TRIMEDYNE INC
Form 10KSB
January 14, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2002 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.)
15091 BAKE PKWY, P.O. BOX 57001 IRVINE, CALIFORNIA (ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	92618-7001 (ZIP CODE)

Registrant's Telephone Number, Including Area Code:
(949) 559-5300

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 required 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 the filing requirements for the past 90 days. Yes x No
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The aggregate market value of voting stock held by non-affiliates of registrant on January 14, 2003, based upon the closing price of the common stock on such date was approximately $1,600,000.
As of September 30, 2002, there were outstanding 13,729,760 shares of registrant's Common Stock.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405

of Regulation S-B is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB._____

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PART I

ITEM 1. BUSINESS

FORWARD LOOKING STATEMENTS

In addition to historical information, this Annual Report contains forward-looking statements. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in these forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in the section entitled "Management's Discussion and Analysis of Consolidated Results

of Operations and Consolidated Financial Condition". 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 Securities and Exchange Commission, including the Quarterly Reports on Form 10-QSB to be filed by the Company in fiscal year 2002.

General

Trimedyne, Inc. (the "Company") is engaged in the development, manufacturing and marketing of Holmium "cold" pulsed Lasers, Nd:YAG "thermal" continuous wave Lasers and proprietary, disposable fiber-optic laser delivery devices for use in orthopedics, (discectomy to treat herniated lumbar discs and arthroscopy to treat damage in joints), lithotripsy (fragmentation of stones in the kidney, urether, and bladder), ear, nose and throat ("ENT") surgery (sinus surgery), gynecology, general surgery and other medical specialties.

In 1991, the Company shifted its focus to laser and proprietary delivery system technologies for use in selected "less invasive" surgical applications in orthopedics, urology, gynecology, general surgery and ENT surgery. The Company's Holmium laser is cleared for sale by the FDA for use in the above mentioned fields. In November 1999, it was cleared by the FDA for use in gastrointestinal surgery, including excision of colorectal and other tumors and fragmentation of gall bladder and other biliary stones.

In December 2000, the Company's Holmium Laser was cleared by the FDA for treating herniated or ruptured lumbar disks in a minimally invasive procedure called a foraminoplasty. In this procedure, the laser is used to open the foraminal space in the spine, enabling the surgeon to see the disc, vertebra and major nerves. The Company is also engaged in the development of new laser products for other surgical applications. The Company believes its proprietary laser products may have advantages over lasers made by others and conventional surgical devices in the aforementioned fields.

In mid-2000, the Company established a new marketing strategy, under which the Company provides lasers to laser rental companies and shares in the revenues generated by these companies from renting the lasers to hospitals and surgery centers on a "fee per case" basis. In November 2000, The Company acquired Mobile Surgical Technologies, Inc. ("MST"), a Dallas, Texas-based company that provides lasers and other equipment with trained operators to users on a "fee per case" basis in the Southwest.

Net revenue of the Company in fiscal 2002 decreased 6% to $7,057,000 from $7,464,000 for the prior year. The Company had a net loss of $1,215,000 or $(0.9) per share in fiscal 2002, compared to a net loss of $7,484,000 or $(0.59) per share in fiscal 2001. The net loss in fiscal 2001, excluding charges and adjustments totaling $2,833,000, was $4,651,000 or $(0.37) per share. The $2,833,000 of adjustments and charges consisted of a loss of $1,143,000 on the sale of investments, provisions for excess and obsolete inventories totaling $868,000, charges related to common stock issuances in connection with a private placement in fiscal 2000 of $660,000 and a charge for modifications in the terms of certain stock options totaling $162,000.

The Company believes its future lies in expanding the sales of its laser products in its existing business areas, expanding its "fee per case" laser rental services and introducing new laser products for use in orthopedics, urology, gynecology, ENT surgery and gastrointestinal surgery. (See "New Products" for a description of the new products that the Company is developing).

The Company's working capital on September 30, 2002 was $990,000; however, management believes the Company will require additional working capital to meet its past and near term obligations. (See "Management's Discussion and Analysis of Results of Operations and Consolidated Financial Condition" herein).

The Company was incorporated in Nevada on May 1, 1980, and adopted its present name on December 31, 1980. The Company has a 90% owned subsidiary, Cardiodyne, Inc., which is inactive. Unless the context otherwise requires, all references to the Company shall be to Trimedyne, Inc. and its subsidiary, Cardiodyne. The Company's principal executive offices are located at 15091 Bake Pkwy., Irvine, CA 92618, and its telephone number is (949) 559-5300.

Orthopedics, Urology And Other Surgical Specialties

Holmium "cold" lasers, which generate very short, extremely powerful pulses of laser energy, are able to cut and vaporize tissue without significant thermal damage to surrounding areas. Such lasers are expected to have advantages over continuous wave "thermal" lasers in certain surgical applications, particularly when used in tissues such as cartilage, which can be irreparably damaged by heat, or heat sensitive blood vessels or nerves. Also, tiny optical fibers permit laser energy to be delivered into spaces too small to accommodate conventional surgical instruments. During the past three years, the Company's sales of Holmium lasers in arthroscopy have declined, due to the introduction of lower priced radiofrequency ("RF") devices by competitors. The Company anticipates that the recent introduction of lower cost disposable devices, and the new "fee-per-case" revenue model, may reverse the trend of declining arthroscopy sales by making laser-assisted arthroscopy procedures more affordable.

The Company's Holmium lasers are also used for decompression of herniated lumbar spinal disks ("diskectomy") to treat lower back and leg pain. In a laser discectomy procedure, a needle containing an optical fiber is inserted into the spinal disk, either under x-ray guidance or through an endoscope, and the laser is used to vaporize and contract a portion of the disk, relieving the pressure of the disk on the nerves of the spinal column. In addition to straight firing laser needles, the Company also markets side firing laser needles. According to published studies, Holmium Laser use in discectomy has been successful in relieving the pain in up to 90% of the cases treated. In July 1999, the Company received clearance from the FDA to market a new side firing laser needle with a channel for fluid infusion or suction.

In December 2000, the Company received clearance from the FDA to market its laser devices for use in foraminoplasty, a corollary procedure in minimally invasive endoscopic spine surgery in which a laser is used to create an opening into the foraminal space in the spine, enabling the surgeon to see the disc, vertebra and nerves. Presently the Company's Holmium laser and laser needles are the only laser devices cleared for sale by the FDA in foraminoplasty procedures, which has generated increased interest by spinal surgeons.

The Company's Holmium lasers are used in lithotripsy for fragmentation of urinary stones in the kidney, ureter and bladder, as Company's Holmium laser is able to fragment stones of any color, composition or hardness. The Company recently introduced lower cost optical fibers for use in lithotripsy.

In addition to its 80 watt Holmium laser, the Company commenced marketing a new, smaller 30 watt Holmium laser in December 2000 for use in lithrotripsy, disk decompression, ENT surgery, general surgery, gynecology and gastrointestinal

surgery.

Cardiodyne

In October 1996, the Company organized Cardiodyne, a 90% owned subsidiary of the Company, which was developing a proprietary Injection and Laser Transmyocardial Revascularization ("Laser TMR") System for the treatment of severe angina resulting from advanced coronary artery disease. The Company ceased funding Cardiodyne in January 2001, and Cardiodyne is presently inactive.

New Products

The Company believes the development of new products is essential to its future success. While the Company is engaged in the development of the new products described below, since the Company is attempting to control its costs, the resources being expended in such development efforts are limited.

The Company plans to develop several new disposable devices for use in orthopedics, urology, gynecology, gastrointestinal surgery and ENT surgery, which the Company believes offer advantages over competing technologies. The Company has been issued U.S. patents covering certain of its proposed new products and has filed or plans to file patent applications covering others.

License Agreements

The Company has license agreements with a number of universities and inventors, under which royalties on sales, if any, are payable, and two license agreements with a competitor under which royalties are payable by the Company, one of which terminated on September 30, 2000. Patent applications have been filed with the U.S. Patent Office and U.S. Patents covering certain of the Company's products have been issued to officers and employees of the Company, which have been assigned to the Company without royalty. The above patent applications are currently being processed by the U.S. Patent Office and, to the Company's knowledge, are proceeding in the normal course of review.

Research And Development

From its inception to September 30, 2002, an aggregate of $47,548,000 has been expended by the Company for research and development ("R&D"), including clinical and regulatory activities, of which $1,358,000 (of which no R&D expenses attributed to Cardiodyne) was expended during the fiscal year ended September 30, 2002. As it has in the past, the Company intends to continue to contract with unaffiliated hospitals and research institutions for the clinical testing of its developmental products. The Company reduced its product development efforts and ceased funding Cardiodyne's development projects in January 2001.

Manufacturing, Supply Agreements

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

The Company has supply agreements with several vendors for components and materials used in the production of its products. 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, cardiovascular and other surgical operating room facilities, as well as outpatient surgery facilities. In the United States, this market represents approximately 5,500 hospitals, as well as several hundred outpatient surgery centers. The Company's proposed new products (See "New Products") will, if cleared for sale by the FDA and marketed, be sold to hospitals and outpatient surgery centers, as well as to physicians for use in their offices. The Company anticipates marketing only those products which are customarily sold to the same customer groups that are markets for its lasers and related devices. There is no assurance as to the extent to which the Company will be able to penetrate these markets.

At September 30, 2002, the Company had marketing arrangements for the sale of its lasers and certain of its disposable products on a straight commission basis with 24 independent sales entities with approximately 76 representatives specializing in the sale of medical devices in the United States. Outside the United States, the Company sells its products through 35 independent distributors who sell various medical products in approximately 42 foreign countries. The Company presently employs a Vice President - Sales and a Marketing Director.

The Company hopes in the future to increase the number of domestic sales representatives and to appoint additional distributors in foreign countries for the purpose of expanding sales of the Company's products. There is no assurance that the Company will be able to enter into marketing arrangements with any or all of the persons or organizations with which it is presently negotiating or that the Company will be able to maintain its existing selling arrangements.

Government Regulation

All of the Company's products are, and will in the future, likely 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 approval for each product from the FDA and comparable agencies in foreign countries. Extensive clinical testing of each product, which is both costly and time-consuming, may be required to obtain such approvals. The Company's business would be adversely affected if it were unable to obtain such approvals or to comply with continuing regulations of the FDA and other

governmental agencies. In addition, the Company cannot predict whether future changes in government regulations might increase the cost of conducting its business or affect the time required to develop and introduce new products. The Company's facilities were inspected by the FDA in mid-2001 and no deficiencies in the Company's compliance with the FDA's Good Manufacturing Practice ("GMP") requirements were cited by the FDA.

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

Investigational Device Exemption

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

510(k) Premarket Notification:

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

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 anticipates the majority of its cardiovascular products will be classified as Class III devices and that a PMA approval from the FDA will be required before the sale of each of such products commences. The Company believes the majority of its urology, orthopedic and other surgical products can be cleared for sale pursuant to 510(k) Premarket Notifications, which in some cases may require limited clinical trials, although such cannot be assured.

There is no assurance that required PMA approvals or 510(k) clearances for new products can be obtained or that PMA approvals or 510(k) clearances for the Company's present products can be maintained. The failure to maintain PMA approvals and 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 upon 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 believes it is 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 Health Care Financing Administration ("HCFA"), at either the state or federal level or both, the safety and efficacy of its products and the benefit to patients therefrom which justify the cost of such treatment. Criteria for demonstrating such benefits are in the process of definition by HCFA, and there does not yet exist a clear method or requirement to receive approval for reimbursement. There is no assurance that such an application, if made, will be approved by HCFA. Most private health insurance companies and state health care programs have standards for reimbursement similar to those of HCFA. If an application for reimbursement of a product is not approved by HCFA, 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 therefor, as well as making the necessary application to HCFA 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, 2002, Trimedyne had 57 full-time employees, of whom 33 were engaged in production, 6 in R&D, 4 in sales and marketing, and 14 in general and administrative functions. The Company also employs a consultant on an hourly basis.

On October 18, 2002 the Company terminated 17 employees as part of an ongoing cost cutting strategy.

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

Management believes its relations with its employees are good.

Patents And Patent Applications

As of September 30, 2002, the Company owns or has licenses to 28 U.S. patents, 4 foreign patents, 7 U.S. patent applications and 8 foreign patent applications. The validity of one of the U.S. Patents covering the Company's 80 watt Holmium Laser was challenged by a competitor in the U.S. in an action before the U.S. Patent and Trademark Office ("USPTO"). In December 1996, the USPTO upheld the validity of all of the Company's claims of this Patent.

There is no assurance that (a) any patents will be issued from the pending applications, (b) any issued patents will prove enforceable, (c) the Company will derive any competitive advantage therefrom or (d) that the Company's products may not infringe patents owned by others, licenses to which may not be available to the Company. To the extent that pending patent applications do not issue, the Company may be subject to more competition. There can also be no assurance that the already patented products, methods and processes will be medically useful or commercially viable. The issuance of patents on some but not all aspects of a product may be insufficient to prevent competitors from essentially duplicating the product by designing around the patented aspects. The Company is obligated, under certain of its patent licenses, to make royalty payments. Part of the Company's R&D activities will be directed towards obtaining additional patent rights, which may entail future royalty and minimum payment obligations.

Competition

The Company faces competition from a number of both small and large companies in the medical field. The larger companies include Lumenis, Inc., Johnson & Johnson, Boston Scientific, Inc., Circon, 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 Laserscope, Inc., Surgical Laser Technologies, Inc., 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 $7,000,000 and a products liability insurance policy providing coverage in the amount per occurrence of $10,000,000. There is no assurance that such amounts of insurance will be sufficient to protect the Company's assets against claims by users of its products. Although there have been no successful claims against the Company, there is no assurance the Company will be able to maintain such liability insurance in force in the future at an acceptable cost, or at all, in which case the Company's assets would be at risk in the event of successful claims against it. Successful claims in excess of the amount of insurance then in force could have a serious adverse effect upon the Company's financial condition and its future viability. The Company does not carry director and officer liability insurance, but does have indemnification agreements covering its officers and directors.

Foreign Operations

In fiscal 2002, sales of products in foreign countries accounted for approximately 17% of the Company's total sales. See "Marketing" herein for information on the marketing of the Company's products in foreign countries.

ITEM 2. PROPERTIES

The Company currently occupies approximately 47,000 square feet of office, manufacturing and warehouse space in Irvine, California, which it leases at a rental of approximately $40,000 per month through December 2005. The Company subleases approximately 8,800 square feet of this facility to an unafilliated third party health management company under a two year lease expiring in April 2004 at a monthly rental of $14,553.00.

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

ITEM 3. LITIGATION

The Company is currently a defendant and counterclaimant in Lumenis, Inc. v. Trimedyne, Inc. The plaintiff alleges that Trimedyne is infringing on two of Lumenis' patents. Trimedyne has filed an answer to Lumenis' complaint and also filed a counterclaim against Lumenis. There have been settlement discussions but no settlement has been reached. The Company intends to vigorously defend this litigation and pursue its counterclaim against Lumenis. No provision for loss has been recorded since the matter is in its infancy stages.

The Company has been threatened with litigation in connection with certain of its trade vendors due to the Company's being delinquent in meeting certain of its obligations. Liabilities related to such actions are recorded in the Company's financial statements in accounts payable. The Company is 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 of the Company's existing and future litigation may adversely affect the Company.

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

During the Company's fiscal year ended September 30, 2002, no matters were submitted to a vote of securities holders.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

A. Market Information

The Company's Common Stock has been traded on the NASDAQ system in the over-the-counter market since April 13, 1982, and, since August 12, 1986, has been quoted on the NASDAQ National Market System under the symbol "TMED". The following table sets forth the high and low closing sales prices for the Common Stock for each quarterly period within the Company's two most recent fiscal years on the National Market System.

2001	High	Low
Quarter ended:		
December 31, 2000	2 7/16	1 9/16
March 31, 2001	2 19/64	1 1/4
June 30, 2001	2	1 17/81
September 30, 2001	1 29/50	6/25

2002	High	Low
Quarter ended:		
December 31, 2001	20/29	1/3
March 31, 2002	1 1/10	17/50
June 30, 2002	13/20	17/50
September 30, 2002	3/7	1/5

On August 1, 2002, the Company was notified by NASDAQ that the Company does not meet the minimum financial requirements for listing on the NASDAQ Small Cap Market. The Company transferred to the Over-The-Counter-Bulletin Board (OTC:BB) on November 18, 2002.

B. Holders of Common Stock

As of September 30, 2002, there were approximately 1,000 holders of record of the Company's Common Stock and an additional estimated 9,200 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.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF CONSOLIDATED RESULTS OF OPERATIONS AND CONSOLIDATED FINANCIAL CONDITION

CRITICAL ACCOUNTING POLICIES

REVENUE RECOGNITION AND ALLOWANCES FOR DOUBTFUL ACCOUNTS

We recognize revenue when the title and risk of ownership have passed to the buyer. In making that assessment, pervasive evidence that an agreement must exist, the products have been shipped, the prices are fixed and determinable and not subject to refund or adjustment, and collection of the amount are reasonably assured. We use purchase orders for the sale of lasers and related disposable systems which is customary in our business. 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.

INVENTORIES

We value our inventories at the lower of cost or market. Cost is determined by the first-in, first-out (Fifo) method including material, labor and factory overhead. We write down our inventory for estimated obsolescence equal to the salvage 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. See below for discussions of restatements of our financial statements encountered in the recent past related to inventories.

VALUATION OF LONG-LIVED AND INTANGIBLE ASSETS

We assess the fair value and recoverability of our long-lived assets, including goodwill, whenever events and circumstances indicate the carrying value of an asset may not be recoverable from estimated future cash flows expected to result from its use and eventual disposition. In doing so, we make assumptions and estimates regarding future cash flows and other factors to make our determination. The fair value of our long-lived assets and goodwill is dependent upon the forecasted performance of our business and the overall economic environment. When we determine that the carrying value of our long-lived assets and goodwill may not be recoverable, we measure any impairment based upon a forecasted discounted cash flow method or fair value. If these forecasts are not met, we may have to record impairment charges not previously recognized.

SFAS 142 requires, among other things, that companies no longer amortize goodwill, but instead test goodwill for impairment at least annually. In addition, SFAS 142 requires that we identify reporting units for the purposes of assessing potential future impairments of goodwill, reassess the useful lives of other existing recognized intangible assets, and cease amortization of intangible assets with an indefinite useful life. An intangible asset with an indefinite useful life should be tested for impairment in accordance with the guidelines in SFAS 121, until SFAS 144 is adopted, which uses a single

accounting approach for measuring impairment. SFAS 142 is required to be applied in fiscal years beginning after December 15, 2001, to all goodwill and other intangible assets recognized at that date, regardless of when those assets were initially recognized. SFAS 142 requires us to complete a transitional goodwill impairment test six months from the date of adoption. We are also required to reassess the useful lives of other intangible assets within the first interim quarter after adoption of SFAS 142.

RESULTS OF OPERATIONS

The statements contained in this Annual Report on Form 10-KSB 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.

Method of Presentation

The consolidated financial statements include the accounts of the Company, its wholly owned subsidiary Mobile Surgical Technologies, Inc. ("MST") from the date of acquisition, November 30, 2000 and its 90% owned subsidiary, Cardiodyne, Inc. ("Cardiodyne").

Consolidated Results of Operations Fiscal years 2002 and 2001

The following table sets forth certain items in the consolidated statements of operations as a percentage of net revenues for the years ended September 30, 2002 and 2001

	Year Ended September 30,	
	2002	2001
Net revenues	100.0%	100.0%
Cost of goods sold	59.4	83.3
Selling, general and administrative	40.5	64.8
Research and development	19.2	31.2
Interest income	0.1	2.9
Other expense	(0.5)	(24.2)
Other income	2.3	0.3
Net loss	(17.2)	(100.3)

Net Revenues

Net revenues decreased $407,000 or 6% in fiscal 2002 to $7,057,000 from $7,464,000 in fiscal 2001, due to competitive pressures on prices and slightly lower unit sales. Net revenues from service and rental decreased by $190,000 or 12% primarily due to fewer renewals of service contracts on older lasers . International export revenues were $1,183,000 for fiscal 2002 and $ 1,265,000 for fiscal 2001. The decrease in fiscal 2002 resulted from pricing incentives

offered to new distributors in the Asian market, specifically in China and Korea.

Cost of Goods Sold

Cost of goods sold in fiscal 2002 was approximately 59% of net revenues, compared to 83% in fiscal 2001. Part of the $2,757,000 or 45% increase in cost of goods during fiscal 2001 was a provision for excess and obsolete inventories totaling $868,000 and a provision for over-absorption of labor and overhead costs totaling $1,463,000. The Company did not experience significant cost increases in component parts, labor or overhead in fiscal 2002 versus 2001.

Gross Profit

Gross profit for the year ended September 30, 2002 increased $1,614,000 or 129% from fiscal 2001. The lower gross profit for the year ended September 30, 2001 was a result of a provision for excess and obsolete inventories of custom components which have no resale market, combined with management's lowering of selling prices on lasers to meet competition and stimulate sales.

Research and Development Expenses (R&D)

R&D expenses were $1,358,000 in fiscal 2002, compared to $2,330,000 in fiscal 2001. R&D spending in fiscal 2002 was lower, as the Company reduced its product development efforts and ceased funding of the development of Cardiodyne's proposed products. R&D as a percentage of net revenues decreased to 19% of net revenues in fiscal 2002 vs. 31% in fiscal year 2001, due to lower R&D costs.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses decreased 41% to $2,857,000 in fiscal 2002, compared to $4,839,000 in fiscal 2001. The $1,982,000 decrease in fiscal 2002 is primarily attributed to an decrease in SG&A related to the reduction of staff, reduced marketing efforts and a reduction of commissionable sales.

Other Income and Expense

Interest income was $5,000 in fiscal 2002 compared to $220,000 in fiscal 2001. The levels of cash and equivalents available for investment in interest bearing securities were $317,000 and $84,000 as of September 30, 2002 and 2001, respectively. The decrease in interest income was attributed to the Company's conservative use of cash to reduce debt to improve its financial position as opposed to investing in securities.

Net Loss

As a result of the above, fiscal 2002 net loss was $1,215,000, compared to a net loss of $7,484,000 ($4,651,000 net of $2,833,000 of charges) in fiscal 2001. Management intends to further reduce and expenses, while continuing its efforts to raise new capital and sell or license some of its patent portfolio.

Liquidity and Capital Resources

At September 30, 2002, the Company had working capital of $ 990,000 compared to $1,622,000 at the end of fiscal 2001. Cash and cash equivalents increased by $233,000 in fiscal 2002 to $317,000 compared to $84,000 at September 30, 2001.

In 2002, net cash used in operating activities was $30,000, which resulted principally from losses incurred of $1,215,000, offset by a non-cash charge of $172,000 from the issuance of certain stock grants for compensation, decreases in liabilities of $925,000 and decreases inventories and account receivable of $1,003,000 and $639,000, respectively. Net cash provided by investing activities was $38,000 in fiscal 2002 compared to net cash used of $1,812,000 in fiscal 2001. The decrease in cash provided by investing activities in fiscal 2002 was due to the Company's conservative use of cash to reduce debt as opposed to investing in marketable securities.

Net cash provided by financing activities in fiscal 2002 was $165,000 from the sale of fixed assets.

The Company has incurred losses from operations throughout its recent past. Because of the Company's loss during 2001, the Company's liquid assets declined dramatically and trade payables became significantly past due. While the Company's accounts payable was reduced and its cash and cash equivalents increased in fiscal 2002, our independent auditors have included an explanatory paragraph in their report raising substantial doubt about the Company's ability to continue as a going concern. Management's plans with respect to these matters include continuing to reduce certain expenses (personnel and overhead) and raise additional capital. Sources of additional capital include the sale of equity securities of the Company, the sale of Cardiodyne and/or the sale or licensing of certain patent rights. There are no assurances that additional capital will be raised or obtained by the Company. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

ITEM 7. FINANCIAL STATEMENTS

The financial statements required by Item 7 of this report are set forth in the index on page F-1.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS

MANAGEMENT

The following persons serve as our officers and directors.

Name	Age	Position
Marvin P. Loeb	76	Chairman, President and CEO
Glenn D. Yeik	35	Executive V.P.
Brian T. Kenney	47	V.P. - Sales and Marketing
Richard F. Horowitz	62	Secretary and Director

Donald Baker	73	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 served as our President from April 1991 until November 1992 and from July 1991 to November 2000. He has been the Chairman of the Board of Cardiodyne, Inc. (formerly Trioptic Laser, Inc., a 90% owned subsidiary of the Company) since May 1992. Since May 1986, he has been Chairman 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. From April 1986 to June 1994, he was Chairman and a Director of Xtramedics, Inc. (now Athena Medical Corporation), a publicly held company engaged in the development of a feminine hygiene product. From December 1979 he was a director of Automedix Sciences, Inc., (now COMC, Inc., a publicly held company in the voice and data telecommunications business). From 1980 to June 1999, Mr. Loeb was a director of Contracap, Inc. (now eTravel Serve, Inc., an inactive publicly-held, internet travel service. 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 Executive Vice President since April 2002. Prior thereto, he was our Vice President - Product Development from March 2000 to April 2002. Mr. Yeik was Manager and Director of Electronic Systems at AngioTrax, Inc. from May 1998 to March 2000. He was our Manager, Laser Engineer from May 1994 to May 1998 and our Senior Electrical Engineer from July 1992 to May 1994. Prior thereto, 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.

L. DEAN CRAWFORD, has been our Senior Vice President-Research and Development since April 1997. Mr. Crawford had been Vice President-Operations/Research and Development from July 1995 to April 1997 and Vice President-Delivery Systems from May 1992 to July 1995. Mr. Crawford has been a Senior engineer from February 1989 to May 1992. Before joining the Company, he was a manufacturing engineer and R & D Section Manager for Baxter Edwards Critical Care Division. Mr. Crawford has a Bachelors and Masters of Engineering Degree in Mechanical Engineering from Brigham Young University. Mr. Crawford ceased to be an employee of the Company in October 2002.

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.

STEPHEN J. BYRNE, has been our Vice President of Operations since July, 2001, having previously been our V.P. Manufacturing from February, 2001 to July 2001 and our Director of Purchasing since May 1999. He has over 20 years of diversified experience in medical device manufacturing, having held management positions at mature, world class, manufacturing companies: Bristol-Meyers from October 1975 to July 1981, American Hospital Supply from July 1981 to August 1982, and 3M from June 1988 to May 1996, as well as a successful start up

company, Cardiovascular Devices, Inc. from August 1982 to June 1988. He received a Bachelor's of Science degree in Marketing from California State University at Long Beach. Mr Byrne ceased to be an employee of the Company in October 2002.

DONALD BAKER, has been a director of our Company since May 1983. He also has been a director of Cardiodyne, Inc. (formerly Trioptic Laser, 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 is a Director of the Mid-America Committee on International Business and Government Cooperation, Chicago, Automedix Sciences (now COMC, Inc.), Santa Ana, CA and Cardiomedics, Inc., Santa Ana, CA. He is a member of the Chicago and American Bar Associations.

RICHARD F. HOROWITZ, has been a director of our Company since April 1983, and Secretary since July 2001. He also has been a director of Cardiodyne, Inc. (formerly Trioptic Laser, Inc.) since May 1992. He was a director of Automedix Sciences, Inc. (now COMC, Inc.) from November 1988 until 1999 and he has been a director of Cardiomedics, Inc. since 1992. Mr. Horowitz has been a practicing attorney in New York City for the past 38 years. He has been a member of the firm of Heller, Horowitz & Feit, P.C. (formerly Heller, Horowitz & Feit) since January 1979. Mr. Horowitz is a graduate of Columbia College and Columbia Law School. He is a member of the Association of the Bar of the City of New York and the New York State Bar Association.

ITEM 10. EXECUTIVE COMPENSATION

The following table sets forth the executive compensation paid during the fiscal years ended September 30, 2002 and 2001 to our Executive officers who earned more than $100,000 in combined salary, stock option awards and other compensation in fiscal 2002:

		Annual Compensation (1)		Compensation	
				Securities	
				Underlying	All Other
Name of Individual and Principal Position	Year	Salary ($)	Bonus ($)	Options (#)	Compensation ($) (2)
Marvin P. Loeb.....	2002			230,000	$ 8,558
Chairman of the Board, President and Chief Executive Officer	2001	$ 99,132	0	78,000	$12,124
Glenn D. Yeik, Executive V.P.....	2002	116,114	0	30,000	8,272
	2001	122,836	0	95,300	8,471
	2000	64,399		73,000	5,761
L. Dean Crawford, V.P.....	2002	128,161	0	--	7,402
	2001	133,344	0	83,724	7,458
	2000	131,659	0	79,020	7,459
Brian T. Kenney, V.P.....	2002	131,796	0	20,000	7,992
	2001	113,591	0	30,000	7,886
	2000	90,157	0	80,000	7,748

Steven J. Byrne, V.P.....	2002	91,938	0	10,000	2,048
	2001	93,448	0	30,000	1,873
	2000	66,999	0	71,000	1,054

Amounts shown include cash and non-cash compensation earned and received by our executive officers.

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.

On January 18, 2001, Mr. Loeb voluntarily reduced his cash compensation by 50% to $107,858 annually ($8,988 per month). On May 7, 2001, he agreed to accept Shares in lieu of the reduced amount of cash compensation, the number of Shares being determined by dividing $8,988 through March 31, 2002, and $9,231 thereafter, by the closing price of our Shares on the last day of each month. Through May 31, 2002, he was entitled to be issued a total of 230,000 Shares.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth the name of each beneficial owner of more than five percent of the Company's Common Stock known to the Company, by each director of the Company, by each named executive officer, and by all directors and executive officers as a group, the number of shares beneficially owned by such persons as of June 30, 2002 and the percent of the class so owned. 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 SHAREHOLDER		
Common Stock $.01 Par Value	Marvin P. Loeb, Chairman (1) 15091 Bake Parkway Irvine, CA 92618	1,642,570	12%
	DIRECTORS AND EXECUTIVE OFFICERS		
	Donald Baker, Director (2) 544 Earlston Road Kenilworth, IL 60043	70,000	*
	Richard Horowitz, Secy. & Dir. (2) Heller, Horowitz & Feit, P.C. 292 Madison Avenue New York, New York 10017	60,000	*

Glenn D. Yeik, Exec. V.P. (3) (4)	174,300	1%
L. Dean Crawford, Sr. V.P. (4) (5)	70,010	*
Brian T. Kenney, V.P. (4) (6)	26,000	*
Steven J. Byrne, V.P. (4) (7)	22,000	*
All Directors and Executive Officers as a Group (7 persons) (8)	2,064,880	15%

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* Indicates less than 1%.

(1) Includes 751,000 Shares held by Mr. Loeb and his wife, 109,570 shares to be issued to Mr. Loeb in lieu of compensation of $37,000 accrued for the period June through September, 2002, 760,000 shares issuable upon conversion of the Notes held by Mr. Loeb and his wife plus accrued interest to maturity, and currently exercisable Options to purchase 22,000 Shares. Does not include 797,900 shares held by Mr. Loeb's adult children and members of their families and trusts for their benefit. See "EXECUTIVE COMPENSATION").

(2) Includes 20,000 currently exercisable Options.

(3) Includes currently exercisable Options to purchase 17,000 Shares and 110,000 Shares owned by a trust for the benefit of his wife. Mr. Yeik is Mr. Loeb's son-in-law.

(4) Address is 15091 Bake Parkway, Irvine, CA 92618.

(5) Includes currently exercisable options to purchase 55,724 Shares.

(6) Consists solely of currently exercisable options.

(7) Includes currently exercisable options to purchase 13,000 Shares.

(8) Includes currently exercisable options to purchase 173,724 Shares and 760,000 Shares issuable on conversion of the Notes and accrued interest described in Note 1.

STOCK OPTION GRANTS IN LAST FISCAL YEAR

In fiscal 2002, options to purchase a total of 60,000 Shares of our Common Stock were granted to our above named executive officers.

STOCK OPTIONS EXERCISED AND HELD AT END OF FISCAL YEAR

The following table provides information related to options exercised during the fiscal year ended September 30, 2002, and unexercised options held by the above named executive officers as of the end of such fiscal year.

		NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FY END (#) (1)	VALUE OF UNEXERC IN-THE-MONEY OPT AT FY END ($)
SHARES ACQUIRED	VALUE		

	ON EXERCISE (#)	REALIZED($)	EXERCISABLE	UNEXERCISABLE	EXERCISABLE ($)	UNEXERC
Marvin P. Loeb	0	0	22,000	56,000	0	
Brian T. Kenney	0	0	26,000	79,000	0	
Glenn D. Yeik	0	0	17,000	86,000	0	
Steven J. Byrne	0	0	13,000	68,000	0	
L. Dean Crawford	0	0	55,724	28,000	0	

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(1) Our Non-Qualified Stock Options have a term of six years, and our Incentive Stock Options have a term of ten years. All Options are subject to earlier termination, with options becoming exercisable from the date of grant equally over the following three years for our Non-Qualified Stock options and five years for our Incentive Stock Options.

(2) The exercise prices of all of our exercisable and non-exercisable stock options on September 30, 2002 were higher than the market price of $0.25 per share, as reported by NASDAQ on that date. If the exercise price of any of these stock options had been less than the market price on that date, the value would have been calculated by multiplying the closing market price of our Shares at September 30, 2002 by the respective number of Shares and subtracting the option price. No dollar value indicates that the market price on September 30, 2002 was lower than the exercise price.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company subleased space to a company controlled by the Company's Chairman and Chief Executive Officer. The Company allocated expenses to that company based on actual costs incurred. Such charges aggregated $18,900 and $57,000 for the fiscal years 2002 and 2001, respectively. During fiscal 2002, the Company received collections totaling $18,900 from this related party.
This facility lease expired January 2002; management declined their renewal option and the sublease terminated.

During the year ended September 30, 2002, the Company sold two 12% Senior Convertible Secured Notes (the "Convertible Notes") to its Chief Executive totaling $200,000, with the intent to sell additional notes in the aggregate amount of $800,000, for a total offering of $1,000,000. The Convertible Notes sold in the amount of $150,000 and $50,000 bear interest at 12%, per annum, payable annually on December 31 through December 31, 2006, with a maturity date of February 27 and April 15, 2007, respectively, and are convertible into common stock, based on $0.40 per share and $0.50 per share (the "Conversion Price"), respectively. The Convertible Notes are secured by substantially all the Company's assets. The conversion prices of the Convertible Notes are subject to reduction if the Company issues or sells any shares of its common stock for a consideration per share less than the Conversion Price, at upon which the Conversion Price will be reduced to the price at which the shares of common stock were sold. However, no later sale of common stock at a price higher than

the Conversion Price shall cause the Conversion Price to be increased. The Company filed a registration statement with the SEC to register the underlying common stock. The Company's Chief Executive does not intend to demand the registration statement be effective.

On May 21, 2002, the board of directors authorized the grant of 230,000 shares of the Company's common stock valued at $115,000 or $0.50 per share to the Company's Chief Executive.

ITEM 13. COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

Not applicable.

ITEM 14. EXHIBITS AND REPORTS ON FORM 8-K

(a) Financial Statements.

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

(b) No reports on Form 8-K were filed during the fourth quarter of the fiscal year ended September 30, 2001.

(c) 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(h) License agreement with Christopoulos Stafanadis, M.D. and Pavlos Toutouzas, M.D. dated April 1, 1993

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

Filed Herewith

10(j) Industrial Lease dated April 2001.

* 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, 2002 /s/ Marvin P. Loeb

Marvin P. Loeb,
Chairman, President 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, President & CEO	January 14, 2003
/s/ Donald Baker Donald Baker	Director	January 14, 2003
/s/ Richard F. Horowitz Richard F. Horowitz	Director	January 14, 2003
/s/ Jeffrey S. Rudner Jeffrey S. Rudner	Chief Accountig Officer	January 14, 2003

TRIMEDYNE, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

The following consolidated financial statements of Trimedyne, Inc. and its subsidiary are included in Item 7:

Consolidated Financial Statements:

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders
Trimedyne, Inc.

We have audited the accompanying consolidated balance sheet of Trimedyne, Inc. and its subsidiaries (the "Company"), as of September 30, 2002, and the related consolidated statements of operations and comprehensive loss, stockholders' equity and cash flows for each of the two years in the period ended September 30, 2002. 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 auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 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 financial position of Trimedyne, Inc. and subsidiaries, as of September 30, 2002, and the results of their operations and their cash flows for each of the two years in the period ended September 30, 2002, in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has incurred operating losses, has a deficit in its liquid net assets, is unable to pay its current obligations and other adverse financial indicators. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ McKennon, Wilson & Morgan LLP

Irvine, California
January 14, 2003

TRIMEDYNE, INC.
CONSOLIDATED BALANCE SHEET

ASSETS

	September 30, 2002
Current assets:	
Cash and cash equivalents	$ 317,000
Trade accounts receivable, net of allowance for doubtful accounts of $62,000	601,000
Inventories (Note 5)	1,861,000
Other	112,000
Total current assets	2,891,000
Goodwill, net (Note 3)	544,000
Property and equipment, net (Note 5)	552,000
Other assets	55,000
	$ 4,042,000
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	$ 1,023,000
Accrued expenses (Note 5)	675,000
Deferred income	172,000
Current portion of long-term debt (Note 6)	31,000
Total current liabilities	1,901,000
Senior Convertible Secured Notes due officer (Note 9)	200,000
Total liabilities	2,101,000
Stockholders' equity:	
Preferred stock - $0.01 per share, 1,000,000 shares authorized, none outstanding	--
Common stock - $.01 par value; 30,000,000 shares authorized, 13,831,369 shares issued and 13,729,760 shares outstanding (Note 10)	139,000
Capital in excess of par value	47,655,000
Accumulated deficit	(45,140,000)
	2,654,000
Less treasury stock, at cost, 101,609 shares	(713,000)
Total stockholders' equity	1,941,000
	$ 4,042,000

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF OPERATIONS AND
COMPREHENSIVE LOSS

	For The Years Ended September 30,	
	2002	2001
Net revenues:		
Products	$ 5,640,000	5,857,000
Service and rental	1,417,000	1,607,000
	7,057,000	7,464,000
Cost of sales:		
Products	3,134,000	5,187,000
Service and rental	1,060,000	1,028,000
	4,194,000	6,215,000
Gross Profit	2,863,000	1,249,000
Selling, general and administrative expenses	2,857,000	4,839,000
Research and development expenses	1,358,000	2,330,000
Loss from operations	(1,352,000)	(5,920,000)
Other income (expense):		
Interest income	5,000	220,000
Loss on investments	--	(1,143,000)
Fair value of make-up shares	--	(660,000)
Gain on disposal of assets	9,000	--
Creditor settlements and recoveries	123,000	19,000
Net loss	$ (1,215,000)	$ (7,484,000)
Comprehensive loss	$ (1,215,000)	$ (7,484,000)
Basic and diluted net loss per share	$ (0.09)	$ (0.59)
Basic and diluted weighted average common shares outstanding:	13,681,369	12,615,000

See Notes to Consolidated Financial Statements

TRIMEDYNE, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Capital In Excess of	Accumulated	Accumulated Other Comprehensiv
	Shares	Amount	Par Value	Deficit	Loss
Balances at September 30, 2000	11,931,978	$ 120,000	$ 45,661,000	$(36,441,000)	$ (155,000
Change in unrealized loss on marketable securities					155,000
Exercise of stock options	713,359	7,000	202,000		
Stock issued to consultants	20,200	1,000	32,000		
Make-up shares issued pursuant to private placement	425,832	4,000	656,000		
Additional compensation for modification of stock options			162,000		
Purchase of Mobile Surgical Technologies, Inc.	500,000	5,000	770,000		
Net loss for the year				(7,484,000)	
Balances at September 30, 2001	13,591,369	$ 137,000	$ 47,483,000	$(43,925,000)	$ --

TRIMEDYNE, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (CONTINUED)

	Common Stock		Capital In Excess of	Accumulated	Accumulated Other Comprehensiv
	Shares	Amount	Par Value	Deficit	Loss
Shares issued for services rendered	240,000	2,000	115,000		
Additional compensation for granting of stock options			57,000		
Net loss for the year				(1,215,000)	
Balances at September 30, 2002	13,831,369	$ 139,000	$ 47,655,000	$(45,140,000)	$ --

See Notes to Consolidated Financial Statements

TRIMEDYNE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For The Years Ended September 30,	
	2002	2001
Cash flows from operating activities:		
Net loss	$(1,215,000)	$(7,484,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	261,000	241,000
Provision for impairment of inventory	--	868,000
Provision for bad debts	--	164,000
Loss on sale of investment	--	1,143,000
Fair value of modifications of options granted	--	162,000
Fair value of stock issued and options	174,000	33,000
Fair value of stock issued pursuant to private placement	--	660,000
Gain on sale/disposal of fixed assets	(9,000)	--
Changes in operating assets and liabilities:		
Decrease (increase) in trade accounts receivable, net	637,000	(523,000)
Decrease (increase) in inventories	1,003,000	609,000
Decrease (increase) in other current assets	104,000	90,000
(Decrease) increase in accounts payable	(751,000)	1,348,000
(Decrease) increase in accrued expenses	(127,000)	221,000
(Decrease) increase in other current liabilities	(47,000)	216,000
Net cash provided by (used in) operating activities	30,000	(2,252,000)
Cash flows from investing activities:		
Capital expenditures	--	(276,000)
Sale of marketable securities	--	2,089,000
Acquisition of MST, net of cash received	--	(1,000)
Sale of fixed assets	38,000	--
Net cash provided by investing activities	38,000	1,812,000
Cash flows from financing activities:		
Proceeds from exercise of stock options	--	198,000
Loans from officer	200,000	--
Net payments on long-term liabilities	(35,000)	(140,000)
Net cash provided by financing activities	165,000	58,000
Net decrease in cash and cash equivalents	233,000	(382,000)

Cash and cash equivalents at beginning of year	84,000	466,000
Cash and cash equivalents at end of year	$ 317,000	$ 84,000
Non-cash investing and financing activities		
Common stock issued for acquisition of MST	$ --	$ 775,000
Stock options exercised for relief of debt	$ --	$ 11,000

See Notes to Consolidated Financial Statements

TRIMEDYNE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. THE COMPANY:

Trimedyne, Inc. ("Trimedyne") and its subsidiary (collectively "the Company") are engaged primarily in the research and development, manufacture and sale of lasers and disposable laser devices in the medical field. The Company has was also been engaged in the research and development of cardiovascular laser devices through its 90% owned subsidiary, Cardiodyne, Inc. ("Cardiodyne"). In January 2001, the Company ceased funding Cardiodyne's operations due to budgetary constraints. The Company's operations are primarily located in Southern California with distribution of its products worldwide (Note 12).

On In November 30, 2000, the Company acquired all of the common stock of Mobile Surgical Technologies, Inc. ("MST"), a Dallas, Texas-based privately held company, in exchange for 500,000 shares of the Company's unregistered common stock. MST is primarily engaged in providing the Company's lasers and other surgical equipment to hospitals and surgery centers on a "fee-per-case" basis in the southwestern United States.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Consolidation

The consolidated financial statements include the accounts of the Company, its 90% owned subsidiary, Cardiodyne and wholly-owned subsidiary, MST. All significant intercompany accounts and transactions have been eliminated in consolidation.

Going Concern

The Company has incurred losses from operations throughout its recent past. At September 30, 2002, the Company had working capital of approximately $1 million, and excluding inventories, the Company's current liabilities exceed the current liquid assets by $900,000. In addition, the Company's trade payables are past due. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans with respect to these matters include efforts to seek additional sources of revenues, further reduce costs by eliminating certain personnel positions and reducing certain overhead costs. Management has been successful in reducing its costs significantly in 2002, and

must continue to do so. Management continues to seek additional capital from external sources; however, to date such efforts have been unsuccessful. During the year ended September 30, 2002, the Company sold 12% Senior Convertible Secured Notes to its Chief Executive Officer totaling $200,000, with the intent to sell additional notes in the aggregate amount of $800,000, for a total offering of $1,000,000. Management filed a registration statement on Form SB-2 with the Securities and Exchange Commission (the "SEC") to register the shares. Management currently intends to withdraw this registration statements in the near future. There are no assurances that management's plans will be successful in its plans. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Cash and cash equivalents

Cash in excess of requirements is principally invested in short-term corporate and government obligations, money market funds and certificates of deposit with a remaining maturity of three months or less. Such investments are deemed to be cash equivalents.

Marketable securities

Marketable securities are accounted for under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The Company's short-term investments consisted of marketable debt and equity securities, which were classified as "available-for-sale" in accordance with the provisions of SFAS No. 115. Accordingly, such investments are presented as current assets and carried at their estimated fair values in the accompanying consolidated financial statements. Fair value was determined based on quoted market prices. The specific identification method has been used to determine cost for each security. Unrealized losses which are considered temporary are excluded from net income (loss) and reported as a separate component of shareholders' equity, net of the related tax effect and as a component of comprehensive income (loss). When a decline in market value is considered permanent by management, the Company reports such impairment in operations.

Inventories

Inventories consist of raw materials and component parts, and work in process and finished good lasers and dispensing systems. Inventories are recorded at the lower of cost or market, cost being determined on a first-in, first-out basis. 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. These units are being depreciated over a period of up to 5 years using the straight-line method of depreciation.

Use of estimates by management

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 those made surrounding inventory valuation, as well as allowances for doubtful accounts and deferred income tax assets, losses for contingencies and certain accrued liabilities.

The Company's inventory largely relates to technologies which have yet to gain wide spread market acceptance. Management currently believes no material loss will be incurred on the disposition of its inventory in the normal course of business. If wide-spread market acceptance of the Company's products is not achieved, the carrying amount of inventory could be materially impacted.

Concentration of credit risk

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.

Fair value of financial instruments

The Company has financial instruments whereby the fair value of the financial instruments could be different than that recorded on a historical basis on the accompanying balance sheet. The Company's financial instruments consist primarily of accounts receivable and accounts payable. The carrying amounts of the Company's financial instruments generally approximate their fair values as of September 30, 2001 because of the short maturity of these instruments. Receivables from related parties cannot be objectively and fairly valued due to the related party nature of the instrument.

Depreciation and amortization

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.

Revenue recognition

The Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) 101, Revenue Recognition in Financial Statements, in December 1999. The SAB summarizes certain of the SEC staff's views in applying GAAP to revenue recognition in financial statements. The Company recognizes revenue from products once all of the following criteria for revenue recognition have been met:

1) Persuasive evidence that an agreement exists;
2) the products have been shipped;
3) the prices are fixed and determinable and not subject to refund or adjustment; and
4) collection of the amounts due is reasonably assured.

The Company adopted SAB 101 in the first quarter of fiscal 2001 with no material impact on its consolidated financial statements. Revenues from the sale of delivery and disposable devices are recognized upon shipment of product, provided that all revenue recognition criteria have been met. Generally, customers are required to insure the goods from Trimedyne's place of business. Accordingly, the risk of loss transfers to the customer once the goods have been

picked up by shipping company. 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 revenue recognition criteria have been met, and ownership risks transferred.

During fiscal 2000, the Company commenced a revenue share program (the "program") with certain laser rental companies, the terms of which include placements of lasers and the sale of reusable and disposable devices discounted at 20% to 50%. The Company shares 35% of the customers' revenues generated from surgical procedures in which the Company's lasers and reusable and disposable devices are used. Generally, the laser rental companies are required to remit a monthly minimum ranging from $3,000 to $3,800 per laser placed. Shared revenues are recognized at the end each month pursuant to the terms of each agreement. As of September 30, 2002, the Company had an agreement with one customer under the program at $3,800 per month. During the periods presented, revenue shares are not significant.

Deferred income consists of the unamortized portion of payments received from customers for extended warranty contracts. Revenue earned under these service contracts is recognized ratably over the life of the related contract (typically one to two years).

Warranty costs

We warrant certain of our products and provide for estimated product warranty costs at the time of sale.

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 liability method of accounting for income taxes 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.

Accounting for stock-based compensation

The Company has not adopted a fair value-based method of accounting for stock-based compensation plans for employees and non-employee directors. The Company uses the intrinsic value-based approach, supplemented by disclosure of the pro forma impact on operations and per share information using the fair value-based approach (see Note 9). Stock-based compensation issued to non-employees and consultants are measured at fair value,. Common stock purchase options and warrants issued to non-employees and consultants are measured at

fair value using the Black-Scholes valuation model. The Company has considered the effects of Interpretation No. 44 of APB No. 25 issued by the FASB when accounting for stock options issued to employees and to non-employee directors voted to office by shareholders.

Impairment of long-lived assets

The Company accounts for impairment of long-lived assets under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of." This statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. No significant impact on the Company's consolidated financial position, results of operations or cash flows has been realized as a result of this policy.

Inventories

We value our inventories at the lower of cost or market. Cost is determined by the first-in, first-out (FIFO) method, including material, labor and factory overhead. We write down our inventory for estimated obsolescence equal to the salvage 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.

Valuation of long-lived and intangible assets

We assess the fair value and recoverability of our long-lived assets, including goodwill, whenever events and circumstances indicate the carrying value of an asset may not be recoverable from estimated future cash flows expected to result from its use and eventual disposition. In doing so, we make assumptions and estimates regarding future cash flows and other factors to make our determination. The fair value of our long-lived assets and goodwill is dependent upon the forecasted performance of our business and the overall economic environment. When we determine that the carrying value of our long-lived assets and goodwill may not be recoverable, we measure any impairment based upon a forecasted discounted cash flow method or fair value. If these forecasts are not met, we may have to record impairment charges not previously recognized.

Per share information

Basic earnings (loss) per share is computed by dividing income (loss) available to common shareholders by the weighted average common shares outstanding plus the potential effect of dilutive securities which are convertible to common shares such as options, warrants and preferred stock. Due to the net loss incurred in fiscal 2002 and 2001, all common stock equivalents outstanding were

considered anti-dilutive and were excluded from the calculations of diluted net loss per share. Potential common shares which would have been included in diluted per share information consist of the incremental common shares issuable upon the exercise of stock options, using the treasury stock method, approximated 101,000 shares in fiscal 2001. There were no incremental common shares issued in fiscal 2002.

Consolidated statements of cash flows

Cash paid for interest and income taxes in 2001 or 2002 was not applicable or not significant.

Comprehensive income

Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The Company's only element of comprehensive income during fiscal 2000 and 2001 related to unrealized losses on marketable securities.

Segment information

The Company reports information about operating segments, as well as disclosures about products and services, geographic areas and major customers (See Note 12). Operating segments are defined as revenue-producing components of the enterprise, which are generally used internally for evaluating segment performance.

Accounting for derivatives

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. In May 1999, SFAS 133 was amended to defer its effective date. The adoption of SFAS 133 had no material impact on the Company's consolidated financial statements.

Recently issued accounting standards

In June 2001, the Financial Accounting Standards Board finalized Statements of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets." SFAS 141 requires the use of the purchase method of accounting and prohibits the use of the pooling-of-interests method of accounting for business combinations initiated after June 30, 2001. SFAS 141 also requires that the Company recognize acquired intangible assets apart from goodwill if the acquired intangible assets meet certain criteria. SFAS 141 applies to all business combinations initiated after June 30, 2001, and for purchase business combinations completed on or after July 1, 2001. It also requires, upon adoption of SFAS 142 that the Company reclassify the carrying amounts of intangible assets and goodwill based on the criteria in SFAS 141.

SFAS 142 requires, among other things, that companies no longer amortize goodwill, but instead test goodwill for impairment at least annually. In addition, SFAS 142 requires that the Company identify reporting units for the purposes of assessing potential future impairments of goodwill, reassess the useful lives of other existing recognized intangible assets, and cease amortization of intangible assets with an indefinite useful life. An intangible asset with an indefinite useful life should be tested for impairment in

accordance with the guidance in SFAS 121. SFAS 142 is required to be applied in fiscal years beginning after December 15, 2001, to all goodwill and other intangible assets recognized at that date, regardless of when those assets were initially recognized. SFAS 142 requires the Company to complete a transitional goodwill impairment test six months from the date of adoption. The Company is also required to reassess the useful lives of other intangible assets within the first interim quarter after adoption of SFAS 142. The Company is assessing, but has not yet determined, how the adoption of SFAS 141 and SFAS 142 will impact its financial statements and results of operations.

The FASB issued Statement No. 143 "Accounting for Asset Retirement Obligations" which establishes standards for the initial measurement and subsequent accounting for obligations associated with the sale, abandonment, or other type of disposal of long-lived tangible assets arising from the acquisition, construction, or development and/or normal operation of such assets. SFAS No. 143 is effective for years beginning after June 15, 2002, with earlier application encouraged. The Company is assessing, but has not yet determined, how the adoption of SFAS 143 will impact its financial position and results of operations.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which supersedes both SFAS Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, and the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations--Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for the disposal of a segment of a business (as previously defined in that Opinion). SFAS No. 144 retains the fundamental provisions in SFAS No. 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with SFAS No. 121. For example, SFAS No. 144 provides guidance on how a long-lived asset that is used as part of a group should be evaluated for impairment, establishes criteria for when a long-lived asset is held for sale, and prescribes the accounting for a long-lived asset that will be disposed of other than by sale. SFAS No. 144 retains the basic provisions of APB No. 30 on how to present discontinued operations in the statement of operations but broadens that presentation to include a component of an entity (rather than a segment of a business). Unlike SFAS No. 121, an impairment assessment under SFAS No. 144 will never result in a write-down of goodwill. Rather, goodwill is evaluated for impairment under SFAS No. 142, Goodwill and Other Intangible Assets. The Company is required to adopt SFAS No. 144 no later than the fiscal year beginning after December 15, 2001, and plans to adopt its provisions effective October 1, 2002. Management does not expect the adoption of SFAS No. 144 to have a significant impact on the Company's condensed consolidated financial statements.

In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. The provisions of SFAS No. 145 relating to the rescission of SFAS No. 4 are effective for financial statements issued for fiscal years beginning after May 15, 2002, and the provisions relating to SFAS No. 13 are effective for transactions occurring after May 15, 2002. SFAS No. 145 rescinds SFAS No. 4, Reporting Gains and Losses from Extinguishment of Debt, and an amendment of that Statement, SFAS No. 64, Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements. SFAS No. 145 also rescinds SFAS No. 44, Accounting for Intangible

Assets of Motor Carriers, and amends SFAS No. 13, Accounting for Leases, to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS No. 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The Company does not expect the adoption of SFAS No. 145 will have a significant impact on its condensed consolidated financial statements.

In July 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 revises the accounting for specified employee and contract terminations that are part of restructuring activities. Companies will be able to record a liability for a cost associated with an exit or disposal activity only when the liability is incurred and can be measured at fair value. Commitment to an exit plan or a plan of disposal expresses only management's intended future actions and therefore does not meet the requirement for recognizing a liability and related expense. SFAS No. 146 only applies to termination benefits offered for a specific termination event or a specified period. It will not affect accounting for the costs to terminate a capital lease. The Company is required to adopt SFAS No. 146 for exit or disposal activities initiated after September 30, 2002. The Company is evaluating this new standard but expects that the effects of adoption, if any, would relate solely to exit or disposal activities undertaken in the future.

TRIMEDYNE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. ACQUISITION

On November 30, 2000, the Company acquired all of the common stock of Mobile Surgical Technologies, Inc. ("MST"), a Dallas, Texas-based privately held company, in exchange for 500,000 shares of the Company's common stock valued at $775,000 with direct financing costs totaling $17,000. The assets and liabilities of MST were recorded at fair value, with the excess of cost over the fair value of the net assets acquired of $666,000 allocated to goodwill. Goodwill is amortized on a straight-line basis over ten years. As discussed in Note 2, the Company will evaluate the impact of SFAS 142 on its goodwill. In connection with the acquisition of MST, the Company acquired the following net assets:

Current assets	$ 138,000
Non-current assets, excluding goodwill	278,000
Goodwill	666,000
Current liabilities	(51,000)
Long-term liabilities	(239,000)
	$ 792,000

Amortization of goodwill amounted to $72,000 and $50,000 in fiscal 2002 and 2001, respectively.

NOTE 4. Marketable Securities

The Company had no marketable securities during the year ended September 30,

2002. Marketable securities during 2001 included an investment in an equity hedge fund which suffered a significant loss during the second quarter of 2001. At that time, management was unable to determine whether the investment was permanently impaired since the value of the investment was volatile. Management determined a permanent impairment to the asset value should be recognized during the third quarter based on the proceeds received from the liquidation of its marketable securities in July 2001 for approximately $47,000. Accordingly, management recorded a charge of $1,143,000 to operations during fiscal 2001. The Company had no marketable securities during the year ended September 30, 2002.

NOTE 5. COMPOSITION OF CERTAIN BALANCE SHEET CAPTIONS:

Inventories consist of the following at September 30, 2002:

Raw materials	$ 543,000
Work-in-process	359,000
Finished goods	959,000
	$1,861,000

The Company presently has approximately $1.1 million in purchase commitments for inventory, which have been customized for the Company's production specifications and for which suppliers, due to the Company's account not being current, have not released the related inventory. The purchase commitment will not be reflected in inventory until such time it is shipped by the vendor.

Property and equipment, net consist of the following at September 30, 2002:

Furniture and equipment	$ 2,270,000
Leasehold improvements	218,000
Other	114,000
	2,602,000
Less accumulated depreciation and amortization	(2,050,000)
	$ 552,000

As discussed in Note 7, the Company entered into a new facility lease beginning February 2001. All remaining leasehold improvements related to the previously leased facility have been expensed. In connection with the newly leased facility, the Company incurred $218,000 in leasehold improvement costs in fiscal 2001. These leasehold improvements will be amortized over the initial lease term on a straight-line basis through December 2005. Depreciation expense totaled $189,000 and $191,000 for fiscal 2002 and 2001, respectively.

Accrued expenses consist of the following at September 30, 2002:

	September 30, 2002
Salaries, wages and benefits	$ 183,000

Accrued royalties	88,000
Accrued warranty	62,000
Loss contingencies	77,000
Other	265,000
	$ 675,000

NOTE 6. LONG-TERM DEBT:

Long-term debt consists of the following at September 30, 2002:

Loan payable to bank, bearing interest at 9.5% per annum; principal and interest due monthly in equal installments of $2,306 paid November 2002	$ 3,000
Loan payable to bank, bearing interest at 10% per annum; principal and interest due monthly in equal installments of $1,611 through April 2003. The loan is secured by the related laser	11,000
Loan payable to bank, bearing interest at 10% per annum; principal and interest due monthly in equal installments of $1,537 through April 2003. The loan is secured by the related laser	10,000
Loan payable to bank, bearing interest at 10% per annum; principal and interest due monthly in equal installments of $1,098 through April 2003. The loan is secured by the related automobiles	7,000
	31,000
Less: current portion	(31,000)
Long-term debt	$ --

NOTE 7. INCOME TAXES:

The deferred income tax balances at September 30, 2002, are comprised as follows:

	September 30, 2002
Deferred income tax assets:	
Net operating loss carry forwards	$ 15,675,000
Research & development credits	3,627,000
Inventory obsolescence reserves	727,000
Accrued expenses	52,000
Account receivable reserves	26,000
Other	166,000
Valuation allowance	(20,273,000)
	--

The valuation allowance for deferred tax assets increased approximately $ 3,065,000 and decreased approximately $37,000 during the years ended September

30, 2001 and 2002, respectively. The 2001 increase primarily relates to additional valuation allowance for net operating loss carryforwards and research tax credits generated. Due to the existence of net operating loss carryforwards, such assets of which were fully reserved, the Company recorded no provision for income taxes in fiscal 2002 nor 2001.

In fiscal 2002 and 2001, the difference between the tax benefit derived by using the 34% Federal tax rate and the zero benefit recorded by the Company is due to the Company providing a 100% valuation allowance against any deferred tax assets.

At September 30, 2002, the Company had net operating loss ("NOL") carry forwards for Federal and California income tax purposes totaling approximately $45.0 million and $14.3 million, respectively. Federal NOL's begin to expire in 2005 and fully expire in 2020. California NOL's have begun to expire and fully expire in 2011. 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.

NOTE 8. COMMITMENTS AND CONTINGENCIES:

Lease Commitments

The Company elected an early termination of the then existing facility lease effective January 2001. In February 2001, the Company entered into a non-cancelable lease, which expires in December 2005, with an option to renew the lease at market rates. The Company subleases approximately 8,800 square feet of this facility to a third party at a monthly rental of $14,600. The sublease expires in April 2005 and reverts to a month-to-month basis.

The Company leased 14,000 square feet of office and manufacturing building in Irvine, California, under a sixty month lease expiring in January 2002 at a monthly rental of approximately $14,068, with one thirty-six month renewal option. The Company subleased 8,000 sq. ft. of this building, which it occupied until November 1998, to a third party at its cost. The Company subleased on a month-to-month basis approximately 6,000 sq. ft. of space at its cost to a privately owned medical device company controlled by the Chairman of the Company. The Company did not need the space subleased to either entity. This facility lease expired January 2002; management declined their renewal option.

The Company is obligated under lease agreements to make minimum rental payments, excluding taxes and common area maintenance costs, for the years ending September 30 as follows:

2003	$ 490,000
2004	528,000
2005	528,000
2006	132,000
Total	$ 1,678,000

Rent expense for the years ended September 30, 2002 and 2001 was approximately

$516,000 and $452,000, respectively. Sub-lease income totaled approximately $119,000 and $55,000 for fiscal 2002 and 2001, respectively.

Contingencies

Litigation

The Company is currently a defendant and counterclaimant in Lumenis, Inc. v. Trimedyne, Inc. The plaintiff alleges that Trimedyne is infringing on two of Lumenis' patents. Trimedyne has filed an answer to Lumenis' complaint and also filed a counterclaim against Lumenis. There have been settlement discussions but no settlement has been reached. The Company intends to vigorously defend this litigation and pursue its counterclaim against Lumenis. No provision for loss has been recorded since the matter is in its infancy stages.

Product liability

The Company is currently a defendant in two product liability lawsuits. These cases relate to injuries that occurred in connection to medical procedures in which the Company's lasers were used. Both of these cases are currently in litigation. The Company has insurance to cover product liability claims. This insurance provides the Company with $10,000,000 of coverage for each occurrence. Trimedyne's liability is limited to a maximum of $50,000 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 $10,000,000. Management has recorded a provision for these claims in the amount of $100,000 ($50,000 for each claim), based on the deductible under the insurance policy.

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.

Licensing

The Company licenses certain applications related to its medical laser and laser delivery systems under two license agreements from a competitor. The Company elected to not pay the royalty due for the quarter ended September 30, 2000, under one of the licenses, as sales of products pursuant to this license prior to the date of termination were not material and did not warrant the payment of the minimum quarterly royalty. This license agreement automatically terminated on September 30, 2000, and the Company ceased marketing the affected products. Subsequent to September 30, 2001, the Company paid the royalties due under the other license.

NOTE 9. SENIOR CONVERTIBLE SECURED NOTES DUE TO OFFICER

During the year ended September 30, 2002, the Company sold two 12% Senior Convertible Secured Notes (the "Convertible Notes") to its Chief Executive totaling $200,000, with the intent to sell additional notes in the aggregate

amount of $800,000, for a total offering of $1,000,000. The Convertible Notes sold in the amount of $150,000 and $50,000 bear interest at 12%, per annum, payable annually on December 31 through December 31, 2006, with a maturity date of February 27 and April 15, 2007, respectively, and are convertible into common stock, based on $0.40 per share and $0.50 per share (the "Conversion Price"), respectively. The Convertible Notes are secured by substantially all the Company's assets. The conversion prices of the Convertible Notes are subject to reduction if the Company issues or sells any shares of its common stock for a consideration per share less than the Conversion Price, at upon which the Conversion Price will be reduced to the price at which the shares of common stock were sold. However, no later sale of common stock at a price higher than the Conversion Price shall cause the Conversion Price to be increased. The Company filed a registration statement with the SEC to register the underlying common stock. The Company's Chief Executive does not intend to demand the registration statement be effective.

Management intends to withdraw this registration.

NOTE 10. STOCKHOLDERS' EQUITY:

Stock Options:

The Company has adopted stock option plans that authorize the granting of options to key employees, directors, and/or 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 expire in ten years. Forfeitures of stock options are returned to the Company and become available for grant under the respective plan.

On April 17, 2002, the board of directors authorized the grant of incentive stock options to employees to purchase 295,500 shares at an exercise price of $0.50 per share, the estimated fair value at the date of grant.

On April 17, 2002, the board of directors authorized the grant of non-qualified stock options to purchase 365,000 shares at various exercise prices ranging from $0.50 per share to $2.50 per share. Options to purchase 355,000 shares of common stock are fully vested. The Company used the Black-Scholes valuation model to value the options. Average assumptions used are: i. a volatility of 60%, ii. a risk-free interest rate of 4.75%, iii. no dividend yield, and iv. an expected life of 3 years. The total value ascribed to options issued to consultants amounted to $57,000 and charged to operations during the year ended September 30, 2002. These options generally expire 5 years from the date of grant.

On August 24, 2001, the Company modified all option contracts issued to employees and certain non-employee board members. The modification consisted of a reduction in the exercise prices ranging from $1.06 to $3.84 per share to $0.28 per share, for vested options only as of that date. This modification causes the option contracts to be variable in nature, which requires management to re-measure the value of the options on the date of modification and subsequent periodic reporting dates. The effect in fiscal 2001 amounted to $25,013, and such amount was charged to operations as compensation expense. No compensation has been recorded in fiscal 2002 as a result of this repricing, since the fair market value of the Company's common stock is less than the exercise prices above.

On February 23, 2001, the Board of Directors authorized a modification to increase the life of option awards outstanding upon the separation from employment for two employees. Additionally, upon the resignation of a non-employee director, the Board authorized an increase in the life of all options outstanding. The extension, which was not beyond the original maximum

contractual life, was for two years from the date of separation for the employees and one year for the director. Accordingly, the Company charged $60,625 in compensation expense for the intrinsic value at the date of separation in excess of the intrinsic value at the date of the original grant.

On October 6, 2000, the Board of Directors authorized the extension of the life of stock options granted to certain members of the Board. The result is a new measurement of compensation cost as if the awards were newly granted. The awards were fully vested at the time of the modification. The Company recorded compensation expense in fiscal 2001 pursuant to the modification totaling $76,290.

Activity during the years ended September 30, 2002 and 2001 under the plans was as follows:

Stock Options Outstanding

	Options	Option Exercise Price Per Share	Aggregate Exercise Price
September 30, 2000 (as restated)	2,197,770	$1.0630 - $6.6300	$ 4,686,525
Granted	793,500	$1.2500 - $1.6875	$ 1,005,761
Exercised	(713,816)	$1.0630 - $3.8438	$ (1,150,671)
Canceled	(809,320)	$1.0630 - $6.6300	$ (1,670,841)
September 30, 2001 (as restated)	1,468,134	$1.0630 - $6.6300	$ 2,870,936
Granted	702,000	$0.3300 - $2.5000	544,963
Exercised	--	--	--
Canceled	(289,580)	$0.4600 - $6.6300	(671,507)
September 30, 2002	1,880,554	$0.3300 - $4.2500	$ 2,744,392

The following table summarizes information concerning outstanding and exercisable options at September 30, 2002, after taking into consideration of the modification of option contract terms:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
Range of Exercise Prices	Outstanding as of 9/30/2002	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Exercisable as of 9/30/2002	Weighted-Average Exercise Price
$0.0000 - $0.9375	452,000	8.1	$0.4843	147,000	$0.4769
$0.9376 - $1.8750	975,374	5.2	$1.3076	545,874	$1.3425

$1.8751 - $2.8125	354,180	6.0	$2.5208	175,288	$2.4481
$2.8126 - $3.7500	46,000	0.7	$3.2941	46,000	$3.2941
$3.7501 - $4.6875	53,000	6.8	$3.8821	17,000	$3.9633
	1,880,554	6.0	$1.4594	931,162	$1.5582

As stock options are generally granted at an exercise price equal to the fair market value of the underlying stock at the date of grant, there are generally no charges to income in connection with the issuance of stock options. Upon exercise, proceeds from the sale of shares under the stock options plans are credited to common stock and additional paid-in capital.

As discussed in Note 2, the Company is required to disclose the effects on operations and per share data as if the Company had elected to use the fair value approach to account for all of its employee stock-based compensation plans. Had the compensation cost for the Company's plans been determined using the fair value method, the compensation expense would have had the effects of increasing the Company's net loss for the year ended September 30, 2002 to the pro-forma amount of $1,253,000 and increasing the Company's net loss for the year ended September 30, 2001 to the pro forma amount of $7,675,000, with a pro forma net loss per share of $(0.09) and $(0.61), respectively. These pro forma amounts were determined based upon the fair value of each option granted during fiscal 20002 and 2001 on its grant date, using the Black-Scholes option- pricing model. Assumptions of no dividend yield, a risk free interest rate which approximates the Federal Reserve Board's rate for treasuries at the time granted, an expected life of five years, and a volatility rate of approximately 60% and 167%, respectively, were applied to all options granted. The weighted average fair value at the grant date for the options granted during fiscal years 2002 and 2001 was $0.12 and $1.20 per option, respectively.

Contingent common stock arrangement

On April 17, 2002, the board of directors authorized the grant of 185,000 shares of the Company's common stock to certain employees, subject to the completion of an effective registration statement. In the event the registration is not completed, the shares will not be issued.

Common stock issued

On May 21, 2002, the board of directors authorized the grant of 230,000 shares of the Company's common stock valued at $115,000 or $0.50 per share. Such compensation was provided primarily for services during the nine-months ended June 30, 2002. The Company charged operations for $115,000 during the year ended September 30, 2002.

Private placement of common stock

On April 11, 2000, the Company completed a private placement of common stock. In the transaction, the Company received approximately $2.1 million, net of issuance costs, in exchange for 660,819 shares of common stock. In addition, the Company issued warrants to purchase 329,000 shares of the Company's common stock

at $4.88 per share. The warrants expire in March 2005. In connection with the private placement, the Company is required to issue "make-up" shares of common stock to the extent the Company enters into a transaction whereby the value of the common stock is less than the amount paid by the investors. The acquisition of MST triggered the make-up share provision since 500,000 shares were issued, based on the $2.00 per share market price on the date of the Letter of Intent to acquire MST. On the date the registration of such shares became effective and the shares were issued, the market price of the shares was approximately $1.55 per share. During the year ended September 30, 2001, the Company issued 425,832 shares in connection with the make-up provision, which were valued at the market price on the date of issuance at $660,040, and included in other expense in the accompanying statement of operations.

NOTE 11. EMPLOYEE BENEFIT PLAN:

Effective February 1, 1989, the Company adopted a 401(k) Retirement Savings Plan (the "Retirement Plan"). Under the terms of the Retirement Plan, employees may, subject to certain limitations, contribute up to 15% of their total compensation. The Company contributes an additional $0.50 for each dollar of employee contributions up to 4% of eligible employee compensation. Employees become vested in the Company's contribution at 20% per year over five years. The Company's annual contributions to the Retirement Plan totaled $45,000 for fiscal 2002 and $65,000 for fiscal 2001.

NOTE 12. RELATED PARTY TRANSACTIONS:

The Company subleased space to a company controlled by the Company's Chairman and Chief Executive Officer. The Company allocated expenses to that company based on actual costs incurred. Such charges aggregated $18,900 and $57,000 for the fiscal years 2002 and 2001, respectively. During fiscal 2002, the Company received collections totaling $18,900 from this related party.
This facility lease expired January 2002; management declined their renewal option and the sublease terminated.

NOTE 13. SEGMENT INFORMATION:

The Company's revenue base is derived from the sales of medical products and services on a worldwide basis originating from the United States. Although discrete components that earn revenues and incur expenses exist, significant expenses such as research and development and corporate administration are not incurred by nor allocated to these operating units but rather are employed by the entire enterprise. Additionally, the chief operating decision maker evaluates resource allocation not on a product or geographic basis, but rather on an enterprise-wide basis. Therefore, the Company has concluded that it contains only one reportable segment, which is the medical systems business.

TRIMEDYNE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2002			For the year ended Sept	
Product	Service and Rental	Total	Product	Service and Rental

Revenue	$ 5,640,000	$ 1,417,000	$ 7,057,000	$ 5,857,000	$ 1,607,000
Cost of sales	3,134,000	1,060,000	4,194,000	5,187,000	1,028,000
Gross profit	2,506,000	357,000	2,863,000	670,000	579,000
Expenses:					
Selling, general and administrative	2,303,000	554,000	2,857,000	3,871,000	968,000
Research and development	1,358,000		1,358,000	2,330,000	
Loss from operations	$(1,155,000)	$ (197,000)	(1,352,000)	$ 5,531,000	$ (389,000
Other			137,000		
Net loss			$(1,215,000)		

Export sales during the years ended September 30, 2002 and 2001 were $1,183,000 and $1,265,000, respectively. Sales in foreign countries in fiscal 2002 and 2001 accounted for approximately 17% and 17% of the Company's total sales, respectively. The breakdown by geographic region is as follows:

	2002	2001
Asia	$ 665,000	$ 369,000
Europe	205,000	672,000
Latin America	279,000	59,000
Middle East	34,000	165,000
Other	--	--
	$1,183,000	$1,265,000

All long-lived assets were located in the United States at September 30, 2002 and 2001.

Sales to customers by similar products and services for the years ended September 30, 2002 and 2001 were:

	2002	2001
By similar products and services:		
Laser equipment and accessories	$2,329,000	$2,477,000
Delivery and disposable devices	3,311,000	3,380,000
Service and rental	1,417,000	1,607,000
Total	$7,057,000	$7,464,000

CERTIFICATIONS

I, Marvin P. Loeb, Chief Executive Officer of the Company certify that:

1. I have reviewed this annual report on Form 10KSB of Trimedyne, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in the light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this annual report;

4. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors;

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors and material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

Dated: 14th day of January, 2003

TRIMEDYNE, INC.

/s/ Marvin P. Loeb
By: Marvin P. Loeb
Chief Executive Officer

I, Jeffrey S Rudner, Chief Accounting Officer of the Company, certify that:

1. I have reviewed this annual report on Form 10KSB of Trimedyne, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in the light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this annual report;

4. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors;

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors and material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

Dated: 14th day of January, 2003

TRIMEDYNE, INC.

/s/ Jeffrey S. Rudner
By: Jeffrey S. Rudner
Chief Accounting Officer