%, based on similar pain score criteria.

Our clinical results in the spinal disc market are better than those of conventional surgery and are less costly to third party payers. However, controlled clinical trials are required to obtain Medicare and other third-party reimbursement, are very expensive and are beyond our means. In the absence of large, randomized, controlled clinical trials, our Lasers and Side Firing Laser Needles are not reimbursed by Medicare and many other third-party payors, making it difficult to interest surgeons in their use and expand our sales of these devices.

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 $43,000 to $127,500, particularly for new medical procedures whose frequency of use is not known. Hospitals also traditionally suffer from a lack of funds to buy expensive capital equipment, and they prefer to avoid having to train their staff to operate new, complex equipment. As a result, many 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 the demonstration of our products. If requested, MST also supplies Fibers, Needles or Switch Tips and includes their price in the "per case" fee. MST represents one of our three principal businesses.

OTHER MARKETS

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

CONTROLLING OUR COSTS

As a result of the above, we are concentrating on reducing our overhead and our cost of operations. As a result of these efforts and the successful settlement of a patent infringement lawsuit for a one-time gain of $433,000, and the receipt of $166,000 from our insurance carrier due to its acquisition from another party, we were able to achieve a net profit of $329,000 in the fiscal year ended September 30, 2013, compared to a net loss of $836,000 in the prior fiscal year in which we had a non-recurring gain of $200,000 resulting from the Company entering into an agreement for the sale of certain patents and an insurance settlement for $35,000.

FUTURE MARKETING PLANS

We are working on new variations of our Lasers, Fibers, Needles and Switch Tips and new applications for our Lasers, Fibers, Needles and Switch Tips. Developing new Lasers, Fibers, Needles and Switch Tips for new medical applications entails considerable expense and risk and will require large, randomized, controlled clinical trials to demonstrate their safety and efficacy for FDA approval or marketing clearance and their cost-savings to Medicare and other third-party payers for reimbursement, the success of which cannot be assured.

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While we have about 20 years of experience in designing, developing, manufacturing and marketing Holmium Lasers, Fibers, Needles and Switch Tips, we cannot assure that any new optical fiber devices or different lasers we may attempt to develop for new applications can be completed at an affordable cost or in a timely manner, or will enable us to raise money to conduct the necessary clinical trials and, if successful, obtain reimbursement and enable us to market these products.

We believe our existing and proposed new Lasers and our new, patented and patent pending Side Firing Needles and Fibers can be used to treat a variety of conditions affecting many millions of people in the United States and in foreign countries, and we are working on a new plan to bring these products to the market.

On November 28, 2012, we issued a Press Release in which we announced our plan to create seven subsidiaries, each of which would attempt to raise capital to finance one to three, 300 patient, randomized, controlled clinical trials of our Lasers, Side Firing Needles and Fibers in the treatment of one to three conditions in each subsidiary's field of medicine. These conditions affect millions of people in the U.S. and elsewhere and, if these clinical trials are successful, which cannot be assured, could each generate very large sales.

Since we cannot afford to fund large, randomized, controlled clinical trials to prove the safety and efficacy of our new Lasers, Fibers, Needles and Tips in the treatment of multiple medical conditions, each of these subsidiaries is seeking capital to conduct these clinical trials, the success of which cannot be assured, and there is no assurance that any of these subsidiaries will be successful in their fund raising efforts.

Since we have commenced the distribution of Offering Memorandums of the proposed subsidiaries to venture capital firms and others, we made this announcement to assure that our plans are properly disclosed to the public and to avoid prospective investors trading in Trimedyne's shares based on non-public information. If and when any of our subsidiaries are successful in raising sufficient capital to finance any of its proposed clinical trials, we will issue a Press Release to advise you.

RESEARCH AND DEVELOPMENT

From its inception to September 30, 2013, an aggregate of $56,120,000 has been expended by the Company for research and development ("R&D"), including clinical and regulatory activities, of which $407,000 and $673,000 was expended during the fiscal years ended September 30, 2013 and 2012, respectively. These expenditures have resulted in the issuance of a number of patents to the Company (See "PATENTS" herein).

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.

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. The Company anticipates marketing only those products which are customarily sold to the same customer groups to whom its Lasers and Fibers, Needles and SwitchTips 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, 2013, the Company had marketing arrangements for the sale of its Lasers, Fibers, Needles and Switch Tips with a limited number of straight commission sales representatives in the United States. Outside the United States, the Company sells its products through 22 independent distributors who sell our products and medical products manufactured by others in approximately 28 foreign countries. Our U.S. sales representatives and our foreign distributors devote only a limited portion of their time to selling our products. The Company presently employs a Vice President of Sales and Marketing, who directs the Company's sales and marketing activities in the United States and elsewhere.

There is no assurance that the Company will be able to enter into marketing arrangements with any new independent sales representatives 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.

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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 US FDA in July 2011, and by the state of California Food and Drug Branch in August 2011. 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.

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. All of the Company's currently marketed Lasers and fiber-optic laser energy delivery devices have been cleared for sale in the United States by the FDA under 510(k) notifications.

All of the Company's currently marketed Lasers and fiber-optic laser energy delivery devices have been cleared for sale in the United States by the FDA, and all but our 30 watt Holmium Lasers have been granted the CE mark under 510(k) Notifications.

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 under development 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 2011.

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 there from 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. Presently, Medicare accepts only randomized, controlled clinical studies which have been published in peer-reviewed medical journals, which are costly. 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, 2013, the Company had 36 full-time employees, of whom 16 were employed by MST. Of the remainder, 13 were engaged in production and engineering, one in sales and marketing, and six in general and administrative functions. On September 30, 2013, the Company had six part-time employees of whom three were engaged in production and R&D, and three 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

As of September 30, 2013, the Company owned or had licenses to 18 U.S. Patents, two foreign Patents, and five U.S. patent applications.

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.

In January 2012, the Company entered into an agreement for the sale of certain patents held by the Company to a third party. Under the terms of the agreement the Company received a non-refundable payment of $200,000, and we received a non-exclusive, royalty free license to the patents. If the third party entered into any litigation regarding any infringement of these patents, the Company would receive 35% of all net (after legal fees) proceeds received by the third party, up to $6 million, less the initial $200,000 payment and 50% of net proceeds over $6 million, if any. The third party filed a lawsuit against a large foreign company that the third party believed was infringing some of the patents sold to the third party by Trimedyne. During the fiscal year ended September 30, 2013, the Company received $433,000 as a result of the above sale and agreement.

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 Ltd., 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., 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.

During the current fiscal year ended September 30, 2013 the Company renewed a directors and officer liability insurance policy in the amount of $2,000,000 obtained during the prior fiscal year.

FOREIGN OPERATIONS

In fiscal 2013 and 2012, sales of products in foreign countries accounted for approximately 19.0% and 22.5%, 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 relocated its facility in California in June of 2013 and currently occupies approximately 9,215 sq. ft, office, R&D, manufacturing and warehouse facility at 5 Holland #223, Irvine, California, 92618. On April 12, 2013 the Company signed a new lease for the new location of our facility located in California beginning May 1, 2013. The lease term is for 36 months with two increases over the term. The initial monthly amount of rent to be paid is $6,911 with the second month free, followed by an increase in monthly rent to $7,118 beginning month 13 and another increase beginning month 24 to $7,332, with the 25th month rent free.

The Company's subsidiary, MST, currently occupies approximately 3,000 square feet of office space in Dallas, Texas, which it leases at a rental of $3,375 per month through August 31, 2016.

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 is currently not a defendant or co-defendant in any litigation. 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 of $5,000,000. Trimedyne's liability is limited to a maximum of $25,000 per occurrence unless the judgment against the Company exceeds the insurance coverage. In such case, Trimedyne would be liable for any liability in excess of $5,000,000.

ITEM 4. [REMOVED AND RESERVED]

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 Company’s Common Stock is also being quoted in the Pink Sheet market. 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:

2012	High	Low
Quarter ended:		
December 31, 2011	$0.15	$0.07
March 31, 2012	0.12	0.07
June 30, 2012	0.12	0.05
September 30, 2012	0.10	0.02

2013	High	Low
Quarter ended:		
December 31, 2012	$0.11	$0.03
March 31, 2013	0.14	0.07
June 30, 2013	0.29	0.08
September 30, 2013	0.22	0.10

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, 2013, 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, 2013 with respect to shares of the Company's common stock that may be issued through its employee compensation plans:

PLAN CATEGORY	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS (a)	WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS (b)	NUMBER OF SECURITIES REMAINING AVAILABLE FOR FUTURE ISSUANCE UNDER EQUITY COMPENSATION PLANS (EXCLUDING SECURITIES REFLECTED IN COLUMN(a)) (c)
Equity compensation plans not approved by security holders	839,400	$ 0.20	1,160,600
Total	839,400	$ 0.20	1,160,600

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.

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. Sales tax collected from customers are not considered revenue and are included in accounts payable and accrued liabilities until remitted to the taxing authorities.

Revenues from the sale of Lasers, Fibers, Needles and Switch 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.

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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's facility in California may rent 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, 2013 and 2012, one Laser was being rented by Trimedyne's facility in California on a month-to-month basis. For this laser, rental revenue was 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 2013 and 2012 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 standard-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.

During the prior fiscal year ended September 30, 2012, we wrote down our inventory an additional $225,000 for slow-moving products and estimated obsolescence. During the current fiscal year ended September 30, 2013 the allowance was reduced by $61,000 due to our use of previously reserved inventory net of the current inventory reserved.

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.

In September 2011, the Financial Accounting Standards Board ("FASB") issued guidance that simplified how entities test for goodwill impairment. This guidance permits entities to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. We elected to early adopt this guidance and, in connection with our annual goodwill impairment test that was conducted during the fourth quarter of the year ended September 30, 2013, we concluded that it was more likely than not that the fair values of our reporting units were greater than their carrying amounts. After reaching this conclusion, no further testing was performed. The qualitative factors we considered included, but were not limited to, general economic conditions, our outlook in the rental laser service market, and our recent and forecasted financial performance.

In the event the qualitative assessment results in the conclusion that the carrying value of goodwill may not be supported, 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.

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 2013 AND 2012

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, 2013 and 2012:

	Year Ended September 30,	
	2013	2012
Net revenues	100.0%	100.0%
Cost of sales	60.5	67.2
Selling, general and administrative expenses	38.9	41.0
Research and development expenses	6.8	11.1
Interest expense	0.0	0.2
Other income, net	12.0	5.7
Income taxes	0.3	0.2
Net income loss	5.5	(13.8)

NET REVENUES

Net revenues decreased $91,000 or 1.5% in fiscal 2013 to $5,989,000 from $6,080,000 in fiscal 2012. Net sales from Lasers and accessories decreased by $277,000 or 35.5% to $504,000 during the fiscal year ended September 30, 2013 from $781,000 during the prior fiscal year, primarily due to a decrease in domestic sales for those products. Sales from Fibers, Needles and SwitchTips decreased by $181,000 or 6.5% to $2,626,000 during the current fiscal year ended September 30, 2013 from $2,807,000 during the prior fiscal year. The decrease in sales from Fibers, Needles and Switch Tips was primarily due to the delaying of shipments resulting from the impact on manufacturing due to the relocation of our facility in California. International export revenues decreased $235,000 or 17.1% to $1,136,000 during fiscal 2013 from $1,371,000 during fiscal 2012 due to a decrease in Laser sales revenue in Latin America and the impact on manufacturing due to the relocation of our facility in California. Net revenues from "per case" rentals and field service and rental increased by $367,000 or 14.7% in fiscal 2013 to $2,859,000 from $2,492,000 in fiscal 2012, primarily due to an decrease in per-case revenue from MST for BPH procedures.

COST OF GOODS SOLD

Cost of sales in fiscal 2012 was approximately 60.5% of net revenues, compared to 67.2% in fiscal 2012. Gross profit from the sale of Lasers and accessories during the fiscal year ended September 30, 2013 was 15.7% as compared to (1.41)% for the prior year fiscal period. The lower gross profit from the sale of lasers during the prior fiscal year ended September 30, 2012 as compared to the current fiscal year was the primarily the result of a year-end adjustment of $80,000 to reserve excess inventory of raw materials relating to the production of Lasers during the prior fiscal year along with the sale of a fully amortized demo Laser during the current fiscal year. Gross profit from the sale of Fibers, Needles and Switch Tips during the fiscal year ended September 30, 2013 was 50.7% as compared to 40.3% for the prior fiscal year period. The higher gross profit from the sale of Fibers, Needles and Switch Tips during the current fiscal year ended September 30, 2013 as compared to the prior fiscal year was primarily due a one-time adjustment resulting from the re-evaluation of inventory cost standards during the prior fiscal year along with lower manufacturing overhead resulting from the relocation to a smaller manufacturing facility in California. Gross profit from revenue received from service and per case rentals was 33.6% in the current fiscal year as compared to 35.2% for the prior fiscal year period. The lower gross profit for the service and rental segment during the current year as compared to the previous fiscal year was primarily attributable to a decrease in revenues received for billable services at our California facility due to our temporary shutdown to relocate, while having to maintain existing overhead.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative ("SG&A") expenses decreased $165,000 or 6.6% to $2,329,000 in fiscal 2013, compared to $2,494,000 in fiscal 2012. The decrease in fiscal 2013 was primarily the result of decreases in commission expense of $74,000, payroll related expense of $51,000, marketing expense of $94,000, rent expense of $33,000, outside services expense of $24,000 and travel expense of $18,000, offset by expenses incurred for the

relocation of the Company’s facility in California of $129,000.

RESEARCH AND DEVELOPMENT (R&D) EXPENSES

R&D expenses decreased $266,000 or 39.5% to $407,000 in fiscal 2013, compared to $673,000 in fiscal 2012. R&D as a percentage of net revenues decreased to 6.8% of net revenues in fiscal 2013 as compared to 11.1% in fiscal year 2012 primarily due to the temporary cessation of projects to prepare for the Company’s relocation to a new facility along with reductions in staff. During the fiscal year ended September 30, 2013, R&D activities consisted of producing samples and documentation for interstitial fiber optic delivery systems, expanding the existing line of single use and reusable bare fibers, optimizing label production and inspection for existing products, and updating risk management files in compliance with current international standards.

OTHER INCOME AND EXPENSE

Total other income, net increased $367,000 or 105.8% to $714,000 in fiscal 2013 from $347,000 in fiscal 2012.

In January 2012, the Company entered into an agreement for the sale of certain patents held by the Company to a third party. Under the terms of the agreement the Company received a non-refundable payment of $200,000, and we received a non-exclusive, royalty free license to the patents. If the third party entered into any litigation regarding any infringement of these patents, the Company would receive 35% of all net (after legal fees) proceeds received by the third party, up to $6 million, less the initial $200,000 payment and 50% of net proceeds over $6 million, if any. The third party filed a lawsuit against a large foreign company that the third party believed was infringing some of the patents sold to the third party by Trimedyne. During the fiscal year ended September 30, 2013, the Company received $433,000 as a result of the litigation above per the agreement.

During the current fiscal year ended September 30, 2013, the Company received $166,000 from our insurance carrier due to its acquisition from another party.

Income from royalties decreased $18,000 or 15.5% to $98,000 in fiscal 2013 from $116,000 in fiscal 2012. This decrease was due to a decrease of Lumenis' sales of side-firing and angled-firing devices for which we receive royalties.

During the current and prior fiscal years, we accrued a provision for state income tax of $9,000 due to the net income apportioned to MST.

NET PROFIT

As a result of the above, the net income in fiscal 2013 was $329,000, compared to a net loss of $836,000 in fiscal 2012. There were one-time items in 2013 totaling $610,000 to achieve a net profit.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows

At September 30, 2013, we had working capital of $2,711,000 compared to $2,325,000 at the end of the previous fiscal year ended September 30, 2012. Cash increased by $1,100,000 to $1,572,000 at September 30, 2013 from $472,000 at the fiscal year ended September 30, 2012.

In fiscal 2013, net cash provided by operating activities was $1,434,000, as compared to net cash used of $270,000 in fiscal 2012. The increase in net cash provided by operations was primarily due to the receipt of $600,000 in other income from an agreement for litigation of certain patents combined with a receipt from our insurance carrier (see Other Income and Expense). Net cash used in investing activities was $188,000, primarily for the purchase of leasehold improvements purchased for the relocation of our facility in California in fiscal 2013 and the purchase of equipment for MST, compared to net cash used of $34,000 in fiscal 2012. Net cash used in financing activities during fiscal 2013 was $146,000 compared to net cash used of $375,000 in fiscal 2012. In fiscal 2013, we continued to make payments on capital leases and notes payable related to insurance policies. During the prior fiscal year we made payments of $188,000 on capital leases and notes payable related to insurance policies and we paid off the remainder of $187,000 for a note issued to a related party in fiscal 2011.

Management's Plans

The Company is currently pursuing market development efforts in Asia, Latin America and Eastern Europe. We believe that by expanding healthcare infrastructure in these markets we may be able to create a sustained demand for Holmium Lasers applied to Spinal Endoscopy and Laser Lithotripsy. Additionally, we expect the global trend toward single-use disposable laser delivery products will improve sales and profit margins as more hospitals convert from multi-use products, due to concerns for sterility and interests to reduce handling costs incurred in product sterilization, and we are developing more single-use products.

MATERIAL TRANSACTION WITH RELATED PARTY

Secured Note Payable to Related Party

On March 3, 2011, the Company was loaned $250,000 by Marcia H. Yeik Irrevocable Living Trust (the “Trust”), Marcia H. Yeik trustee thereof, the daughter of Marvin Loeb, CEO and Chairman, and the wife of Glenn D. Yeik, President and a member of the Board of Directors of the Company. Evidenced by a Note Payable (the “Note”) with a principal amount of $250,000 at an interest rate of 12% per annum, the Note required monthly payments through April 2, 2013. The proceeds from the Note were used to pay accounts payable due to a vendor in connection with the purchase of property and equipment for MST. The Note was subordinated to the security interest of the holder of the Company’s Senior Note, and was payable in increments applied to the principal at $10,416 per month along with accrued interest on the remaining principal over the life of the Note.

On June 27, 2011, with the consent of the related party and approval by the Board of Directors, the interest rate of the Note was amended to 6% per annum and the Trust had the right to call the Note at any time and demand immediate payment of all unpaid principal and all accrued interest. The Note was paid in full with accrued interest on January 3, 2012.

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. 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.

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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, 2010, 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, 2013.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

1. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

2. provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

3. provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company’s assets that could have a material effect on our financial statements.

A material weakness is a control deficiency (within the meaning of Public Company Accounting Oversight Board (“PCAOB”) Auditing Standard No. 5) or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

Under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Accounting Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of the period covered by this report based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on the results of management’s assessment and evaluation, our Principal Executive Officer and Principal Accounting Officer concluded that our internal control over financial reporting, initially determined at September 30, 2012, was not effective due to the material weaknesses described below.

Material Weaknesses

1. Our financial reporting has been delayed due to being understaffed in our accounting department.

Management planned to remediate the material weaknesses described above as quickly as practical.

Attestation Report of the Independent Registered Public Accounting Firm

This annual report on Form 10-K does not include an attestation report by the Company's registered public accounting firm regarding internal control over financial reporting, because Management's report in the annual report was not subject to attestation by the Company's independent registered public accounting firm, pursuant to temporary rules of the SEC that permit the Company to provide only a management's report.

Changes in Internal Control over Financial Reporting

Other than the remediation of the material weaknesses described above during the prior fiscal year ended September 30, 2012, there have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13-15(f) and 15d-15(f) under the Exchange Act) during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

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 2013.

Name	Age	Position
Marvin P. Loeb	87	Chairman and CEO
Glenn D. Yeik	46	President, COO, and Director
Brian T. Kenney	57	V.P. - Global Sales and Marketing
Donald Baker	84	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. Mr. Yeik was a Director of Cardiomedics, Inc., a privately held company which developed and is marketing a circulatory assist device, from October 2004 to January 2013. 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 and Audit Committee Chairman since September 2008. He also has been a director of Cardiodyne, Inc. since August 1996. Mr. Baker retired after 39 years as a Managing 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 than 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 fiscal 2011.

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 Chairman and Director. 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.

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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. The Committee met once and acted by unanimous written consent during fiscal 2013 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 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, 2013, 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, 2013, for filing with the Securities and Exchange Commission.

/s/ Don Baker

January 14, 2014

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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 not formally adopted a written code of ethics that applies to our board of directors, principal executive officer, principal financial officer and employees.

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. During the fiscal years ended September 30, 2013 and 2012, none and 100,000 option awards were granted to executive officers, respectively.

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, 2013 and 2012, 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 2013 and 2012:

Name and Principal Position	Year	Salary ($)	Option Awards ($) (2)	All Other Compensation ($) (3)	Total ($)
Marvin P. Loeb	2013	$121,257	$–	$ 24,241	$145,498
CEO and Chairman	2012	$121,257	$–	$ 22,396	$143,653
Glenn D. Yeik	2013	$159,135	$–	$ 32,294	$191,429
COO, President, and Director	2012	$159,135	$13,000	$ 29,281	$201,416
Brian T. Kenney, V.P.	2013	$120,000	$–	$ 85,410	$205,410
	2012	$120,000	$–	$ 86,571	$206,571

(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 2013 and 2012 fiscal year for the fair value of stock options granted to the named executive officers in accordance with ASC 718. 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 2013 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 and (v) Company paid medical benefits.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END

Name	Option Awards				
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date
Marvin P. Loeb	78,000			0.14	5/10/2017
Glenn D Yeik	60,000			0.14	5/10/2014
	75,000			0.60	4/15/2015
	100,000			0.13	3/31/2016
Brian T. Kenney	25,000			0.14	5/10/2021

None of Messrs. Loeb, Yeik, or Kenney exercised any options during fiscal years 2013 or 2012.

DIRECTOR COMPENSATION IN FISCAL YEAR 2013 AND 2012

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.

During the fiscal year ended September 30, 2013 and 2012, no such grants were given. No options were exercised during the fiscals ended September 30, 2013 and 2012.

Compensation Committee Interlocks and Insider Participation

During 2013 and 2012, 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 2013 and 2012.

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, 2012 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.

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	PERCENT OF CLASS OUTSTANDING*
	MAJOR SHAREHOLDERS		
Common Stock $.01 Par Value	Marvin P. Loeb, Chairman & CEO (1) 5 Holland #223 Irvine, CA 92618	2,603,028	14.2%
	Corsair Capital, LLC. (6) 717 Fifth Avenue, 24 Floor New York, NY 10022	1,140,000	6.2%
	Seth Hamot and his associates c/o Costa Brava Partnership III L.P. 420 Boylston Street Boston, MA 02116	1,013,536	5.5%
	Bruce J. Haber and his associates 145 Huguenot Street, Suite 405 New Rochelle, NY 10801	931,653	5.1%
	OTHER DIRECTORS AND EXECUTIVE OFFICERS		
	Donald Baker, Director (2) 544 Earlston Road Kenilworth, IL 60043	110,000	*
	Glenn D. Yeik, Pres. COO (3)(5)	537,351	2.9%
	Brian T. Kenney, V.P. (4)(5)	60,000	*
	All Directors and Executive Officers as a Group (4 persons)	3,310,379	18.0%

* Indicates less than 1%

(1) Consists of 2,525,028 Shares owned by Mr. Loeb and his wife, adult children, grandchildren and trusts for their benefit, of which Mr. Loeb is not a beneficiary, Options to purchase 78,000 Shares.
(2) Consists of 50,000 Shares and Options to purchase 60,000 Shares.
(3) Consists of 230,351 Shares, and Options to purchase 235,000 Shares.
(4) Consists of 35,000 Shares and Options to purchase 25,000 Shares.

(5) Address is 5 Holland #223, Irvine, CA 92618
(6) Consists of Shares owned by funds managed by Corsair Capital, LLC.

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

During the fiscal year ended September 30, 2013 and 2012, the Company had the following related party transactions:

Secured Note Payable

On March 3, 2011, the Company was loaned $250,000 by Marcia H. Yeik Irrevocable Living Trust (the “Trust”), Marcia H. Yeik trustee thereof, the daughter of Marvin Loeb, CEO and Chairman, and the wife of Glenn D. Yeik, President and a member of the Board of Directors of the Company. Evidenced by a Note Payable (the “Note”) with a principal amount of $250,000 at an interest rate of 12% per annum, the Note required monthly payments through April 2, 2013. The proceeds from the Note were used to pay accounts payable due to a vendor in connection with the purchase of property and equipment for MST. The Note was subordinated to the security interest of the holder of the Company’s Senior Note, and was payable in increments applied to the principal at $10,416 per month along with accrued interest on the remaining principal over the life of the Note.

On June 27, 2011, with the consent of the related party and approval by the Board of Directors, the interest rate of the Note was amended to 6% per annum and the Trust had the right to call the Note at any time and demand immediate payment of all unpaid principal and all accrued interest. The Note was paid in full with accrued interest on January 3, 2012.

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 dbbMckennon, our Independent Registered Public Accounting Firm, during the fiscal years ended September 30, 2013 and September 30, 2012 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,	
	2013	2012
(i) Audit Fees	83,000	84,000
(ii) Audit Related Fees	–	–
(iii) Tax Fees	8,500	8,500
(iv) All Other Fees	–	–

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. All fees during the periods reported were pre-approved by the audit committee.

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
101.INS	XBRL Exhibit
101.SCH	XBRL Exhibit
101.CAL	XBRL Exhibit
101.DEF	XBRL Exhibit
101.LAB	XBRL Exhibit
101.PRE	XBRL Exhibit

*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 14, 2014 By: /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 14, 2014
/s/ Glenn D. Yeik Glenn D. Yeik	President, COO Director	January 14, 2014
/s/ Donald Baker Donald Baker	Director	January 14, 2014
/s/ Jeffrey S. Rudner Jeffrey S. Rudner	Principal Accounting Officer	January 14, 2014

TRIMEDYNE, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Financial Statements:

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Trimedyne, Inc.

We have audited the accompanying consolidated balance sheets of Trimedyne, Inc. and subsidiaries (the "Company") as of September 30, 2013 and 2012, and the related consolidated statements of operations, stockholders' equity and cash flows for the years 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 audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits 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 audits 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 audits provide 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 subsidiaries as of September 30, 2013 and 2012, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ dbbmckennon

Newport Beach, California

January 14, 2014

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TRIMEDYNE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	As of September 30,	
	2013	2012
ASSETS (NOTE 4)		
Current assets:		
Cash and cash equivalents	$1,572,000	$472,000
Trade accounts receivable, net of allowance for doubtful accounts of $11,000 for 2013 and 2012	475,000	493,000
Inventories	1,201,000	1,847,000
Other current assets	166,000	158,000
Total current assets	3,414,000	2,970,000
Property and equipment, net	706,000	751,000
Other	37,000	68,000
Goodwill	544,000	544,000
Total assets	$4,701,000	$4,333,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$177,000	$149,000
Accrued expenses	416,000	352,000
Deferred revenue	37,000	53,000
Accrued warranty	16,000	23,000
Taxes Payable	8,000	–
Current portion of note payable and capital leases	49,000	68,000
Total current liabilities	703,000	645,000
Deferred rent	11,000	43,000
Total liabilities	714,000	688,000
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock - $0.01 par value, 1,000,000 shares authorized, none issued and outstanding	–	–
	186,000	186,000

Common stock - $0.01 par value; 30,000,000 shares authorized,18,497,569 shares issued, 18,395,960 shares outstanding at September 30, 2013 and 2012.		
Additional paid-in capital	51,308,000	51,295,000
Accumulated deficit	(46,794,000)	(47,123,000)
	4,700,000	4,358,000
Treasury stock, at cost (101,609 shares)	(713,000)	(713,000)
Total stockholders' equity	3,987,000	3,645,000
Total liabilities and stockholders’ equity	$4,701,000	$4,333,000

See accompanying notes to consolidated financial statements.

TRIMEDYNE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	For The Years Ended September 30,	
	2013	2012
Net revenues:		
Products	$3,130,000	$3,588,000
Service and rental	2,859,000	2,492,000
	5,989,000	6,080,000
Cost of sales:		
Products	1,721,000	2,467,000
Service and rental	1,900,000	1,616,000
	3,621,000	4,083,000
Gross profit	2,368,000	1,997,000
Selling, general and administrative expenses	2,329,000	2,494,000
Research and development expenses	407,000	673,000
Loss from operations	(368,000)	(1,170,000)
Other income (expense):		
Royalty income	98,000	116,000
Interest expense	(2,000)	(10,000)
Settlements and other	610,000	41,000
Net gain on disposable of assets	8,000	–
Net gain on sale of patents	–	200,000
Total other income, net	714,000	347,000
Income (loss) before provision for income taxes	346,000	(823,000)
Provision for income taxes	17,000	13,000
Net income (loss)	$329,000	$(836,000)
Basic net income (loss) per share	$0.02	$(0.05)
Diluted net income (loss) per share	$0.02	$(0.05)
Basic weighted average common shares outstanding:	18,395,960	18,395,960
Diluted weighted average common shares outstanding:	18,395,960	18,395,960

See accompanying notes to consolidated financial statements.

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TRIMEDYNE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-In	Accumulated	Treasury	
	Shares	Amount	Capital	Deficit	Stock	Total
Balances at September 30, 2011	18,497,569	$186,000	$51,268,000	$(46,287,000)	$(713,000)	$4,454,000
Share-based compensation expense	–	–	27,000	–	–	27,000
Net loss	–	–	–	(836,000)	–	(836,000)
Balances at September 30, 2012	18,497,569	$186,000	$51,295,000	$(47,123,000)	$(713,000)	$3,645,000
Share-based compensation expense	–	–	13,000	–	–	13,000
Net income	–	–	–	329,000	–	329,000
Balances at September 30, 2013	18,497,569	$186,000	$51,308,000	$(46,794,000)	$(713,000)	$3,987,000

See accompanying notes to consolidated financial statements.

TRIMEDYNE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For The Years Ended September 30,	
	2013	2012
Cash flows from operating activities:		
Net income (loss)	$329,000	$(836,000)
Adjustments to reconcile net income (loss) to net cash provided by (used) in operating activities:		
Stock-based compensation	13,000	27,000
Depreciation and amortization	241,000	310,000
Gain on disposal of fixed assets	(8,000)	–
Changes in operating assets and liabilities:		
Trade accounts receivable	18,000	105,000
Inventories	646,000	315,000
Other assets	150,000	119,000
Accounts payable	28,000	(120,000)
Accrued expenses	64,000	(77,000)
Accrued interest to related party	–	(1,000)
Deferred revenue	(16,000)	(40,000)
Accrued warranty	(7,000)	(15,000)
Deferred rent	(32,000)	(57,000)
Taxes payable	8,000	–
Net cash provided (used in) by operating activities	1,434,000	(270,000)
Cash flows from investing activities:		
Purchase of property and equipment	(188,000)	(34,000)
Net cash used in investing activities	(188,000)	(34,000)
Cash flows from financing activities:		
Payments on note payable to related party	–	(187,000)
Principal payments on note payable and capital leases	(146,000)	(188,000)
Net cash used by financing activities	(146,000)	(375,000)
Net increase (decrease) in cash and cash equivalents	1,100,000	(679,000)
Cash and cash equivalents at beginning of year	472,000	1,151,000
Cash and cash equivalents at end of year	$1,572,000	$472,000

Cash paid for income taxes in the years ended September 30, 2013 and 2012 was $11,000 and $16,000, respectively.
Cash paid for interest in the years ended September 30, 2013 and 2012 was $2,000 and $6,000, respectively.

Supplemental disclosure of non-cash investing activity:

During the fiscal years ended September 30, 2013 and 2012, the Company financed the purchase of certain insurance policies with a $107,000 and $110,000 note, respectively.

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 reusable 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).

At September 30, 2013, we had working capital of $2,711,000 compared to $2,325,000 at the end of the previous fiscal year ended September 30, 2012. Cash increased by $1,100,000 to $1,572,000 at September 30, 2013 from $472,000 at the fiscal year ended September 30, 2012.

The Company is currently pursuing market development efforts in growth markets in Asia, Latin America and Eastern Europe. We believe that by expanding healthcare infrastructure in these markets, we may be able to create a sustained demand for Holmium Lasers applied to Spinal Endoscopy, Laser Lithotripsy and Laser prostate ablation. Additionally, we expect the global trend toward single-use disposable laser delivery products will improve sales and profit margins as more hospitals convert from multi-use products, due to concerns for sterility and interests to reduce handling costs incurred in product sterilization, and we are developing more single-use products.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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"). 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. 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 2013 and 2012, credit losses were not significant.

During the current fiscal year ended 2013, the Company had sales to one customer, which represented approximately 11% of product sales. During the fiscal year ended 2012, the Company had sales to two customers, which represented approximately 26% of product sales. During the fiscal years ended September 30, 2013 and 2012, there were no concentrations of service and rental sales.

If the relationship between the Company and these customers was altered, the futures results of operations and financial condition could be significantly affected. Additionally, during fiscal 2013 and 2012, exports sales approximated 19.0% and 22.5% of sales, respectively.

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, 2013, the Company had cash balances in excess of federally insured limits of $250,000 in the amount of $1,329,000.

TRIMEDYNE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. Write-downs are considered permanent reductions at cost basis of the related inventories.

Goodwill

The Company accounts for goodwill and acquired intangible assets in accordance with Accounting Standards Codification (“ASC”) 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.

In September 2011, the Financial Accounting Standards Board ("FASB") issued guidance that simplified how entities test for goodwill impairment. This guidance permits entities to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. We elected to early adopt this guidance and, in connection with our annual goodwill impairment test that was conducted during the fourth quarter of the year ended September 30, 2013, we concluded that it was more likely than not that the fair values of our reporting units were greater than their carrying amounts. After reaching this conclusion, no further testing was performed. The qualitative factors we considered included, but were not limited to, general economic conditions, our outlook in the rental laser service market, and our recent and forecasted financial performance.

In the event the qualitative assessment results in the conclusion that the carrying value of goodwill may not be supported, 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.

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.

TRIMEDYNE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

No options were granted during the fiscal year ended September 30, 2013.

As stock-based compensation expense recognized in the consolidated statements of operations for the fiscal year ended September 30, 2012 was based on awards ultimately expected to vest, it was reduced for estimated forfeitures. ASC 718 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, 2012 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, 2012 was ten 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, 2012 was primarily based on the Company's historical volatilities of its common stock. These factors could change in the future, in regards to options granted to non-employees, affecting the determination of stock-based compensation expense in future periods. The assumptions used for options granted during the fiscal years ended September 30, 2012 are as follows:

	Fiscal Year

	ended September 30, 2012
Expected term	5 years
Expected stock volatility	95.5%
Risk free rate	0.59%
Dividend yield	– %

The weighted-average grant date fair value of options granted during the fiscal years ended September 30, 2012 was $0.10.

As of September 30, 2013, there was approximately $5,970 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 five years, which is consistent with the vesting period.

The following table summarizes stock-based compensation expense related to employee stock options under ASC No. 718 for the fiscal years ended September 30, 2013 and 2012, which was allocated as follows:

	Fiscal Years Ended September 30,	
	2013	2012
Stock-based compensation included in:		
Cost of revenues	$1,000	$1,000
Research and development expenses	–	1,000
Selling, general, and administrative expenses	12,000	25,000
	$13,000	$27,000

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, as well as the valuation of certain derivatives and equity compensation.

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TRIMEDYNE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fair Value of Financial Instruments

The Company accounts for financial instruments under the guidance under Financial Accounting Standards Board ("FASB") ASC 820-10, Fair Value Measurements, as well as certain related FASB staff positions. This guidance defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact business and considers assumptions that marketplace participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance.

The guidance also establishes a fair value hierarchy for measurements of fair value as follows:

- Level 1 – quoted market prices in active markets for identical assets or liabilities.

- Level 2 – inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

- Level 3 – unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company's financial remaining instruments consisted primarily of (level 1) cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, capital leases and note payable. The carrying amounts of the Company's financial instruments generally approximate their fair values as of September 30, 2013 and 2012 due to the short term nature of these instruments.

The Company did not have any level 2 or 3 instruments at September 30, 2013 and 2012.

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 years ended September 30, 2013 and 2012, outstanding options of 839,400 and 1,003,650, respectively, were excluded from the diluted net loss per share as the effects would have been anti-dilutive. In addition, the exercise prices of these options were in excess of the average closing price of the Company's common stock for the years ended September 30, 2013 and 2012.

Revenue Recognition

The Company's revenues include revenues from the sale of reusable and disposable Fibers, Needles, and Switch 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. Sales tax collected from customers are not considered revenue and are included in accounts payable and accrued liabilities until remitted to the taxing authorities.

Revenues from the sale of Fibers, Needles, and Switch 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.

TRIMEDYNE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 Switch 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’s facility in California may rent 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, 2013 and 2012, one Laser was being rented by Trimedyne’s facility in California on a month-to-month basis. For this laser, rental revenue was 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.

Cost of Revenues

Cost of revenues consists primarily of the cost of materials and allocations of direct and indirect labor and overhead costs. Items included within these costs include but are not limited to personnel costs, depreciation, amortization of intangibles and various overhead allocations for items such as rent, utilities, etc.

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.

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,	
	2013	2012
Balance at beginning of year	$23,000	$38,000
Charges to costs and expenses	27,000	45,000
Costs incurred	(34,000)	(60,000)
Balance at end of year	$16,000	$23,000

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 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.

Potential interest and penalties related to income tax matters are recognized in income tax expense. The Company believes they have appropriate support for the income tax positions taken and to be taken on future income tax returns.

TRIMEDYNE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED 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, 2013 and 2012, was $241,000 and $310,000, 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 February 2013, the FASB issued ASU No. 2013-02, which amends ASC Topic 220, *Comprehensive Income* and requires that entities present information about reclassification adjustments from accumulated other comprehensive income in their interim and annual financial statements. The standard requires that entities present either on the face of the income statement or as a separate note to the financial statements, the effect of significant amounts reclassified from each component of accumulated other comprehensive income. If a component is not required to be reclassified to net income in its entirety, entities are required to cross reference to the related footnote for additional information. For public companies, the standard is effective for fiscal years and interim periods beginning after December 15, 2012. The adoption of this guidance will not have a material impact on the Company’s consolidated financial statements.

Management does not believe that any other recently issued, but not yet effective accounting pronouncements, if adopted, would have a material effect on the accompanying financial statements.

NOTE 3. COMPOSITION OF CERTAIN BALANCE SHEET CAPTIONS

Inventories consist of the following:

	As of September 30,	
	2013	2012
Raw materials	$501,000	$711,000
Work-in-process	94,000	239,000
Finished goods	606,000	897,000
	$1,201,000	$1,847,000

For the fiscal years ended September 30, 2013 and 2012, 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,	
	2013	2012
Royalty receivable	$25,000	$32,000
Prepaid rent	13,000	28,000
Prepaid insurance	68,000	68,000
Short-term deposits	8,000	8,000
Prepaid income tax	6,000	5,000
Other	46,000	17,000
Total other current assets	$166,000	$158,000

Property and equipment, net consist of the following:

	As of September 30,	
	2013	2012
Furniture and equipment	$3,434,000	$3,771,000
Leasehold improvements	45,000	643,000
Other	317,000	268,000
	3,796,000	4,682,000
Less accumulated depreciation and amortization	(3,090,000)	(3,931,000)
	$706,000	$751,000

TRIMEDYNE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2013, equipment purchased under capital leases had a cost of $264,000 and accumulated depreciation of $214,000. As of September 30, 2012, equipment purchased under capital leases had a cost of $264,000 and accumulated depreciation of $178,000.

Accrued expenses consist of the following:

	As of September 30,	
	2013	2012
Accrued vacation	$146,000	$166,000
Accrued salaries and wages	51,000	45,000
Sales and use tax	52,000	56,000
Accrued bonus	30,000	28,000
Accrued Comp	55,000	–
Customer deposits	2,000	–
Commissions	23,000	35,000
Medical device tax	39,000	–
Other	18,000	22,000
Total accrued expenses	$416,000	$352,000

NOTE 4. NOTE PAYABLE AND CAPITAL LEASES

Secured Note Payable to Related Party

On March 3, 2011, the Company was loaned $250,000 by Marcia H. Yeik Irrevocable Living Trust (the “Trust”), Marcia H. Yeik trustee thereof, the daughter of Marvin Loeb, CEO and Chairman, and the wife of Glenn D. Yeik, President and a member of the Board of Directors of the Company. Evidenced by a Note Payable (the “Note”) with a principal amount of $250,000 at an interest rate of 12% per annum, the Note required monthly payments through April 2, 2013. The proceeds from the Note were used to pay accounts payable due to a vendor in connection with the purchase of property and equipment for MST. The Note was subordinated to the security interest of the holder of the Company’s Senior Note, and was payable in increments applied to the principal at $10,416 per month along with accrued interest on the remaining principal over the life of the Note.

On June 27, 2011, with the consent of the related party and approval by the Board of Directors, the interest rate of the Note was amended to 6% per annum and the Trust had the right to call the Note at any time and demand immediate payment of all unpaid principal and all accrued interest. The Note was paid in full with accrued interest on January 3, 2012.

Note Payable and Capital Lease Obligations

Note payable and capital leases consist of the following at September 30, 2013 and 2012:

	2013	2012
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.	–	15,000
Capital lease agreement in connection with the purchasing of equipment bearing an effective interest rate of 9.23% per annum. The lease requires monthly payments of $526 through February 2013.	–	2,000
Finance agreement issued in connection with the purchasing of insurance policies. The note bears interest at 3.35% per annum and required monthly principal and interest payments of $10,192 through March 2013.	–	51,000
Finance agreement issued in connection with the purchasing of insurance policies. The note bears interest at 3.35% per annum and require monthly principal and interest payments of $9,851 through March 2014.	49,000	–
	$49,000	$68,000
Less: current portion	(49,000)	(68,000)
	$–	$–

TRIMEDYNE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. INCOME TAXES

The deferred income tax balances at September 30, 2013 and 2012, are comprised of the following:

	2013	2012
Deferred income tax assets (liabilities):		
Net operating loss carry forwards	$5,529,000	$6,654,000
Inventories	336,000	259,000
Reserves and accruals	63,000	244,000
Research and development credits	2,202,000	2,172,000
Depreciation and amortization	(87,000)	(24,000)
Other	90,000	87,000
Valuation allowance	(8,133,000)	(9,392,000)
	$–	$–

The valuation allowance for deferred tax assets decreased approximately $1,259,000 during the year ended September 30, 2013 and approximately $2,055,000 during the year ended September 30, 2012, 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, 2013 and 2012, the Company recorded a current provision for state income taxes of $17,000 and $13,000, respectively. There was not a provision for federal income taxes. In addition, there was not a provision for deferred income taxes due to a full valuation allowance on the Company’s deferred tax assets for fiscal years ended September 30, 2013 and 2012.

The Company's effective income tax rate differs from the statutory federal income tax rate as follows for the years ended September 30, 2013 and 2012:

	2013	2012
Statutory federal income tax rate	34.0%	34.0%
Increase (decrease) in tax rate resulting from:		
State tax benefit, net of federal benefit	3.2%	(1.1%)
Other	(4.2%)	0.8%
Valuation Allowance	(28.1%)	(35.3%)

Effective income tax rate	4.9%	(1.6%)

At September 30, 2013, the Company had NOL carry forwards for Federal and California income tax purposes, totaling approximately $15.8 million and $2.5 million, respectively. The NOL carryforwards include Federal and State R & D credits of $1.2 million and $1.5 million, respectively. At September 30, 2012, the Company had NOL carry forwards for Federal and California income tax purposes, totaling approximately $20.4 million and $3.5 million, respectively. Federal and California NOL's have begun to expire and fully expire in 2032 and 2022, 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 2032 for federal tax purposes.

The Company has identified the United States Federal tax returns as its "major" tax jurisdiction. The United States Federal return years 2010 through 2012 are still subject to tax examination by the United States Internal Revenue Service; however, we do not currently have any ongoing tax examinations. The Company is subject to examination by various State agencies for the years ended 2009 through 2012 and currently does not have any ongoing tax examinations.

TRIMEDYNE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6. 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 31, 2016, for $3,375 per month, and a lease for the Company's corporate office and manufacturing facility in Irvine, California. The lease term is for 36 months with two increases over the term. The initial monthly amount of rent to be paid is $6,911 with the second month free, followed by an increase in monthly rent to $7,118 beginning month 13 and another increase beginning month 24 to $7,332, with the 25th month rent free.

Future annual minimum lease payments under the above lease agreements at September 30, 2013, are as follows:

Years ending September 30,	
2014	$124,000
2015	127,000
2016	88,000
Total	$332,000

Rent expense for the years ended September 30, 2013 and 2012 was approximately $255,000 and $332,000, respectively.

Rent expense is 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. As of September 30, 2013 and 2012, this liability was $11,000 and $43,000, respectively.

See Note 4 regarding capital leases.

Settlement and OEM Agreement

On August 24, 2005, we entered into a five year OEM agreement with Lumenis. Under the OEM agreement, Lumenis agreed to pay us a royalty of 7.5% of its worldwide sales of side firing and angled firing laser fibers, and Lumenis also 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. This Agreement expired on August 23, 2010.

Under the license agreement dated as of August 23, 2010, Lumenis extended the 7.5% royalty payment period to July 21, 2014.

During the fiscal years ended September 30, 2013 and 2012, the Company received $98,000 and $116,000, respectively, under the license agreement, which was included in other income.

Sale of Patents

In January 2012, the Company entered into an agreement for the sale of certain patents held by the Company to a third party. Under the terms of the agreement the Company received a non-refundable payment of $200,000, and we received a non-exclusive, royalty free license to the patents. If the third party entered into any litigation regarding any infringement of these patents, the Company would receive 35% of all net (after legal fees) proceeds received by the third party, up to $6 million, less the initial $200,000 payment and 50% of net proceeds over $6 million, if any. The third party filed a lawsuit against a large foreign company that the third party believed was infringing some of the patents sold to the third party by Trimedyne. During the fiscal year ended September 30, 2013, the Company received $433,000 as a result of the above sale and agreement.

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.

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TRIMEDYNE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 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 7. STOCKHOLDERS' EQUITY

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 the fiscal year ended September 30, 2012, the Board of Directors authorized the grant of 281,000 non-qualified options. On October 10, 2011, the Board of Directors approved the exchange of 171,000 out-of-money, fully-vested stock options, to certain employees, for an equal number of stock options at the current market price on that date of $0.13 per option. As a result of the modification, the Company recorded an additional expense of $9,000. On May 17, 2012, the Board of Directors authorized the grant of fully vested, non-qualified stock options to purchase 110,000 shares to two individuals, with an exercise, price per share of $0.05, based on the closing price of the Company's common stock on the date of grant.

On May 10, 2011, the Board of Directors authorized the grant of non-qualified stock options to purchase 469,000 shares to 19 individuals. The exercise price per share was $0.14, based on the closing price of the Company's common stock on the date of grant. The majority of these options vest over three years and expire ten years from the date of grant.

TRIMEDYNE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Stock Options Outstanding:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Options outstanding at September 30, 2011	1,138,379	$ 0.51		
Options granted	281,000	0.10		
Options exercised	–	–		
Options forfeited	(415,729)	0.92		
Options outstanding at September 30, 2012	1,003,650	$ 0.23		
Options granted	–	–		
Options exercised	–	–		
Options forfeited	(164,250)	0.34		
Options outstanding at September 30, 2013	839,400	$ 0.20	4.3	$ 71,970
Options exercisable at September 30, 2013	721,800	$ 0.21	4.1	$ 55,506

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, 2013 and 2012, 1,160,600 and 996,350 options were available for issuance under the 2003 Plan, respectively.

The following table summarizes information concerning outstanding and exercisable options at September 30, 2013:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
Range of Exercise Prices	Outstanding as of 9/30/2013	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Exercisable as of 9/30/2013	Weighted-Average Exercise Price

		(years)			
$ 0.05 - 0.13	281,000	3.8	$ 0.10	281,200	$ 0.10
$ 0.14 - 0.50	436,000	5.5	$ 0.16	318,400	$ 0.17
$ 0.51 - 0.64	122,400	1.7	$ 0.60	122,400	$ 0.60
	839,400	4.3	$ 0.20	721,800	$ 0.21

The weighted-average grant date fair value of options granted during the fiscal years ended September 30, 2012 was $0.10 per option. There were no options exercised during the fiscal years ended September 30, 2012 and 2013.

NOTE 8. EMPLOYEE BENEFIT PLAN

The Company has a 401(k) retirement savings plan (the "Retirement Plan"), which was merged into the ADP TotalSource Multiple Employer Plan as of March 2012. 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, 2013 and 2012 totaled $20,000 and $33,000, respectively.

TRIMEDYNE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9. 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.

	For the year ended September 30, 2013			For the year ended September 30, 2012		
	Product	Service and Rental	Total	Product	Service and Rental	Total
Revenues	$3,130,000	$2,859,000	$5,989,000	$3,588,000	$2,492,000	$6,080,000
Cost of sales	1,721,000	1,900,000	3,621,000	2,467,000	1,616,000	4,083,000
Gross profit	1,409,000	959,000	2,368,000	1,121,000	876,000	1,997,000
Expenses:						
Selling, general and administrative	1,647,000	682,000	2,329,000	1,872,000	622,000	2,494,000
Research and development	407,000	–	407,000	673,000	–	673,000
Income (loss) from operations	$(645,000)	$277,000	(368,000)	$(1,424,000)	$254,000	(1,170,000)
Other income (expense):						
Royalty income			98,000			116,000
Interest expense			(2,000)			(10,000)
Net gain on disposal of assets			8,000			
Net gain on sale of patents			–			200,000
Settlements and other			610,000			41,000
Income (loss) before provision for income taxes			346,000			(823,000)
Provision for income taxes			17,000			13,000

Net income (loss)	$329,000	$(836,000)

TRIMEDYNE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Sales in foreign countries in fiscal 2013 and 2012 accounted for approximately 19.0% and 22.5%, respectively, of the Company's total sales. The breakdown of foreign sales by geographic region is as follows:

	2013	2012
Asia	$551,000	$558,000
Europe	304,000	238,000
Latin America	245,000	467,000
Middle East	3,000	–
Australia	31,000	104,000
Other	2,000	4,000
	$1,136,000	$1,371,000

Sales and gross profit to customers by similar products and services for the fiscal years ended September 30, 2013 and 2012 were as follows:

	2013	2012
By similar products and services:		
Sales		
Products:		
Lasers and accessories	$504,000	$781,000
Fibers, Needles and SwitchTips	2,626,000	2,807,000
Service and rental	2,859,000	2,492,000
Total	$5,989,000	$6,080,000
Gross profit (loss)		
Products:		
Lasers and accessories	$79,000	$(11,000)
Fibers, Needles and Switch Tips	1,330,000	1,132,000
Service and rental	959,000	876,000
Total	$2,368,000	$1,997,000

The Company had one laser located in Canada at September 30, 2013. Total segment assets for the Products segment were $3,001,000 and Service and Rental were $1,679,000 at September 30, 2013. 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. During the year ended September 30, 2013, additions of property and equipment to the Service and Rental segment were $52,000.

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TRIMEDYNE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10. RELATED-PARTY TRANSACTIONS

The Company has an agreement with its CEO to share an employee with Cardiomax, Inc., a company owned by the CEO. Cardiomax, Inc. is billed for the reimbursement of time that the employee is paid by the Company.

During the fiscal year ended September 30, 2013, the amount received for reimbursement under the above agreement was approximately $5,500.

See Note 4 for discussion note payable to related parties.

NOTE 11. SUBSEQUENT EVENTS

On December 1, 2013, the Company financed an insurance policy with a note for $19,410. The note bears interest at 3.5% per annum and required monthly principal and interest payments of $1,796 through November 2014.

On November 11, 2013, the Company entered into a capital lease agreement in connection with the purchasing of equipment to upgrade its IT infrastructure. The lease bears an effective interest rate of 8.41% per annum. The lease requires monthly payments of $3,766 through October 2016.

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