

TRIMEDYNE INC
Form 10-Q
August 14, 2015
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2015

or

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

For the transition period from _____ to _____

COMMISSION FILE NO. 0-10581

TRIMEDYNE, INC.

Exact Name of Registrant as Specified in its Charter)

NEVADA

36-3094439

(STATE OR OTHER JURISDICTION OF INCORPORATION) (I.R.S. EMPLOYER IDENTIFICATION NO.)

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

92618
(ZIP CODE)

Registrant's Telephone Number, Including Area Code:

(949) 951-3800

Securities Registered Pursuant to Section 12(b) of the Act:

NONE

Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock, \$.01 Par Value per Share

(Title of Class)

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

As of August 14, 2014, there were outstanding 18,395,960 shares of registrant's Common Stock.

TRIMEDYNE, INC.

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PART I - FINANCIAL STATEMENT**ITEM 1. FINANCIAL INFORMATION**

TRIMEDYNE, INC.

CONDENSED CONSOLIDATED BALANCE SHEET

(UNAUDITED)

	June 30, 2015	September 30, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 538,000	\$ 1,292,000
Trade accounts receivable, net of allowance for doubtful accounts of \$11,000 at June 30, 2015 and September 30, 2014, respectively	487,000	463,000
Inventories	1,781,000	1,581,000
Other current assets	131,000	123,000
Total current assets	2,937,000	3,459,000
Property and equipment, net	524,000	635,000
Other	112,000	73,000
Goodwill	544,000	544,000
Total Assets	\$4,117,000	\$4,711,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 307,000	\$ 278,000
Accrued expenses	404,000	628,000
Deferred revenue	50,000	50,000
Accrued warranty	50,000	27,000
Income tax payable	6,000	-
Current portion of note payable and capital leases	91,000	70,000
Total current liabilities	908,000	1,053,000
Deferred rent	8,000	6,000
Capital lease	15,000	43,000

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Total liabilities	931,000	1,102,000
Commitments and contingencies		
Stockholders' equity:		
Preferred stock - \$0.01 par value, 1,000,000 shares authorized, none issued and outstanding	—	—
Common stock - \$0.01 par value, 30,000,000 shares authorized, 18,497,569 shares issued, 18,395,960 shares outstanding at June 30, 2015 and September 30, 2014, respectively	186,000	186,000
Additional paid-in capital	51,354,000	51,311,000
Accumulated deficit	(47,641,000)	(47,175,000)
Treasury stock, at cost (101,609 shares)	3,899,000	4,322,000
	(713,000)	(713,000)
Total stockholders' equity	3,186,000	3,609,000
Total liabilities and stockholders' equity	\$4,117,000	\$4,711,000

See accompanying notes to condensed consolidated financial statements.

TRIMEDYNE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Net revenues	\$1,482,000	\$1,339,000	\$4,027,000	\$4,120,000
Cost of sales	995,000	924,000	2,717,000	2,778,000
Gross profit	487,000	415,000	1,310,000	1,342,000
Operating expenses:				
Selling, general and administrative	480,000	443,000	1,417,000	1,464,000
Research and development	86,000	107,000	336,000	343,000
Total operating expenses	566,000	550,000	1,753,000	1,807,000
Loss from operations	(79,000)	(135,000)	(443,000)	(465,000)
Other (expense) income, net	(17,000)	21,000	(15,000)	84,000
Loss before provision for income taxes	(96,000)	(114,000)	(458,000)	(381,000)
Provision for income taxes	1,000	4,000	8,000	7,000
Net loss	\$(97,000)	\$(118,000)	\$(466,000)	\$(388,000)
Net loss per share:				
Basic	\$(0.01)	\$(0.01)	\$(0.03)	\$(0.02)
Diluted	\$(0.01)	\$(0.01)	\$(0.03)	\$(0.02)
Weighted average number of shares outstanding:				
Basic	18,395,960	18,395,960	18,395,960	18,395,960
Diluted	18,395,960	18,395,960	18,395,960	18,395,960

See accompanying notes to condensed consolidated financial statements.

TRIMEDYNE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Nine Months Ended	
	June 30,	
	2015	2014
Cash flows from operating activities:		
Net loss	\$(466,000)	\$(388,000)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Stock-based compensation	43,000	2,000
Depreciation and amortization	146,000	165,000
Changes in operating assets and liabilities:		
Trade accounts receivable	(24,000)	53,000
Inventories	(200,000)	(63,000)
Other assets	33,000	60,000
Accounts payable	29,000	20,000
Accrued expenses	(224,000)	26,000
Income tax payable	6,000	(3,000)
Deferred revenue	–	4,000
Accrued warranty	23,000	8,000
Deferred rent	2,000	(4,000)
Net cash used in operating activities	(632,000)	(120,000)
Cash flows from investing activities:		
Purchase of property and equipment	(35,000)	(16,000)
Net cash used in investing activities	(35,000)	(16,000)
Cash flows from financing activities:		
Payments on notes payable and capital leases	(87,000)	(118,000)
Net cash used in financing activities	(87,000)	(118,000)
Net decrease in cash and cash equivalents	(754,000)	(254,000)
Cash and cash equivalents at beginning of period	1,292,000	1,572,000
Cash and cash equivalents at end of period	\$538,000	\$1,318,000

Supplemental disclosure of cash flow information:

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Cash paid for income taxes during the nine months ended June 30, 2015 and 2014 was \$8,000 and \$10,000 respectively.

Cash paid for interest during the nine months ended June 30, 2015 and 2014 was approximately \$5,000 and \$4,000, respectively.

During the nine months ended June 30, 2015 and 2014, the Company financed the purchase of certain insurance policies with notes totaling \$80,000 and a \$94,000, respectively.

During November 2013, the Company financed the upgrading of its IT infrastructure with a lease agreement for \$119,000.

See accompanying notes to condensed consolidated financial statements.

TRIMEDYNE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015

(UNAUDITED)

NOTE 1 - Summary of Significant Accounting Policies

Principles of Consolidation

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

Going Concern

At June 30, 2015, the Company had working capital of \$2,029,000 compared to \$2,406,000 at the end of the fiscal year ended September 30, 2014. Cash decreased by \$754,000 to \$538,000 from \$1,292,000 at September 30, 2014.

As of June 30, 2015 we had cash on hand of \$538,000. We intend to fund operations with cash on hand and from operations, however, additional working capital in the next 12 months will be required based upon our current expenditure rate. These factors raise substantial doubt about the Company's ability to continue as a going concern.

The Company has been pursuing market development efforts in Asia and we have had positive feedback from our efforts. If successful, we could have a significant increase in sales volume during the next two successive quarters in this market area which may improve our financial condition and cash reserves.

The Company is currently pursuing market development efforts in Latin America and Eastern Europe. We believe that by expanding healthcare infrastructure in these markets, we may be able to create sustained demand for our Holmium

Lasers and Fibers in the fields of Laser Spinal Endoscopy, Laser Lithotripsy and in the laser treatment of other conditions. Additionally, we expect the global trend toward single-use, disposable laser delivery devices may improve sales and profit margins as more hospitals convert from multi-use devices, due to concerns for sterility and handling costs incurred in product sterilization, and we plan to develop more single-use optical fiber devices.

If necessary, we will also attempt to raise additional debt and/or equity capital, sell some of our assets, reduce our costs by eliminating certain personnel positions and continue our efforts to reduce certain overhead costs in order to reduce our cash consumption levels.

Unaudited Interim Financial Information

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America for interim financial information, and pursuant to the instructions to Form 10-Q promulgated by the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all information and disclosures required by generally accepted accounting principles for complete financial statement presentation. In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the Company's consolidated financial position as of June 30, 2015 and the results of their operations and their cash flows for the nine months ended June 30, 2015 and 2014. Results for the nine months ended June 30, 2015 are not necessarily indicative of the results to be expected for the year ending September 30, 2015.

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 equity compensation.

While management believes that the disclosures presented are adequate to make the information not misleading, it is suggested that these condensed consolidated financial statements be read in conjunction with the condensed consolidated financial statements and the notes included in the Company's 2014 annual report on Form 10-K.

Stock-Based Compensation

We account for equity based compensation under the provisions of Accounting Standards Codification (“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.

The Company measures compensation expense for its non-employee stock-based compensation under ASC 505 “Equity”. The fair value of the option issued or committed to be issued is used to measure the transaction, as this is more reliable than the fair value of the services received. The fair value is measured at the date the commitment for performance by the counterparty has been reached or the counterparty’s performance is complete. The fair value of the equity instrument is charged directly to stock-based compensation expense and credited to additional paid-in capital.

During the nine months ended June 30, 2015, a total of 1,000,000 options were granted to various employees and directors of the Company and a consultant. These options were valued using Black-Scholes model for the aggregate grant date fair value of \$61,000. These options vest over periods ranging from immediately to three years.

Stock-based compensation was \$43,000 and \$2,000 during the nine months ended June 30, 2015 and 2014, respectively. As of June 30, 2015, there was approximately \$23,000 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 eleven quarterly reporting periods.

Per Share Information

Basic per share information is computed based upon the weighted average number of common shares outstanding during the period. Diluted per share information consists of the weighted average number of common shares outstanding, plus the dilutive effects of options and warrants calculated using the treasury stock method. In loss periods, dilutive common equivalent shares are excluded as the effect would be anti-dilutive. During the three and nine months ended June 30, 2015 and 2014, outstanding options of 1,697,000 and 818,900, 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, with the exception of 110,000 options, were in excess of the average closing price of the Company’s common stock for the periods ended June 30, 2015 and 2014.

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 June 30, 2015, the Company had cash balances in excess of federally insured limits of \$250,000 in the amount of \$492,000.

NOTE 2 - Composition of Certain Balance Sheet Captions

Inventories, net of reserves, consist of the following:

	June 30, 2015	September 30, 2014
Raw materials	\$505,000	\$549,000
Work-in-process	257,000	298,000
Finished goods	1,019,000	734,000
	\$1,781,000	\$1,581,000

For the three months ended June 30, 2015 and 2014, the aggregate net realizable value of demonstration and evaluation lasers did not comprise a material amount in inventories.

Other current assets consist of the following:

	June 30, 2015	September 30, 2014
Prepaid insurance	80,000	55,000
Prepaid taxes	3,000	11,000
Prepaid rent	13,000	13,000
Short-term deposits	7,000	8,000
Other	28,000	36,000

Total other current assets \$ 131,000 \$ 123,000

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Property and equipment consist of the following:

	June 30, 2015	September 30, 2014
Furniture and equipment	\$3,478,000	\$3,474,000
Leasehold improvements	60,000	57,000
Other	326,000	316,000
	3,864,000	3,847,000
Less accumulated depreciation and amortization	(3,340,000)	(3,212,000)
Total property and equipment	\$524,000	\$635,000

Accrued expenses consist of the following:

	June 30, 2015	September 30, 2014
Accrued vacation	\$193,000	\$181,000
Accrued salaries and wages	104,000	60,000
Accrued bonus	15,000	17,000
Medical device tax	–	83,000
Sales and use tax	50,000	58,000
Customer deposits	2,000	190,000
Commissions	17,000	19,000
Other	23,000	20,000
Total accrued expenses	\$404,000	\$628,000

NOTE 3 - Note Payable and Capital Leases

Note payable and capital leases consist of the following:

	June 30, 2015	September 30, 2014
Finance agreement issued in connection with the purchasing of insurance policies. The note bears interest at 3.35% per annum and requires monthly principal and interest payments of \$5,693 through March 2015.	–	30,000

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Capital lease agreement in connection with the update of our IT infrastructure bearing an effective interest rate of 8.41% per annum. The lease requires monthly payments of \$3,766 through October 2016.	57,000	83,000
Finance agreement issued in connection with the purchasing of an insurance policy. The note bears interest at 4.75% per annum and requires monthly payments principal and interest payments of \$2,011 through November 2015.	8,000	–
Finance agreement issued in connection with the purchasing of insurance policies. The note bears interest at 3.35% per annum and requires monthly principal and interest payments of \$5,890 through February 2016.	41,000	–
	\$ 106,000	\$ 113,000
Less: current portion	(91,000)	(70,000)
	\$ 15,000	\$ 43,000

NOTE 4 - Commitments and Contingencies

Litigation

We are subject to various claims and actions that arise in the ordinary course of business. The litigation process is inherently uncertain, and it is possible that the resolution of any future litigation may adversely affect us. We are not presently involved in any litigation.

Guarantees and Indemnities

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

Risks and Uncertainties

The Centers for Medicare and Medicaid Services (CMS), the agency of the U.S. Government that administers the Medicare and Medicaid Programs, 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 5 - Segment Information

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

Data with respect to these operating activities for the three and nine months ended June 30, 2015 and 2014 are as follows:

For the Three Months Ended June 30, 2015			For the Three Months Ended June 30, 2014		
Products	Service and Rental	Total	Products	Service and Rental	Total

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Revenue	\$807,000	\$675,000	\$1,482,000	\$665,000	\$674,000	\$1,339,000
Cost of sales	538,000	457,000	995,000	486,000	438,000	924,000
Gross profit	269,000	218,000	487,000	179,000	236,000	415,000
Expenses:						
Selling, general and administrative	327,000	153,000	480,000	298,000	145,000	443,000
Research and development	86,000	–	86,000	107,000	–	107,000
Income (loss) from operations	\$(144,000)	\$65,000	(79,000)	\$(226,000)	\$91,000	(135,000)
Other:						
Interest expense			(2,000)			(1,000)
Royalty income			--			20,000
Other (expense) income			(15,000)			2,000
Income taxes			(1,000)			(4,000)
Net loss			\$(97,000)			\$(118,000)

	For the Nine Months Ended June 30, 2015			For the Nine Months Ended June 30, 2014		
	Products	Service and Rental	Total	Products	Service and Rental	Total
Revenue	\$2,060,000	\$1,967,000	\$4,027,000	\$2,229,000	\$1,891,000	\$4,120,000
Cost of sales	1,320,000	1,397,000	2,717,000	1,462,000	1,316,000	2,778,000
Gross profit	740,000	570,000	1,310,000	767,000	575,000	1,342,000
Expenses:						
Selling, general and administrative	956,000	461,000	1,417,000	1,009,000	455,000	1,464,000
Research and development	336,000	–	336,000	343,000	–	343,000
Income (loss) from operations	\$(552,000)	\$109,000	(443,000)	\$(585,000)	\$120,000	(465,000)
Other:						
Interest expense			(5,000)			(4,000)
Royalty income			–			74,000
Other (expense) income			(10,000)			14,000
Income taxes			(8,000)			(7,000)
Net loss			\$(466,000)			\$(388,000)

Sales and gross profit to customers by similar products and services for the three and nine months ended June 30, 2015 and 2014 were as follows:

	For the Three Months Ended June 30, 2015		For the Nine Months Ended June 30, 2014	
By similar products and services:				
Revenues:				
Products:				
Laser equipment and accessories	\$413,000	\$203,000	\$819,000	\$569,000
Delivery and disposable devices	394,000	462,000	1,241,000	1,660,000
Service and rental	675,000	674,000	1,967,000	1,891,000
Total	\$1,482,000	\$1,339,000	\$4,027,000	\$4,120,000
Gross profit				
Products:				
Laser equipment and accessories	\$105,000	\$13,000	\$140,000	\$65,000
Delivery and disposable devices	164,000	166,000	600,000	702,000
Service and rental	218,000	236,000	570,000	575,000
Total	\$487,000	\$415,000	\$1,310,000	\$1,342,000

Sales in foreign countries for the three months ended June 30, 2015 and 2014, accounted for approximately 35% and 28%, respectively, of the Company's total sales. Sales in foreign countries for the nine months ended June 30, 2015 and 2014 accounted for approximately 29% and 23%, respectively, of the Company's total sales. The breakdown by geographic region is as follows:

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Nine Months Ended June 30, 2015	Nine Months Ended June 30, 2014
Asia	\$448,000	\$255,000	\$929,000	\$711,000
Europe	14,000	23,000	66,000	46,000
Latin America	44,000	75,000	132,000	125,000
Middle East	—	—	2,000	1,000
Australia	11,000	20,000	24,000	43,000
Other	—	—	—	1,000
	\$517,000	\$373,000	\$1,153,000	\$927,000

During the three and nine months ended June 30, 2015 and 2014, one Laser was located in Canada and three Lasers, one located in Brazil, Canada and India, respectively.

Total segment assets at June 30, 2015 and 2014 for the Products segment were \$2,478,000 and \$2,774,000, respectively, and for the Service and Rental segment were \$1,617,000 and \$1,665,000, respectively. 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.

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

FORWARD-LOOKING STATEMENTS

This information should be read in conjunction with the condensed consolidated financial statements and notes thereto included in Item 1 of Part I of this Quarterly Report and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended September 30, 2014, contained in our 2014 Annual Report on Form 10-K.

The statements contained in this Quarterly Report on Form 10-Q that are not historical facts may contain forward-looking statements that involve a number of known and unknown risks and uncertainties that could cause actual results to differ materially from those discussed or anticipated by management. Potential risks and uncertainties include, among other factors, general business conditions, government regulations governing medical device approvals and manufacturing practices, competitive market conditions, success of the Company's business strategy, delay of orders, changes in the mix of products sold, availability of suppliers, concentration of sales in markets and to certain customers, changes in manufacturing efficiencies, development and introduction of new products, fluctuations in margins, timing of significant orders, and other risks and uncertainties currently unknown to management. We do not undertake any duty to update forward-looking statements after the date they are made or to conform them to actual results or to changes in circumstances or expectations.

OVERVIEW

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

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

Our 100% owned subsidiary, Mobile Surgical Technologies, Inc. ("MST"), is engaged in the rental of lasers, along with the services of a trained operator and, if requested, the provision of applicable Fibers, Needles or Tips, on a "fee

per case" basis to hospitals, surgery centers, group practices and individual physicians in Texas and nearby areas.

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

The Company's Lasers and Fibers are also used in Urology to fragment stones in the kidney, ureter or bladder. The Company's VaporMAX(R) Side Firing Optical Fiber device is also used to vaporize a portion of the male prostate which is used with the Company's Lasers in the treatment of benign prostate hyperplasia or "BPH", commonly referred to as an "enlarged prostate."

CRITICAL ACCOUNTING POLICIES

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements require the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Our management periodically evaluates the estimates and judgments made. Management bases its estimates and judgments on historical experience and on various factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates as a result of different assumptions or conditions.

The methods, estimates, and judgment we use in applying our most critical accounting policies have a significant impact on the results we report in our financial statements. The SEC has defined "critical accounting policies" as those accounting policies that are most important to the portrayal of our financial condition and results, and require us to make our most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based upon this definition, our most critical estimates 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 equity compensation. We also have other key accounting estimates and policies, but we believe that these other policies either do not generally require us to make estimates and judgments that are as difficult or as subjective, or it is less likely that they would have a material impact on our reported results of operations for a given period. For additional information see Note 1, "Summary of Significant Accounting Policies" in the notes to our reviewed financial statements appearing elsewhere in this quarterly report and Note 2 to our annual audited financial statements appearing on Form 10-K. Although we believe that our estimates and assumptions are reasonable, they are based upon information presently available, and actual results may differ significantly from these estimates.

RESULTS OF OPERATIONS

Method of Presentation

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

Three months ended June 30, 2015 compared to three months ended June 30, 2014

During the quarter ended June 30, 2015, net revenues were \$1,482,000 as compared to \$1,339,000 for the same period of the previous year, a \$143,000 or 11% increase primarily due to an increase in revenues from Laser sales. Net sales from lasers and accessories increased by \$210,000 or 103% to \$413,000 during the three months ended June 30, 2015 from \$203,000 in the same period of the prior year. Net sales from Fibers, Needles and Tips decreased by \$68,000 or 15% to \$394,000 during the three months ended June 30, 2015 from \$462,000 in the same period of the prior year. The higher sales during the previous year quarter ended June 30, 2014, was primarily the result of shipments to fulfill backorders created by the delaying of shipments resulting from the impact on manufacturing due to the relocation of our facility in California during the fiscal year ended September 30, 2013. Export sales increased by \$144,000 or 39% to \$517,000 from \$373,000 for the same quarter of the prior year. The increase in export sales was primarily due to an increase in laser sales to Asia as compared to the prior year quarter ended June 30, 2014. Net sales from service and rental during the current quarter remained virtually unchanged at \$675,000 as compared to \$674,000 for the same quarter of the prior year.

Cost of sales during the quarter ended June 30, 2015 was \$995,000 or 67% of net revenues as compared to \$924,000 or 69% during the prior year quarter. Gross profit as a percentage of sales from the sale of lasers and accessories was 25% as compared to 6% for the prior year three-month period. The increase in gross profit for lasers and accessories during the current three-month period was primarily the result of the sale of two fully amortized demo lasers offset by discounted laser sales to facilitate the opening of new markets in Asia. Gross profit as a percentage of sales from the sale of delivery and disposable devices was 42% as compared to 36% for the prior year three-month period. The increase in gross profit during the current three-month period as compared to the prior year was primarily due to increased efficiencies in production. Gross profit as a percentage of sales from revenue received from service and rentals during the current three-month period was 32% as compared to 35% for the prior year three month-period. The lower gross profit was primarily due to an increase in the cost of service parts for the service department at our California facility resulting from our revaluation of inventory performed during the last quarter of the prior year combined with an increase in accrued warranty expense from the sale of lasers during the current three-month period.

For the quarter ended June 30, 2015, selling, general and administrative increased \$37,000 or 8% to \$480,000 as compared to the prior year quarter of \$443,000. The decrease in selling, general and administrative expenses during the current three-month period was primarily due to the following:

Expense Description	Increase/(Decrease)	
Stock-based compensation	41,000	
Tax penalties	27,000	
Employee benefits	5,000	
Commissions/bonuses	5,000	
Insurance Expense	3,000	
Rent	(2,000))
Outside Administrative Services	(3,000))
Licenses/certifications expense	(3,000))
Bank Fees	(5,000))
Audit and tax expense	(8,000))
Payroll Related	(14,000))
Other allocated expenses	(9,000))

Research and development expenditures for the quarter ended June 30, 2015 decreased \$21,000 or 20% to \$86,000 as compared to \$107,000 in the quarter ended June 30, 2014. The decrease in expenditure during the current year three-month period as compared to the prior year three-month period was due to the reduction of staff during the current year three-month period.

Other income/expense, net, decreased during the quarter ended June 30, 2015 by \$38,000 to a net expense of \$17,000 from income of \$21,000 during the same quarter of the prior year. The decrease in other income/expense was primarily due to the expiration of a license agreement with Lumenis, Ltd., in August of 2014, and no royalty payments were received from Lumenis, Ltd., during the current quarter ended June 30, 2015 as compared to \$20,000 received during the prior year quarter ended June 30, 2014, combined with a one-time adjustment to reconcile prior year accrued expenses.

For the current quarter, the Company had a net loss of \$97,000 or \$0.01 per share, based on 18,395,960 basic weighted average number of common shares outstanding, as compared to a net loss of \$118,000 or \$0.01 per share, based on 18,395,960 basic weighted average number of common shares outstanding in the same quarter of the previous year.

Nine months ended June 30, 2015 compared to nine months ended June 30, 2014

During the nine months ended June 30, 2015, net revenues were \$4,027,000 as compared to \$4,120,000 for the same period of the previous year, a \$93,000 or 2% decrease. Net revenues from lasers and accessories increased by \$250,000 or 44% to \$819,000 during the nine months ended June 30, 2015 from \$569,000 in the same period of the prior year. Net revenues from Fibers, Needles and Tips decreased by \$419,000 or 25% to \$1,241,000 during the nine months ended June 30, 2015 from \$1,660,000 for the same period of the prior year. The higher sales during the prior year nine-month period ended June 2014, 2014, was primarily the result of an increase in shipments to fulfill backorders created by the delaying of shipments due to the relocation of our facility in California during the fiscal year ended September 30, 2013. During the nine months ended June 30, 2015, export sales increased \$226,000 or 24% to \$1,153,000 from \$927,000 during the same period of the prior year. The increase in export sales was primarily the result of an increase in sales to Asia. Net sales from service and rental increased by \$76,000 or 4% to \$1,967,000 from \$1,891,000 for the same quarters in the prior year. This increase was primarily due to an increase in fee-per-case revenues generated from MST.

Cost of sales during the nine months ended June 30, 2015 was \$2,717,000 or 68% of net revenues as compared to \$2,778,000 or 67% for the same period of the prior year. Gross profit as a percentage of sales from the sale of Lasers and accessories was 17% as compared to 11% for the prior year nine-month period. The increase in gross profit for lasers and accessories during the current six-month period was primarily due to the sale of two fully amortized demo lasers offset by discounted laser sales to facilitate the opening of new markets in Asia. Gross profit as a percentage of sales from the sale of Fibers, Needles and Tips was 48% during the current nine-month period as compared to 42% during the prior year nine-month period. The increase in gross profit during the current three-month period as compared to the prior year was primarily due to increased efficiencies in production. Gross profit from revenue received from service and rentals during the current nine-month period was 29% as compared to 30% for the prior year nine-month period. The lower gross profit was primarily due to an increase in the cost of service parts for the service department at our California facility resulting from our revaluation of inventory performed during the last quarter of the prior year combined with a correction to the allocation of property tax expense for MST's equipment during the current year.

For the nine months ended June 30, 2015, selling, general and administrative expenses totaled \$1,417,000 as compared to \$1,464,000 for the same period of the previous year, a \$47,000 or 3% decrease. The decrease in selling, general and administration expense was primarily due to the following:

Expense Description	Increase/(Decrease)
Tax Penalties	27,000
Stock-based compensation	41,000
Bad Debt	9,000
Employee benefits	9,000
Commissions/bonuses	(3,000)
Rent	(3,000)

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Corporate fees	(4,000)
Audit and tax expense	(5,000)
Bank fees	(17,000)
Payroll related	(18,000)
Insurance expense	(19,000)
Outside administrative expense	(24,000)
Legal	(27,000)
Other allocated expenses	(7,000)

During the nine months ended June 30, 2015, research and development expenses decreased to \$336,000 from \$343,000 in the prior year nine-month period, a decrease of \$7,000 or 2%. During the nine-month period ended June 30, 2015, 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/expense decreased by \$99,000 or 118% to an expense of \$15,000 in the current nine-month period from income of \$84,000 in the previous nine-month period of fiscal 2014. The decrease in other income/expense was primarily due to the expiration of a license agreement with Lumenis, Ltd., and, as a result, the cessation of royalty payments in August of 2014, compared to \$74,000 received during the prior year nine-month period ended June 30, 2014, combined with a one-time adjustment to reconcile prior year accrued expenses.

For the nine months ended June 30, 2015, the Company had net loss of \$466,000 or \$0.03 per share, based on 18,395,960 basic weighted average number of common shares outstanding, as compared to a net loss of \$388,000 or \$0.02 per share, based on 18,395,960 basic weighted average number of common shares outstanding in the same period of the previous year, resulting from the above mentioned factors.

Liquidity and Capital

At June 30, 2015, the Company had working capital of \$2,029,000 compared to \$2,406,000 at the end of the fiscal year ended September 30, 2014. Cash decreased by \$754,000 to \$538,000 from \$1,292,000 at September 30, 2014. Cash used in investing activities was \$35,000 for the purchase of fixed assets. Cash used in financing activities was \$87,000 which was the result of payments on notes payable and an equipment lease.

Going Concern

As of June 30, 2015, we had cash on hand of \$538,000. We intend to fund operations with cash on hand and from operations; however, additional working capital in the next 12 months will be required based upon our current expenditure rate. These factors raise substantial doubt about the Company's ability to continue as a going concern.

The Company has been pursuing market development efforts in Asia and we have had positive feedback from our efforts. If successful, we could have a significant increase in sales volume during the next two successive quarters in this market area which may improve our financial condition and cash reserves.

The Company is currently pursuing market development efforts in Latin America and Eastern Europe. We believe that by expanding healthcare infrastructure in these markets, we may be able to create sustained demand for our Holmium Lasers and Fibers in the fields of Laser Spinal Endoscopy, Laser Lithotripsy and in the laser treatment of other conditions. Additionally, we expect the global trend toward single-use, disposable laser delivery devices may improve sales and profit margins as more hospitals convert from multi-use devices, due to concerns for sterility and handling costs incurred in product sterilization, and we plan to develop more single-use optical fiber devices.

Our Chairman, Dr. Marvin P. Loeb, is continuing his efforts to raise capital for his company Gastromedix, Inc., a company of which Trimedyne owns a 30% interest. Should Dr. Loeb be successful in his efforts to raise capital, which cannot be assured, the funds will be used to subsidize patient "pilot" clinical trials involving a procedure utilizing Lasers and Side Firing Fibers, which will be exclusively supplied by Trimedyne. If these "pilot" clinical trials are successful, which cannot be assured, randomized controlled clinical trials of the procedure will begin with the exclusive use of our Lasers and patented Side Firing Fibers in the treatment of Type II Diabetes, Obesity and/or GERD, often called "heartburn". Gastromedix, Inc. may become an outlet for Trimedyne Lasers and Side Firing Fibers. For more information, please refer to our 10-Q filing for the period ended March 31, 2015.

In the interim, if necessary, we will also attempt to raise additional debt and/or equity capital, sell some of our assets, reduce our costs by eliminating certain personnel positions and continue our efforts to reduce certain overhead costs in order to reduce our cash consumption levels.

OFF BALANCE SHEET ARRANGEMENTS

None.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not Applicable.

ITEM 4. CONTROLS AND PROCEDURES

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

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

PART II - Other Information

Item 1. Legal Proceedings

None

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 4. [Removed and Reserved]

Item 5. Other Information

None

Item 6. Exhibits

(a) Exhibits

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- 31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Glenn D. Yeik
- 31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Jeffrey S. Rudner
- 32.1 Principal Executive Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Principal Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.INS XBRL Instance document
- 101.SCH XBRL Schema
- 101.CAL XBRL Calculation Linkbase
- 101.DEF XBRL Definition Linkbase
- 101.LAB XBRL Label Linkbase
- 101.PRE XBRL Presentation Linkbase

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SIGNATURE PAGE

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

TRIMEDYNE, INC.

Date: August 14, 2015 By: /s/ Glenn D. Yeik
Glenn D. Yeik
Principal Executive Officer

TRIMEDYNE, INC.

Date: August 14, 2015 By: /s/ Jeffrey S. Rudner
Jeffrey S. Rudner
Principal Financial Officer