TRIMEDYNE INC
Form 10-Q
August 22, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2016

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (ss. 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] 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	[X]

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

As of August 19, 2016, there were outstanding 18,395,960 shares of registrant's Common Stock.

TRIMEDYNE, INC.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

TRIMEDYNE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	June 30, 2016	September 30, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$239,000	$365,000
Trade accounts receivable, net of allowance for doubtful accounts of $11,000 at June 30, 2016 and September 30, 2015, respectively	369,000	416,000
Inventories	1,575,000	1,808,000
Other current assets	131,000	96,000
Total current assets	2,314,000	2,685,000
Property and equipment, net	382,000	480,000
Other	58,000	75,000
Goodwill	544,000	544,000
Total Assets	$3,298,000	$3,784,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$162,000	$138,000
Accrued expenses	382,000	426,000
Deferred revenue	34,000	26,000
Accrued warranty	40,000	50,000
Taxes payable	8,000	8,000
Current portion of note payable and capital leases	74,000	68,000
Total current liabilities	700,000	716,000
Deferred rent	1,000	5,000
Long-term debt	–	4,000
Total liabilities	701,000	725,000

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, 2016 and September 30, 2015, respectively	186,000	186,000
Additional paid-in capital	51,363,000	51,356,000
Accumulated deficit	(48,239,000)	(47,770,000)
	3,310,000	3,772,000
Treasury stock, at cost (101,609 shares)	(713,000)	(713,000)
Total stockholders' equity	2,597,000	3,059,000
Total liabilities and stockholder's equity	$3,298,000	$3,784,000

See accompanying notes to condensed consolidated financial statements

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TRIMEDYNE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
Net revenues	$1,106,000	$1,482,000	$3,776,000	$4,027,000
Cost of sales	653,000	995,000	2,617,000	2,717,000
Gross profit	453,000	487,000	1,159,000	1,310,000
Operating expenses:				
Selling, general and administrative	469,000	480,000	1,390,000	1,417,000
Research and development	100,000	86,000	293,000	336,000
Total operating expenses	569,000	566,000	1,683,000	1,753,000
Loss from operations	(116,000)	(79,000)	(524,000)	(443,000)
Other (expense) income, net	(2,000)	(17,000)	65,000	(15,000)
Loss before provision for income taxes	(118,000)	(96,000)	(459,000)	(458,000)
Provision for income taxes	5,000	1,000	10,000	8,000
Net loss	$(123,000)	$(97,000)	$(469,000)	$(466,000)
Net loss per share:				
Basic	$(0.01)	$(0.01)	$(0.03)	$(0.03)
Diluted	$(0.01)	$(0.01)	$(0.03)	$(0.03)
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, 2016	2015
Cash flows from operating activities:		
Net loss	$(469,000)	$(466,000)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Stock-based compensation	7,000	43,000
Depreciation and amortization	96,000	146,000
Net loss on disposal of assets	2,000	–
Changes in operating assets and liabilities:		
Trade accounts receivable	47,000	(24,000)
Inventories	233,000	(200,000)
Other assets	74,000	33,000
Accounts payable	24,000	29,000
Accrued expenses	(44,000)	(224,000)
Income tax payable	–	6,000
Deferred revenue	14,000	–
Accrued warranty	(16,000)	23,000
Deferred rent	(4,000)	2,000
Net cash used in operating activities	(36,000)	(632,000)
Cash flows from investing activities:		
Purchase of property and equipment	–	(35,000)
Net cash used in investing activities	–	(35,000)
Cash flows from financing activities:		
Payments on notes payable and capital leases	(90,000)	(87,000)
Net cash used in financing activities	(90,000)	(87,000)
Net decrease in cash and cash equivalents	(126,000)	(754,000)
Cash and cash equivalents at beginning of period	365,000	1,292,000
Cash and cash equivalents at end of period	$239,000	$538,000

Supplemental disclosure of cash flow information:

Cash paid for income taxes during the nine months ended June 30, 2016 and 2015 was $10,000 and $8,000 respectively.

Cash paid for interest during the nine months ended June 30, 2016 and 2015 was approximately $5,000 and $5,000, respectively.

During the nine months ended June 30, 2016 and 2015, the Company financed the purchase of certain insurance policies with notes totaling $90,000 and $80,000, respectively.

See accompanying notes to condensed consolidated financial statements

TRIMEDYNE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016

(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, 2016, we had working capital of $1,614,000 compared to $1,969,000 at the end of the previous fiscal year ended September 30, 2015. Cash decreased by $126,000 to $239,000 at June 30, 2016 from $365,000 at the fiscal year ended September 30, 2015.

As of June 30, 2016 we had cash on hand of $239,000. We intend to fund operations with cash on hand and from operations; however, additional working capital in the next 12 months may 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 will attempt to lower our overhead costs on less profitable segments, raise additional debt and/or equity capital, sell some of our assets including utilization of current inventory, outsource some of our manufacturing processes and/or reduce our costs by eliminating certain personnel in order to reduce our cash consumption levels to a supportable level. There can be no assurances that we will be successful in those efforts. If we are unsuccessful in our efforts, we may be forced to reduce or curtail certain operational segments.

The Company's continuation as a going concern is dependent on its ability to meet its obligations, to obtain additional financing as may be required and ultimately to attain profitability. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Company is currently pursuing market development efforts in Asia and Latin America. We believe that by expanding healthcare infrastructure in these markets, we may be able to create a sustained demand for Holmium Lasers and Fibers in the fields of Laser Spinal Endoscopy, Laser Lithotripsy in the laser treatment of other conditions. Additionally, we expect the global trend toward single-use, disposable laser delivery devices will 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 hope to develop more single-use medical devices.

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, 2016 and the results of its operations and its cash flows for the nine months ended June 30, 2016 and 2015. Results for the nine months ended June 30, 2016 are not necessarily indicative of the results to be expected for the year ending September 30, 2016.

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 and certain accrued liabilities.

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 2015 annual report on Form 10-K for the year ended September 30, 2015.

Stock-Based Compensation

Stock-based compensation was $7,000 and $43,000 during the nine months ended June 30, 2016 and 2015, respectively. As of June 30, 2016, there was approximately $13,000 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 eight 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, 2016 and 2015, outstanding options of 1,572,000 and 1,697,000, 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 quarter ended June 30, 2016 and 2015.

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.

The Company maintains its cash with a major financial institution located in the United States of America which it believes to be credit worthy. Balances are insured by the Federal Deposit Insurance Corporation up to $250,000. At times, the Company maintains balances in excess of the federally insured limits.

NOTE 2 - Composition of Certain Balance Sheet Captions

Inventories, net of reserves, consist of the following:

	June 30, 2016	September 30, 2015
Raw materials	$557,000	$616,000
Work-in-process	177,000	288,000
Finished goods	841,000	904,000
	$1,575,000	$1,808,000

For the three months ended June 30, 2016 and 2015, 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, 2016	September 30, 2015
Prepaid insurance	$80,000	$ 49,000
Prepaid income tax	3,000	3,000
Prepaid rent	15,000	13,000
Short-term deposits	7,000	7,000
Other	26,000	24,000
Total other current assets	$131,000	$ 96,000

Property and equipment consist of the following:

	June 30, 2016	September 30, 2015
Furniture and equipment	$3,478,000	$3,478,000
Leasehold improvements	62,000	62,000
Other	305,000	325,000
	3,845,000	3,865,000
Less accumulated depreciation and amortization	(3,463,000)	(3,385,000)
Total property and equipment	$382,000	$480,000

Accrued expenses consist of the following:

	June 30, 2016	September 30, 2015
Accrued vacation	$205,000	$203,000
Accrued salaries and wages	32,000	60,000
Accrued compensation	43,000	20,000
Accrued bonus	15,000	23,000
Sales and use tax	49,000	51,000
Customer deposits	–	30,000
Commissions	20,000	16,000
Other	18,000	23,000
Total accrued expenses	$382,000	$426,000

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NOTE 3 - Note Payable and Capital Lease

Note payable and capital leases consist of the following:

	June 30, 2016	September 30, 2015
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	$15,000	$47,000
Finance agreement issued in connection with the purchasing of an insurance policy. The note bears interest at 4.9% per annum and requires monthly payments principal and interest payments of $2,191 through January 2017.	15,000	–
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 March 2016.	–	25,000
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 $5,647 through March 2017.	44,000	–
	$74,000	$72,000
Less: current portion	(74,000)	(68,000)
	$–	$4,000

On November 12, 2015, the Company signed an amendment to its existing lease at its facility in Irvine, California extending the term until April 30, 2019. The amendment contains an increase in the base monthly rent beginning May 1, 2016 to $8,754 with two annual base rent increases on May 1, 2017 and May 1, 2018 of $9,017 and $9,287, respectively.

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.

Guarantees and Indemnities

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

Risks and Uncertainties

The Centers for Medicare and Medicaid Services (CMS), the agency of the U.S. Government that administers the Medicare Program, does not reimburse for thermal intradiscal procedures to treat spinal discs including the use of the Company's pulsed Holmium Lasers. Since most people suffering from a herniated or ruptured spinal disc are below Medicare age, we do not believe CMS's decision will have an adverse impact on our business.

NOTE 5 - Segment Information

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

Data with respect to these operating activities for the three and nine months ended June 30, 2016 and 2015 are as follows:

	For the Three Months Ended June 30, 2016			For the Three Months Ended June 30, 2015		
	Products	Service and Rental	Total	Products	Service and Rental	Total
Revenue	$468,000	$638,000	$1,106,000	$807,000	$675,000	$1,482,000
Cost of sales	265,000	388,000	653,000	538,000	457,000	995,000
Gross profit	203,000	250,000	453,000	269,000	218,000	487,000
Expenses:						
Selling, general and administrative	294,000	175,000	469,000	327,000	153,000	480,000
Research and development	100,000	–	100,000	86,000	–	86,000
Income (loss) from operations	$(191,000)	$75,000	(116,000)	$(144,000)	$65,000	(79,000)
Other:						
Interest expense			(3,000)			(2,000)
Other (expense) income			3,000			(15,000)
Gain (loss) Disposal of assets			(2,000)			–
Income taxes			(5,000)			(1,000)
Net loss			$(123,000)			$(97,000)

	For the Nine Months Ended June 30, 2016			For the Nine Months Ended June 30, 2015		
	Products	Service and Rental	Total	Products	Service and Rental	Total
Revenue	$1,914,000	$1,862,000	$3,776,000	$2,060,000	$1,967,000	$4,027,000

Cost of sales	1,318,000	1,299,000	2,617,000	1,320,000	1,397,000	2,717,000
Gross profit	596,000	563,000	1,159,000	740,000	570,000	1,310,000
Expenses:						
Selling, general and administrative	881,000	509,000	1,390,000	956,000	461,000	1,417,000
Research and development	293,000	–	293,000	336,000	–	336,000
Income (loss) from operations	$(578,000)	$54,000	(524,000)	$(552,000)	$109,000	(443,000)
Other:						
Interest expense			(5,000)			(5,000)
Other (expense) income			72,000			(10,000)
Gain (loss) disposal of assets			(2,000)			–
Income taxes			(10,000)			(8,000)
Net loss			$(469,000)			$(466,000)

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Sales and gross profit to customers by similar products and services for the three and nine months ended June 30, 2016 and 2015 were as follows:

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2016	2015	2016	2015
By similar products and services:				
Revenues:				
Products:				
Laser equipment and accessories	$76,000	$413,000	$634,000	$819,000
Delivery and disposable devices	392,000	394,000	1,280,000	1,241,000
Service and rental	638,000	675,000	1,862,000	1,967,000
Total	$1,106,000	$1,482,000	$3,776,000	$4,027,000
Gross profit				
Products:				
Laser equipment and accessories	$(6,000)	$105,000	$28,000	$140,000
Delivery and disposable devices	209,000	164,000	568,000	600,000
Service and rental	250,000	218,000	563,000	570,000
Total	$453,000	$487,000	$1,159,000	$1,310,000

Sales in foreign countries for the three months ended June 30, 2016 and 2015, accounted for approximately 19% and 35%, respectively, of the Company's total sales. Sales in foreign countries for the nine months ended June 30, 2016 and 2015 accounted for approximately 28% and 29%, respectively, of the Company's total sales. The breakdown by geographic region is as follows:

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Nine Months Ended June 30, 2016	Nine Months Ended June 30, 2015
Asia	$174,000	$448,000	$902,000	$929,000
Europe	6,000	14,000	23,000	66,000
Latin America	2,000	44,000	49,000	132,000
Middle East	–	–	–	2,000
Australia	24,000	11,000	65,000	24,000
	$206,000	$517,000	$1,039,000	$1,153,000

During the three and nine months ended June 30, 2016 and 2015, one Laser was located in Canada, respectively.

Total segment assets at June 30, 2016 and 2015 for the Products segment were $1,833,000 and $2,478,000, respectively, and for the Service and Rental segment were $1,443,000 and $1,617,000, 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. The decrease of $645,000 in the Products segment as compared to the prior year was primarily due to reductions of $299,000 cash and $206,000 in inventories as compared to the prior year period. 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.

NOTE 6 – Related Party Transactions

During the quarter ended June, 2016, the Company incurred approximately $11,000 in expenses primarily resulting from the sharing of a member of the Company’s staff, for two companies, Cardiomax, LLC. and Gastromedix, Inc, (“Gastromedix”) owned by our Chief Scientific Officer and Director, Marvin P. Loeb, based on an agreement with the Company’s Board of Directors. One of the two companies, Gastromedix, could potentially benefit the Company in the future. For details regarding Gastromedix, please refer to the Company's 2015 annual report on Form 10-K for the year ended September 30, 2015.

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, 2015, contained in our 2015 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 consolidated 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 consolidated 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 consolidated 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. We also have other key accounting estimates and policies, but we believe that these other policies either do not generally require us to make estimates and judgments that are as difficult or as subjective, or it is less likely that they would have a material impact on our reported results of operations for a given period. For additional information see Note 2, "Summary of Significant Accounting Policies" in the notes to our reviewed consolidated financial statements appearing elsewhere in this quarterly report and our annual audited consolidated 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 subsidiary, Cardiodyne.

Three months ended June 30, 2016 compared to three months ended June 30, 2015

During the quarter ended June 30, 2016, net revenues were $1,106,000 as compared to $1,482,000 for the same period of the previous year, a $376,000 or 25% decrease primarily due to a decrease in revenues from Laser sales. Net sales from lasers and accessories decreased by $337,000 or 82% to $76,000 during the three months ended June 30, 2016 from $413,000 in the same period of the prior year. Lasers carry a high selling price and are subject to a longer, less predictable closing period which, as a result, can create larger variances between periods. Net sales from Fibers, Needles and Tips decreased by $2,000 or 1% to $392,000 during the three months ended June 30, 2016 from $394,000 in the same period of the prior year. Export sales decreased by $311,000 or 60% to $206,000 for the same quarter of the prior year. The decrease in export sales was primarily due to a decrease in Laser sales to Asia as compared to the prior year quarter ended June 30, 2015. Net sales from service and rental during the current quarter decreased by $37,000 or 5% to $638,000 as compared to $675,000 for the same quarter of the prior year primarily resulting from a decrease in billable sales at our California facility.

Cost of sales during the quarter ended June 30, 2016 was $653,000 or 59% of net revenues as compared to $995,000 or 67% during the prior year quarter. During the current year quarter, Laser and accessories sales resulted in a gross loss of $6,000 or 8%, as a percentage of sales, as compared to a gross profit of $105,000 or 25%, for the prior year three-month period. The decrease in gross profit for Lasers and accessories during the current three-month period was primarily due to discounted Laser sales during the current year quarter as compared to the sale of two fully amortized demo Lasers during the prior year quarter. Gross profit as a percentage of sales from the sale of delivery and disposable devices was 53% as compared to 42% 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 a reduction in manufacturing payroll combined with favorable purchase-price variances from lower raw material costs resulting from vendor negotiations. Gross profit as a percentage of sales from revenue received from service and rentals during the current three-month period was 39% as compared to 32% for the prior year three month-period. The higher gross profit was primarily the result of maintaining better margins from sales of service parts at our California facility.

For the quarter ended June 30, 2016, selling, general and administrative decreased $11,000 or 2% to $469,000 as compared to the prior year quarter of $480,000. The decrease in selling, general and administrative expenses during the current three-month period was primarily due to the following:

Description	Amount
Bank fees	11,000
Stock-based compensation	(39,000)
Rent	12,000
Tax Penalties	(27,000)
Outside services	13,000
Legal	10,000
Audit & tax	8,000
Commissions/bonuses	2,000

Research and development expenditures for the quarter ended June 30, 2016 increased $14,000 or 16% to $100,000 as compared to $86,000 in the quarter ended June 30, 2015. The increase in expenditure during the current year three-month period as compared to the prior year three-month period was due to an increase in materials expense for laser research and development for the current year three-month period.

Other income/expense, net, increased during the quarter ended June 30, 2016 by $15,000 to a net expense of $2,000 from a net expense of $17,000 during the same quarter of the prior year.

For the current quarter, the Company had a net loss of $123,000 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 $97,000 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, 2016 compared to nine months ended June 30, 2015

During the nine months ended June 30, 2016, net revenues were $3,776,000 as compared to $4,027,000 for the same period of the previous year, a $251,000 or 6% decrease. Net revenues from lasers and accessories decreased by $185,000 or 23% to $634,000 during the nine months ended June 30, 2016 from $819,000 in the same period of the prior year. Lasers carry a high selling price and are subject to a longer, less predictable closing period which, as a result, can create larger variances between periods. Net revenues from Fibers, Needles and Tips increased by $39,000 or 3% to $1,280,000 during the nine months ended June 30, 2016 from $1,241,000 for the same period of the prior year. During the nine months ended June 30, 2016, export sales decreased $114,000 to $1,039,000 from $1,153,000 during the same period of the prior year. The decrease in export sales was primarily due to a decrease in Laser sales to Asia as compared to the prior year quarter ended June 30, 2015. Net sales from service and rental decreased by $105,000 or 5% to $1,862,000 from $1,967,000 for the same quarters in the prior year resulting from a decrease in billable sales at our California facility.

Cost of sales during the nine months ended June 30, 2016 was $2,617,000 or 69% of net revenues as compared to $2,717,000 or 68% for the same period of the prior year. Gross profit from the sale of Lasers and accessories was 4% as a percentage of sales, as compared to 17% for the prior year nine-month period. The decrease in gross profit for Lasers and accessories during the current nine-month period as compared to the prior year was primarily due to the sale of two fully amortized demo Lasers during the prior year nine-month period. Gross profit as a percentage of sales from the sale of Fibers, Needles and Tips was 44% during the current nine-month period as compared to 48% during the prior year nine-month period. The decrease in gross profit during the current nine-month period as compared to the prior year was primarily due to manufacturing variances during the current nine-month period. Gross profit from revenue received from service and rentals during the current nine-month period was 30% as compared to 29% for the prior year nine-month period. The lower gross profit from service and rentals as compared to the prior year nine-month period was primarily due to an increase in the cost of laser repairs at MST, resulting from an auto accident damaging two lasers. The cost was offset by an insurance settlement received and reported as other income during the current nine-month period ended June 30, 2016.

For the nine months ended June 30, 2016, selling, general and administrative expenses totaled $1,390,000 as compared to $1,417,000 for the same period of the previous year, a $27,000 or 2% decrease. The decrease in selling, general and administration expense was primarily due to the following:

Description	Amount

Bank fees	30,000
Legal	16,000
Outside services	14,000
Rent	11,000
Employee Benefits	6,000
Other	3,000
Audit & tax	(3,000)
Bad Debt/Collections	(9,000)
Commissions/bonuses	(12,000)
Payroll related	(21,000)
Tax Penalties	(25,000)
Stock-based compensation	(37,000)

During the nine months ended June 30, 2016, research and development expenses decreased to $293,000 from $336,000 during the prior year nine-month period, a decrease of $43,000 or 13%. 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 increased by $80,000 or 533% to an income of $65,000 in the current nine-month period from an expense of $15,000 in the previous nine-month period of fiscal 2015. This increase was primarily the result of the receipt of $69,000 for an insurance claim at MST during the nine-month period ended June 30, 2016.

For the nine months ended June 30, 2016, the Company had net loss of $469,000 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 $466,000 or $0.03 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, 2016, the Company had working capital of $1,614,000 compared to $1,969,000 at the end of the fiscal year ended September 30, 2015. Cash decreased by $126,000 to $239,000 from $365,000 at September 30, 2015. Cash used in financing activities was $90,000 which was the result of payment on notes payable and a lease. During the nine months ended June, 2016 and 2015, the Company financed additional insurance policies for $90,000 and $80,000, respectively.

Management's Plans

At June 30, 2016, the Company had working capital of $1,614,000 compared to $1,969,000 at the end of the fiscal year ended September 30, 2015. Cash decreased by $126,000 to $239,000 from $365,000 at September 30, 2015.

As of June 30, 2016 we had cash on hand of $239,000. We intend to fund operations with cash on hand and from operations; however, additional working capital in the next 12 months may 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 will attempt to lower our overhead costs on less profitable segments, raise additional debt and/or equity capital, sell some of our assets including utilization of current inventory, outsource some of our manufacturing processes and/or reduce our costs by eliminating certain personnel in order to reduce our cash consumption levels to a supportable level. There can be no assurances that we will be successful in those efforts. If we are unsuccessful in our efforts, we may be forced to reduce or curtail certain operational segments.

The Company's continuation as a going concern is dependent on its ability to meet its obligations, to obtain additional financing as may be required and ultimately to attain profitability. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. 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 to reduce certain overhead costs in order to reduce our consumption levels.

The Company is currently pursuing market development efforts in Asia and Latin America. We believe that by expanding healthcare infrastructure in these markets, we may be able to create a sustained demand for Holmium Lasers and Fibers in the fields of Laser Spinal Endoscopy, Laser Lithotripsy in the laser treatment of other conditions. Additionally, we expect the global trend toward single-use, disposable laser delivery devices will 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 hope to develop more single-use medical devices.

OFF BALANCE SHEET ARRANGEMENTS

None.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

N/A

ITEM 4. CONTROLS AND PROCEDURES

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

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

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

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	Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Principal Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
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

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 22, 2016	By: /s/ Glenn D. Yeik Glenn D. Yeik Chief Executive Officer
	TRIMEDYNE, INC.
Date: August 22, 2016	By: /s/ Jeffrey S. Rudner Jeffrey S. Rudner Principal Financial Officer

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