TRIMEDYNE INC
Form 10QSB
May 13, 2005

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549
FORM 10-QSB
QUARTERLY REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTER ENDED	COMMISSION FILE NUMBER
March 31, 2005	0-10581

TRIMEDYNE, INC.

(Exact name of Registrant as specified in its charter)

Nevada	36-3094439
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

15091 Bake Parkway, Irvine, CA 92618
(Address of principal executive offices) (Zip Code)

(949/951-3800)

(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal
year, if changed since last report).

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), (2) has been subject to such filing requirements for the past 90 days.

YES [X]   NO [_]

Indicate the number of shares outstanding of each of the issuer's class of common stock, as of the last practicable date.

Class	Outstanding at May 13, 2005
Common Stock, $.01 par value	14,704,540 shares

ITEM 1.

TRIMEDYNE, INC.

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TRIMEDYNE, INC.
CONSOLIDATED BALANCE SHEET
(UNAUDITED)

ASSETS

	March 31, 2005
Current assets:	
Cash and cash equivalents	$ 1,897,000
Trade accounts receivable, net of allowance for doubtful accounts of $86,000	727,000
Inventories	2,038,000
Other	18,000
Total current assets	4,680,000
Property and equipment, net	382,000
Goodwill	544,000
Other assets	88,000
	$ 5,694,000

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:	
Accounts payable	$ 446,000
Accrued expenses	422,000
Deferred revenue	48,000
Accrued warranty	55,000

Income tax payable	19,000
Notes payable and current portion of long-term debt	2,000
Total current liabilities	992,000
Senior convertible secured notes due to officer	200,000
Accrued interest due officer	74,000
Long-term debt, net of current portion	5,000
Total liabilities	1,271,000
Commitments and Contigencies	
Stockholders' equity:	
Preferred stock - $0.01 par value, 1,000,000 shares authorized, none issued and outstanding	
Common stock - $0.01 par value; 30,000,000 shares authorized, 14,704,540 shares issued, 14,602,931 shares outstanding	148,000
Capital in excess of par value	47,945,000
Accumulated deficit	(42,957,000)
	5,136,000
Treasury stock, at cost (101,609 shares)	(713,000)
Total stockholders' equity	4,423,000
	$ 5,694,000

See accompanying notes to consolidated financial statements

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TRIMEDYNE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended March 31,		Six Mon Mar
	2005	2004	2005
Net revenues	$ 1,392,000	$ 1,274,000	$ 3,231,000
Cost of revenues	681,000	664,000	1,617,000
Gross profit	711,000	610,000	1,614,000
Operating expenses:			
Selling, general and administrative	632,000	540,000	1,255,000
Research and development	144,000	94,000	277,000
Total operating expenses	776,000	634,000	1,532,000

Income (loss) from operations	(65,000)	(24,000)	82,000
Other income, net	45,000	177,000	71,000
Income before income taxes	(20,000)	153,000	153,000
Provision for income taxes	4,000	4,000	4,000
Net (loss) income	$ (24,000)	$ 149,000	$ 149,000
Net (loss) income per share:			
Basic	$ 0.00	$ 0.01	$ 0.01
Diluted	$ 0.00	$ 0.01	$ 0.01
Weighted average number of shares outstanding:			
Basic	14,704,540	14,576,541	14,704,540
Diluted	14,704,540	15,467,672	15,408,119

See accompanying notes to consolidated financial statements.

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

	Six Months Ended March 31, 2005	2004
Cash flows from operating activities:		
Net income	$ 149,000	$ 314,0
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	69,000	127,0
Loss from disposal of property and equipment	3,000	5,0
Changes in operating assets and liabilities:		
Accounts receivable	66,000	(93,0
Inventories	(74,000)	(128,0
Other assets	123,000	114,0
Accounts payable	49,000	(26,0
Accrued expenses	(91,000)	(226,0
Deferred revenue	(3,000)	31,0
Accrued warranty	11,000	(21,0
Accrued interest	12,000	12,0

Net cash provided by operating activities	314,000	109,0
Cash flows from investing activities:		
Purchase of property and equipment	(35,000)	(55,0
Net cash (used in) investing activities	(35,000)	(55,0
Cash flows from financing activities:		
Excercise of stock options	--	69,0
Payments on debt	(65,000)	(20,0
Net cash (used in) provided by financing activities	(65,000)	49,0
Net increase in cash and cash equivalents	214,000	103,0
Cash and cash equivalents at beginning of period	1,683,000	1,346,0
Cash and cash equivalents at end of period	$ 1,897,000	$ 1,449,0

Cash paid for interest and income taxes was insignificant in 2005 and 2004.

See accompanying notes to consolidated financial statements

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TRIMEDYNE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2005 and 2004
(UNAUDITED)

NOTE 1 - Summary of Significant Accounting Policies

Principles of Consolidation

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

Unaudited Interim Financial Information

In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the Company's consolidated financial position as of March 31, 2005 and the results of its operations and its cash flows for the three months and six months ended March 31, 2005 and 2004. Results for the six months ended March 31, 2005 are not necessarily indicative of the results to be expected for the year ending September 30, 2005.

While management believes that the disclosures presented are adequate to make the information not misleading, it is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and the notes included in the Company's 2004 annual report on Form

10-KSB. Certain prior period amounts have been reclassified to conform to the current period presentation.

Accounts Receivable

The Company performs ongoing credit evaluations of its customers and generally does not require collateral. The Company maintains reserves for potential credit losses and such losses have been within management's expectation.

Revenue Recognition

In accordance with Staff Accounting Bulletin 104, "Revenue Recognition," the Company recognizes revenue from products sold once all of the following criteria for revenue recognition have been met: (i) persuasive evidence that an arrangement exists, (ii) the products have been shipped, (iii) the prices are fixed and determinable and not subject to refund or adjustment, and (iv) collection of the amounts due is reasonably assured.

Revenues from the sale of delivery and disposable devices are recognized upon shipment and passage of title of the products, provided that all other revenue recognition criteria have been met. Generally, customers are required to insure the goods from the Company's place of business. Accordingly, the risk of loss transfers to the customer once the goods have been shipped from the Company's warehouse. The Company sells its products primarily through commission sales representatives in the United States and distributors in foreign countries. In cases where the Company utilizes distributors, it recognizes revenue upon shipment, provided that all other revenue recognition criteria have been met, and ownership risk has transferred. Revenues from the rental of equipment is recognized over the rental period. Revenues from service contracts are recognized monthly throughout the term of the service agreement.

Goodwill

Goodwill represents the excess of the cost over the acquired assets of MST. On October 1, 2002, the Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." As a result of adopting SFAS No. 142, the Company's goodwill is no longer amortized, but is subject to an annual impairment test, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. There was no impairment of goodwill at March 31, 2005.

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Impairment of Long-Lived Assets

SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets", requires that long-lived assets, such as property and equipment and purchased intangibles subject to amortization, be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the asset is measured by comparison of its carrying amount to undiscounted future net cash flows the asset is expected to generate. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the asset exceeds its fair market value. Estimates of expected future cash flows represent management's best estimate based on currently available information and reasonable and supportable assumptions. Any impairment recognized in accordance with SFAS 144 is permanent and may not be restored. To date, the Company has not recognized any impairment of long-lived assets in connection with SFAS 144.

Stock Option Plans

SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," prescribes accounting and reporting standards for all stock-based compensation plans, including employee stock option plans. As allowed by SFAS No. 123, the Company has elected to continue to account for its employee stock-based compensation plan using the intrinsic value method in accordance with Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations, which does not require compensation to be recorded if the consideration to be received is at least equal to the fair value of the common stock to be received at the measurement date. Under the requirements of SFAS No. 123, non-employee stock-based transactions require compensation to be recorded based on the fair value of the securities issued or the services received, whichever is more reliably measurable.

The following table illustrates the effect on net income and net income per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation:

	Three months ended March 31,		Six month March
	2005	2004	2005
Net income (loss), as reported	$ (24,000)	$ 149,000	$ 149,000
Deduct: total stock-based employee compensation expense determined under fair value based method for awards, net of related tax effects	38,000	5,000	38,000
Pro forma net income (loss)	$ (62,000)	$ 144,000	$ 111,000
Net income (loss) per share - basic:			
As reported	$ 0.00	$ 0.01	$ 0.01
Pro forma	$ 0.00	$ 0.01	$ 0.01
Net income (loss) per share - diluted:			
As reported	$ 0.00	$ 0.01	$ 0.01
Pro forma	$ 0.00	$ 0.01	$ 0.01

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used:

Three months ended	Six months ended

	March 31, 2005	March 31, 2004	March 31, 2005	March 31, 2004
Dividend yield	--	--	--	--
Expected volatility	80%	80%	80%	80%
Risk-free interest rate	2.11%	2.11%	2.11%	2.11%
Expected lives	5 years	5 years	5 years	5 years

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility and time to exercise. Because awards held by employees and directors have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in the opinion of management, the existing models do not necessarily provide a reliable single measure of the fair value of these options.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates and assumptions include inventory valuation, allowances for doubtful accounts and deferred income tax assets, recoverability of goodwill and long-lived assets, losses for contingencies and certain accrued liabilities.

Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash, accounts receivable and accounts payable, notes payable, and two senior convertible secured notes due to the Chief Executive Officer. The carrying amounts of the Company's financial instruments generally approximate their fair values as of March 31, 2005 because of the short maturity of these instruments. Senior convertible secured notes due to officer cannot be objectively and fairly valued due to the related party nature of the instrument.

Warranty Costs

The Company provides warranties for certain products and maintains warranty reserves for estimated product warranty costs at the time of sale. At March 31, 2005, the Company has accrued $55,000 for estimated future warranty costs.

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.

Related Party Transactions

During the current quarter a member of the board of directors was engaged as a consultant to MST, Inc. to faciliate increases to administrative efficiency. The

Company recognized $21,000 in expenses with the consultant which was included in operations expense for the three and six months periods ended March 31, 2005. The consulting services are not expected to be extended beyond a one year period.

Recently Issued Accounting Pronouncements

In November 2004, the FASB issued SFAS No. 151 "Inventory Costs, an amendment of ARB No. 43, Chapter 4." The amendments made by Statement 151 clarify that abnormal amounts of facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Earlier application is permitted for inventory costs incurred during fiscal years beginning after November 23, 2004. The Company is in the process of evaluating whether the adoption of SFAS No. 151 will have a significant impact on the Company's overall results of operations or financial position.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment." SFAS No. 123(R) will provide investors and other users of financial statements with more complete and neutral financial information by requiring that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. SFAS No. 123(R) covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. SFAS No. 123(R) replaces SFAS No. 123, and supersedes APB Opinion No. 25. SFAS No. 123, as originally issued in 1995, established as preferrable a fair-value-based method of accounting for share-based payment transactions with employees. However, SFAS No. 123 permitted entities the option of continuing to apply the guidance in Opinion 25, as long as the footnotes to financial statements disclosed what net income would have been had the preferable fair-value-based method been used. The Company will be required to apply SFAS No. 123(R) in fiscal 2007.The Company is in the process of evaluating whether the adoption of SFAS No. 123(R) will have a significant impact on the Company's overall results of operations or financial position.

NOTE 2 - Balance Sheet Items

	March 31, 2005
Inventories consist of the following:	
Raw material	$ 952,000
Work-in-process	374,000
Finished goods	996,000
	$ 2,322,000
Less inventory reserve	(284,000)
	$ 2,038,000

Other current assets consist of the following:

Prepaid insurance	$ 6,000

Other	12,000
Total other current assets	$ 18,000

Property and equipment consist of the following:

Furniture and equipment	$ 2,419,000
Leasehold improvements	214,000
Other	233,000
	2,866,000
Less accumulated depreciation and amortization	(2,484,000)
Total property and equipment, net	$ 382,000

Accrued expenses consist of the following:

Loss contingency	$ 36,000
Accrued salaries and wages	76,000
Accrued vacation	106,000
Accrued compensation	14,000
Sales and use tax	39,000
Customer deposits	56,000
Accrued professional expenses	38,000
Accrued commissions	26,000
Accrued payroll taxes	6,000
Other	25,000
Total accrued expenses	$ 422,000

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NOTE 3 - Notes Payable and Long-term Debt

Loan payable to leasing company, bearing interest at 8% per annum: principal and interest due monthly in equal installments of $211 through May 2008. The loan is secured by the related forklift.	$ 7,000
Less: current portion	(2,000)
Notes payable and long-term debt	$ 5,000

NOTE 4 - Convertible Notes Due to Officer

At March 31, 2005, the Company had two outstanding senior convertible notes due to its chief executive officer. These notes mature, with interest at 12% per annum, in February and April 2007, and are convertible at prices of $0.40 and $0.50 per share.	$ 200,000

NOTE 5 - Income (Loss) Per Share Information

Basic income (loss) per share is based on the weighted-average number of shares of common stock outstanding during the period. Diluted income per share also includes the effect of stock options and other common stock equivalents outstanding during the period, and assumes the conversion of the Company's

senior convertible secured notes due to officer for the period of time such notes were outstanding, if such stock options and convertible notes are dilutive.

The following table sets forth the computation of the numerator and denominator of basic and diluted income (loss) per share:

	Three months ended March 31,		Six months e March 31	
	2005	2004	2005	
Denominator				
Weighted average common shares outstanding used in calculating basic earnings per share	14,704,540	14,576,541	14,704,540	14
Effect of Dilutive Options	*	357,968	53,524	
Effect of Senior Convertible Secured Notes due to Officer and accrued interest	*	596,250	650,250	
Weighted average common shares outstanding used in calculating diluted earnings per share	14,704,540	15,467,672	15,408,119	15
Numerator				
Net income (loss)	$ (24,000)	$ 149,000	$ 149,000	$
Add - interest on Senior Convertible Secured Notes due to Officer	*	6,000	12,000	
Net income (loss) available to common stockholders	$ (24,000)	$ 155,000	$ 161,000	$

* The effects are anti-dilutive, and therefore, they are not considered in the calculation of diluted income (loss) per share. Note: had the effect of the dilutive options and convertible debt outstanding been added to the diluted weighted-average common shares outstanding, the diluted common shares outstanding would have been 698,095 greater.

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NOTE 6 - Contingencies:

Litigation

On November 17, 2003, the Company and Lumenis entered into a settlement agreement (the "Settlement Agreement"), under which the court dismissed the litigation between them. The Settlement Agreement also provided that Lumenis would apply a credit to royalties due by the Company under the License Agreement, which the Company had accrued, and pay the Company $5,000 for the remaining overpayment of royalties due under the License Agreement. The Settlement Agreement also provided that the Company and Lumenis would enter into an original equipment manufacture ("OEM") agreement whereby Lumenis would pay the Company a technology access fee of $150,000 and purchase from the Company certain side-firing and angled-firing fiber optic devices, which Lumenis will

market with its lasers, plus an amount equal to 7.5% of Lumenis' sales of side-firing and angled-firing devices manufactured by Lumenis or purchased by Lumenis from third-party suppliers. The above technology fee and royalties were received during the fiscal year ended September 30, 2004 and royalties are currently being received per the above agreement and included in other income for the current three and six months periods ended March 31, 2005 (see Note 7).

Product liability

The Company is currently a defendant in one product liability lawsuit. This case relates to injuries that occurred in connection to medical procedures in which the Company's laser was used. This case is currently in litigation. The Company has insurance to cover product liability claims. This insurance provides the Company with $5,000,000 of coverage for each occurrence with a general aggregate of $5,000,000. Trimedyne's liability is limited to a maximum of $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 $5,000,000. At March 31, 2005, the Company has a loss contigency accrual for this claim in the amount of $50,000, based on the deductible under the insurance policy.

In the ordinary course of business, the Company is from time to time involved in various pending or threatened legal actions. The litigation process is inherently uncertain and it is possible that the resolution of such matters might have a material adverse effect upon the financial condition and/or results of operations of the Company. However, in the opinion of the Company's management, matters currently pending or threatened against the Company, as discussed above, are not expected to have a material adverse effect on the financial position, results of operations or cash flows of the Company.

Licensing

The Company has license agreements with a number of universities and inventors, under which royalties on sales, if any, are payable. Sales of products covered by these licenses are presently not material. The Company has one license agreement with a competitor under which royalties have been waived. 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 and 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.

Guarantees and Indemnities

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

NOTE 7 - Other Income

During the six months ended March 31, 2005, the Company received $81,000 in royalties in connection with the terms of the above settlement, which is included in other income for the six month period ended March 31, 2005 (see Note 6).

During the six months ended March 31, 2004, the Company settled litigation with Lumenis which resulted in a reduction of $88,000 previously accrued for royalties. In January and March 2004, the Company received $155,000 in technology fees and $26,000 in royalties, respectively, in connection with the terms of the above settlement, which is included in other income for the three and six month periods ended March 31, 2004 (see Note 6). The Company also received $53,000 from an insurance settlement for a damaged laser.

NOTE 8 Segment Information

The Company's revenue base is derived from the sales of medical products and services. Products consist of lasers, and related products such as disposable systems and component parts. Services consist of rentals, fees on a per-case basis, as well as service and warranty repairs and maintenance. Data with respect to these operating activities for the three and six months ended March 31, 2005 and March 31, 2004 are as follows (unaudited):

	For the quarter ended March 31, 2005			For the qua
	Products	Service and Rental	Total	Products
Revenue	$ 1,010,000	$ 382,000	$ 1,392,000	$ 837,000
Cost of sales	416,000	265,000	681,000	571,000
Gross profit	594,000	117,000	711,000	266,000
Expenses:				
Selling, general and administrative	548,000	84,000	632,000	389,000
Reasearch and development	144,000	--	144,000	94,000
Income (loss) from operations	$ (98,000)	$ 33,000	(65,000)	$ (217,000
Other:				
Interest income			4,000	
Interest expense			(6,000)	
Royalty income			50,000	
Settlements and recoveries			(3,000)	
Income taxes			(4,000)	
Net income (loss)			$ (24,000)	

	For the six months ended March 31, 2005			For the six
	Products	Service and Rental	Total	Products

Revenue	$ 2,421,000	$ 810,000	$ 3,231,000	$ 1,802,000
Cost of sales	1,055,000	562,000	1,617,000	1,035,000
Gross profit	1,366,000	248,000	1,614,000	767,000
Expenses:				
Selling, general and administrative	991,000	264,000	1,255,000	804,000
Research and development	277,000	--	277,000	161,000
Income (loss) from operations	$ 98,000	$ (16,000)	82,000	$ (198,000
Other:				
Interest income			7,000	
Interest expense			(15,000)	
Loss on disposal of equipment			(3,000)	
Royalty income			81,000	
Settlements and recoveries			1,000	
Income taxes			(4,000)	
Net income			$ 149,000	

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Sales and gross profit to customers by similar products and services for the three and six months ended March 31, 2005 and March 31, 2004 were as follows (unaudited):

	For the three months ended March 31,		For the six mo
	2005	2004	2005
By similar products and services:			
Revenues:			
Products:			
Laser equipment and accessories	$ 345,000	$ 96,000	$ 836,000
Delivery and disposable devices	665,000	741,000	1,585,000
Service and rental	382,000	437,000	810,000
Total	$1,392,000	$1,274,000	$ 3,231,000
Gross profit			
Products:			
Laser equipment and accessories	$ 133,000	$ 33,000	$ 417,000
Delivery and disposable devices	461,000	233,000	949,000
Service and rental	117,000	344,000	248,000
Total	$ 711,000	$ 610,000	$ 1,614,000

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.

Sales in foreign countries for the quarters ended March 31, 2005 and March 31, 2004 accounted for approximately 22% and 8% of the Company's total sales, respectively. Sales in foreign countries for the six months ended March 31, 2005 and March 31, 2004 accounted for approximately 27% and 15% of the Company's total sales, respectively. The breakdown by geographic region is as follows:

	Three months ended March 31, 2005	Three months ended March 31, 2004	Six months ended March 31, 2005	Six months ended March 31, 2004
Asia	$ 187,000	$ 83,000	$ 501,000	$ 172,000
Europe	119,000	34,000	283,000	197,000
Latin America	3,000	9,000	84,000	9,000
Middle East	--	3,000	--	12,000
Other	1,000	8,000	4,000	11,000
	$ 310,000	$ 137,000	$ 872,000	$ 401,000

All long-lived assets were located in the United States during the three and six months ended March 31, 2005 and 2004.

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

CRITICAL ACCOUNTING POLICIES

Revenue Recognition

In accordance with Staff Accounting Bulletin 104, "Revenue Recognition," the Company recognizes revenue from products sold once all of the following criteria for revenue recognition have been met: (i) persuasive evidence that an arrangement exists, (ii) the products have been shipped, (iii) the prices are fixed and determinable and not subject to refund or adjustment, and (iv) collection of the amounts due is reasonably assured.

Revenues from the sale of delivery and disposable devices are recognized upon shipment and passage of title of the products, provided that all other revenue recognition criteria have been met. Generally, customers are required to insure the goods from the Company's place of business. Accordingly, the risk of loss transfers to the customer once the goods have been shipped from the Company's warehouse. The Company sells its products primarily through commission sales representatives in the United States and distributors in foreign countries. In cases where the Company utilizes distributors, it recognizes revenue upon shipment, provided that all other revenue recognition criteria have been met, and ownership risk has transferred.

Allowance for Doubtful Accounts

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of the Company's customers to make required payments. The allowance for doubtful accounts is based on specific identification of customer accounts and the Company's best estimate of the likelihood of potential loss, taking into account such factors as the financial condition and payment history of major customers. The Company evaluates the collectibility of our receivables at least quarterly. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The differences could be material and could significantly impact cash flows from operating activities.

Goodwill

Goodwill represents the excess of the cost over the acquired assets of MST. On October 1, 2002, the Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Tangible Assets." As a result of adoption SFAS No. 142, the Company's goodwill is no longer amortized, but is subject to an annual impairment test, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Deferred Taxes

The Company records a valuation allowance to reduce the deferred tax assets to the amount that is more likely than not to be realized. The Company has considered estimated future taxable income and ongoing tax planning strategies in assessing the amount needed for the valuation allowance. Based on these estimates, all of the Company's deferred tax assets have been reserved. If actual results differ favorably from those estimates used, the Company may be able to realize all or part of the Company's net deferred tax assets. Such realization could positively impact our operating results and cash flows from operating activities.

Stock-based Compensation

The Company accounts for its employee stock-based compensation plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. The Company has adopted the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" - an amendment of FASB Statement No. 123.

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RESULTS OF OPERATIONS

The statements contained in this Quarterly Report on Form 10-QSB 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 Trimedyne, Inc., its wholly owned subsidiary Mobile Surgical Technologies, Inc. ("MST") and its 90% owned subsidiary, Cardiodyne, Inc. ("Cardiodyne").

Quarter ended March 31, 2005 compared to quarter ended March 31, 2004:

During the quarter ended March 31, 2005, net revenues were $1,392,000 as compared to $1,274,000 for the same period of the previous year, a $118,000 or 9% increase. This overall increase was the result of higher laser sales during the current period. Lasers typically sell between $35,000 and $110,000, depending upon the type of laser. The number of lasers sold in a typical quarter during the past two years has ranged from one to six per quarter. Net sales from delivery and disposable devices decreased by $76,000 or 10% to $665,000 in the current quarter from $741,000 in the same quarter of the prior year. Net sales from service and rental decreased by $55,000 or 13% to $382,000 from $437,000 for the same quarters. This decrease was primarily due to the decrease in billable service for the current quarter.

Cost of sales during the quarter ended March 31, 2005 was 49% of net sales as compared to 52% of net sales during the quarter ended March 31, 2004.

Selling, general and administrative expenses increased in the current quarter to $632,000 from $540,000 in the prior year quarter, an increase of $92,000 or 17%. The increase in selling, general and administrative expenses was primarily the result of the following: the the loss of $45,000 in rental income from a subtenant whose lease terminated in June 2004 which offset rent expense, and an increases of $29,000 in payroll related expenses due to increases in operations staff and $21,000 in consultant fees (see Related Party Transactions).

Reasearch and development expenses increased in the current quarter to $144,000 from $94,000 in the prior year quarter, an increase of $50,000 or 53%. This increase was a result of Trimedyne increasing its efforts to improve and develop new delivery systems through an increase in staff.

Other income decreased by $132,000 or 75% to $45,000 in the second quarter of fiscal 2005 from $177,000 in the second quarter of 2004. During the three months ended March 31, 2004, the Company settled litigation with a competitor which resulted in the receipt of $155,000 in technology fees.

For the current quarter, the Company had a net loss of $24,000 or $(0.00) per share, based on 14,704,540 basic weighted average number of common shares outstanding, as compared to net income of $149,000, or $0.01 per share, based on 14,576,541 basic weighted average number of common shares outstanding in the same quarter of the previous year. This loss was the result of the increase in selling, general and administration expenses and decrease in other income as explained above.

Six months ended March 31, 2005 compared to six months ended March 31, 2004:

During the six months ended March 31, 2005, net revenues were $3,231,000 as compared to $2,654,000 for the same period of the previous year, a $577,000 or 22% increase. Net sales from lasers and accessories increased by $647,000 or 342% to $836,000 during the six months ended March 31, 2005 from $189,000 in the the same period of the prior year. Net revenues from delivery and disposable devices decreased by $28,000 or 2% to $1,585,000 during the six months ended March 31, 2005 from $1,613,000 for the same period of the prior year. During the six months ended March 31, 2005 export sales increased by $471,000 or 117% to $810,000 as compared to $401,000 in the the same period of the prior year. This

increase was primarily due an increase in laser sales and existing customers increasing their yearly inventory of delivery systems. Net sales from service and rental decreased by $42,000 or 5% to $810,000 from $852,000 for the same quarters in the prior year. This decrease was primarily due to a decrease in billable service calls.

Cost of sales increased to 50% of net sales in the six months ended March 31, 2005 compared to 48% for the six months ended March 2004. This increase was primarily due to the hiring of additional service staff for MST, Inc.

For the six months ended March 31, 2005, selling, general and administrative expenses totaled $1,255,000 as compared to $1,107,000 for the same period of the previous year, a $148,000 or 13% increase. This increase in selling, general and administrative expenses since the prior year period is the result of the following: the loss of $90,000 in rental income from a subtenant whose lease terminated in June 2004 which offset rent expense, an increase in salaries and wages due to the hiring of additional operations staff and $21,000 in consultant expenses incurred by MST, Inc. (see Related Party Transactions).

During the six months ended March 31, 2005, reasearch and development expenses increased to $144,000 from $94,000 in the prior year six month period, an increase of $50,000 or 53%. This increase was a result of Trimedyne increasing its efforts to improve and develop new delivery systems through an increase in staff along with the preparation of related regulatory submissions.

Other income decreased by $229,000 to $71,000 in the current six-month period from $300,000 in the six-month period of fiscal 2004. In November 2003, the Company settled litigation with Lumenis, Inc. which resulted in the reduction of $88,000 in the liability for royalties in the quarter ended December 31, 2003 and the receipt of $155,000 in technology fees and royalties of $26,000 during the quarter ended March 31, 2004. During the previous year's quarter ended December 31, 2003 the Company also received $53,000 for an unrelated cash insurance settlement for a damaged laser. Other income was primarily offset by interest accrued on notes due to the CEO.

For the six months ended March 31, 2005, Trimedyne had net income of $149,000 or $0.01 per share, based on 14,704,540 basic weighted average number of common shares outstanding, as compared to a net income of $314,000, or $0.02 per share, based on 14,523,859 basic weighted average number of common shares outstanding in the same period of the previous year, resulting from the above mentioned factors.

Liquidity and Capital Resources

At March 31, 2005, the Company had working capital of $3,689,000 compared to $3,529,000 at the end of the fiscal year ended September 30, 2004. Cash increased by $214,000 to $1,897,000 from $1,683,000 at the fiscal year ended September 30, 2004. During the six month period ended March 31, 2005, net cash provided by operating activities was $314,000, of which $35,000 was used in investing activities purchasing and upgrading computer equipment and $65,000 was used in financing activities for payments on debt. We believe our existing working capital will be sufficient to meet Trimedyne's operating needs, and the operating needs of our 100% owned laser rental subsidiary for the next twelve months. While we expect to operate at a profit, we could incur losses in the future if we fail to generate revenues sufficient to offset the costs associated with manufacturing and marketing our current products, our overhead, and the

development of new products. If we fail to operate profitably, or if we undertake the development, testing and marketing of additional new products in the future, we will likely need to raise substantial additional capital. There can be no assurance that we will be able to operate profitably in the future.

We have $200,000 of Senior Convertible Notes due to our chief executive officer (the "Notes") outstanding which are due, with interest at 12% per annum, in 2007. The Notes and accrued interest are convertible into shares of the Company's common stock at prices of $0.40 and $0.50 per share. If the Notes and accrued interest are not converted, we may have to raise additional capital to pay the Note holder the principal and interest due on the Notes. Sources of such financing may include the sale of additional equity securities or the sale or licensing of patent rights. The issuance of additional common stock or shares of preferred stock will dilute the equity interests of our shareholders. There is no assurance such financing, if and when needed, will be available to us on acceptable terms.

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Item 3. CONTROLS AND PROCEDURES

As of March 31, 2005, an evaluation was carried out under the supervision and with the participation of the Company's management, including our Chief Executive Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer concluded that the design and operation of these disclosure controls and procedures were effective. No significant changes were made in our internal controls or in other factors that could significantly affect these controls subsequent to March 31, 2005.

(a) Evaluation of Disclosure Controls and Procedures. The Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer ("CEO") of the effectiveness of the Company's disclosure controls and procedures. Based upon that evaluation, the CEO concluded that as of March 31, 2005 our disclosure controls and procedures were effective in timely alerting them to the material information relating to the Company (or the Company's consolidated subsidiaries) required to be included in the Company's periodic filings with the SEC, subject to the various limitations on effectiveness set forth below under the heading, "LIMITATIONS ON THE EFFECTIVENESS OF INTERNAL CONTROLS," such that the information relating to the Company, required to be disclosed in SEC reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to the Company's management, including our CEO, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in internal control over financial reporting. There has been no change in the Company's internal control over financial reporting that occurred during the fiscal quarter ended March 31, 2005 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

LIMITATIONS ON THE EFFECTIVENESS OF INTERNAL CONTROLS

The Company's management, including the CEO, does not expect that our disclosure controls and procedures or our internal control over financial reporting will necessarily prevent all fraud and material error. An internal control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of the control system must reflect the fact that there are resource

constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the internal control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, control may become inadequate because of changes in conditions, and/or the degree of compliance with the policies or procedures may deteriorate.

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PART II
Other Information

ITEM 1. Legal Proceedings

On November 17, 2003, the Company and Lumenis entered into a settlement agreement (the "Settlement Agreement"), under which the court dismissed the litigation between them. The Settlement Agreement also provided that Lumenis would apply a credit to royalties due by the Company under the License Agreement, which the Company had accrued, and pay the Company $5,000 for the remaining overpayment of royalties due under the License Agreement. The Settlement Agreement also provided that the Company and Lumenis would enter into an original equipment manufacture ("OEM") agreement whereby Lumenis would pay the Company a technology access fee of $150,000 and purchase from the Company certain side-firing and angled-firing fiber optic devices, which Lumenis will market with its lasers, plus an amount equal to 7.5% of Lumenis' sales of side-firing and angled-firing devices manufactured by Lumenis or purchased by Lumenis from third-party suppliers. The above technology fee and royalties were received during the fiscal year ended September 30, 2004 and royalties are currently being received per the above agreement and included in other income for the current three and six months periods ended March 31, 2005.

The Company is currently a defendant in one product liability lawsuit. This case relates to injuries that occurred in connection to medical procedures in which the Company's laser was used. This case is currently in litigation. The Company has insurance to cover product liability claims. This insurance provides the Company with $5,000,000 of coverage for each occurrence with a general aggregate of $5,000,000. Trimedyne's liability is limited to a maximum of $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 $5,000,000. At March 31, 2005, the Company has a loss contigency accrual for this claim in the amount of $50,000, based on the deductible under the insurance policy.

Item 2. Changes in Securities
None

Item 3. Defaults Upon Senior Securities
None

Item 4. Submission of Matters to Vote of Security Holders

None

Item 5. Other Information
None

Item 6. Exhibits

(a) Exhibits
99.1 Officer Certification
99.2 Controller Certification

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SIGNATURE PAGE

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

TRIMEDYNE, INC.

Date: May 13, 2005 /s/ Marvin P. Loeb

Marvin P. Loeb
Chairman and
Chief Executive Officer

Date: May 13, 2005 /s/ Jeffrey S. Rudner

Jeffrey S. Rudner
Controller

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TRIMEDYNE, INC.

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Marvin P. Loeb, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Trimedyne, Inc.;

2. Based on my knowledge, this 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 light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this

report;

4. The small business issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)(4) and 15d-15(e)(4)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made know to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclose in future reports any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect the registrant's internal control over financial reporting;

5. The small business issuer's other certifying officer and I will disclose in future filings, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer' internal control over financial reporting.

DATED: May 13, 2005

/s/ Marvin P. Loeb

Marvin P. Loeb
Chairman and Chief Executive Officer

CERTIFICATION OF CONTROLLER

I, Jeffrey s. Rudner, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Trimedyne, Inc.;

2. Based on my knowledge, this 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 light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

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

4. The small business issuer's other certifying officer and I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)(4) and 15d-15(e)(4)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made know to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclose in future reports any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect the registrant's internal control over financial reporting;

5. The small business issuer's other certifying officer and I will disclose in future filings, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer' internal control over financial reporting.

DATED: May 13, 2005

/s/ Jeffrey S. Rudner

Jeffrey S. Rudner
Controller