TRIMEDYNE INC
Form 10-Q/A
March 20, 2009

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549
FORM 10-Q/A
AMENDMENT NO. 1
QUARTERLY REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTER ENDED	COMMISSION FILE NUMBER
December 31, 2008	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)

25901 Commercentre Dr., Lake Forest, CA 92630
(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 [ ]

(Issuers involved in bankruptcy proceedings during the past five years)

Not applicable

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

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 February 20, 2009

Common Stock, $0.01 par value	18,365,960 shares

TRIMEDYNE, INC.

EXPLANATORY NOTE

This Amendment No. 1 to Form 10-Q for the three months ended December 31, 2008 is being filed to amend to disclosure revisions to Exhibit 31.1 and 31.2 to be in compliance with the exact form prescribed by Item 601(b)(31) of Regulation S-K. In addition, certain segment information has been modified to accurately reflect the allocation of assets.

TRIMEDYNE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

ASSETS

	December 31, 2008	Septe
Current assets:		
Cash and cash equivalents	$ 1,677,000	$
Trade accounts receivable, net of allowance for doubtful accounts of $12,000 and $12,000, respectively	950,000	
Inventories	2,478,000	
Other current assets	126,000	
Total current assets	5,231,000	
Property and equipment, net	1,314,000	
Other	81,000	
Goodwill	544,000	
Total Assets	$ 7,170,000	$

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2008	Septe
Current liabilities:		
Accounts payable	$ 248,000	$
Accrued expenses	436,000	
Deferred revenue	78,000	
Accrued warranty	51,000	
Current portion of note payable and capital leases	197,000	
Total current liabilities	1,010,000	
Note payable and capital leases, net of current portion	363,000	
Deferred rent	68,000	
Total liabilities	1,441,000	
Commitments and contingencies		
Stockholders' equity:		
Preferred stock - $0.01 par value, 1,000,000 shares authorized, none issued and outstanding	--	
Common stock - $0.01 par value; 30,000,000 shares authorized, 18,467,569 shares issued, 18,365,960 shares outstanding at December 31, 2008 and September 30, 2008	186,000	
Additional paid-in capital	51,438,000	
Accumulated deficit	(45,182,000)	
	6,442,000	
Treasury stock, at cost (101,609 shares)	(713,000)	
Total stockholders' equity	5,729,000	
Total liabilities and stockholder's equity	$ 7,170,000	$

See accompanying notes to condensed consolidated financial statements

TRIMEDYNE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	For the Three Months Ended December 31, 2008	2007
Net revenues	$ 1,610,000	$ 1,186,000
Cost of revenues	1,076,000	831,000
Gross profit	534,000	355,000
Operating expenses:		
Selling, general and administrative	716,000	551,000
Research and development	296,000	253,000
Total operating expenses	1,012,000	804,000
(Loss) from operations	(478,000)	(449,000)
Other income, net	38,000	72,000
(Loss) before income taxes	(440,000)	(377,000)
Provision for income taxes	5,000	--
Net (loss)	$ (445,000)	$ (377,000)
Net (loss) per share:		
Basic	$ (0.02)	$ (0.02)
Diluted	$ (0.02)	$ (0.02)
Weighted average number of shares outstanding:		
Basic	18,365,960	18,365,960
Diluted	18,365,960	18,365,960

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended December 31, 2008	2007
Cash flows from operating activities:		
Net (loss)	(445,000)	(377,0
Adjustments to reconcile net (loss) to net cash (used in) operating activities:		
Stock-based compensation	11,000	15,0
Depreciation and amortization	90,000	65,0
Changes in operating assets and liabilities:		
Trade accounts receivable	4,000	(2,0
Inventories	106,000	(164,0
Other assets	47,000	(41,0
Accounts payable	(8,000)	(3,0
Note from related party	--	2,0
Accrued expenses	(31,000)	(77,0
Deferred revenue	3,000	10,0
Accrued warranty	(3,000)	(3,0
Deferred rent	(5,000)	(3,0
Net cash (used in) operating activities	(231,000)	(578,0
Cash flows from investing activities:		
Purchase of property and equipment	(22,000)	(25,0
Net cash (used in) investing activities	(22,000)	(25,0
Cash flows from financing activities:		
Payments on debt	(77,000)	(8,0
Net cash (used in) financing activities	(77,000)	(8,0
Net (decrease) in cash and cash equivalents	(330,000)	(611,0
Cash and cash equivalents at beginning of period	2,007,000	3,179,0
Cash and cash equivalents at end of period	$ 1,677,000	$ 2,568,0

Supplemental disclosure of cash flow information:

During the three months ended December 31, 2007, the Company financed the purchase of equipment for $127,000.

Cash paid for income taxes during the three months ended December 31, 2008 was $5,000 and no cash was paid for income taxes during the three months ended December 31,2007. Cash paid for interest during the three months ended December 31, 2008 and 2007 was approximately $13,000 and $3,000,respectively.

See accompanying notes to condensed consolidated financial statements

TRIMEDYNE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(UNAUDITED)

NOTE 1 - Summary of Significant Accounting Policies

Principles of Consolidation

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

Managements' Plans

The Company has incurred losses from operations for the past two years. However, the Company believes that existing cash flows are sufficient enough to fund operations through December 31, 2009. There can be no assurance that we will be able to maintain or achieve sales growth in the next 12 months, or that the Company will be profitable. Thus, it is possible that additional working capital in the next 12 months may be required. If necessary, the Company will raise additional debt and/or equity capital, reduce its costs by eliminating certain personnel positions and reducing certain overhead costs in order to fund operations. There is no assurance that management's plans will be successful.

Unaudited Interim Financial Information

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America for interim financial information, and pursuant to the instructions to Form 10-Q promulgated by the Securities and Exchange Commission (SEC). Accordingly, they do not include all information and disclosures required by generally accepted accounting principles for complete financial statement presentation. In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the Company's consolidated financial position as of December 31, 2008 and the results of its operations and its cash flows for the three months ended December 31, 2008 and 2007. Results for the three months ended December 31, 2008 are not necessarily indicative of the results to be expected for the year ending September 30, 2009.

While management believes that the disclosures presented are adequate to make the information not misleading, it is suggested that these condensed consolidated financial statements be read in conjunction with the condensed consolidated financial statements and the notes included in the Company's 2008 annual report on Form 10-K for the year ended September 30, 2008.

Stock-Based Compensation

The fair value of stock-based awards is calculated using the Black-Scholes option pricing model. The Black-Scholes model requires subjective assumptions regarding future stock price volatility and expected time to exercise, which greatly affect the calculated values. The expected term of options granted is derived from historical data on employee exercises and post-vesting employment termination behavior. The risk-free rate selected to value any particular grant is based on the U.S. Treasury rate that corresponds to the pricing term of the grant effective as of the date of the grant. The expected volatility is based on the Company's historical volatilities of its common stock. These factors could change in the future, affecting the determination of stock-based compensation expense in future periods. During the three months ended December 31, 2008, there were no stock options granted.

As of December 31, 2008, there was approximately $111,000 of total unrecognized compensation cost, net of estimated expected forfeitures, related to employee and director stock option compensation arrangements. This unrecognized cost is expected to be recognized on a straight-line basis over the next 4.75 years.

The following table summarizes stock-based compensation expense related to employee and director stock options under SFAS No. 123(R) for the three months ended December 31, 2008 and 2007, which was allocated as follows:

	Three Months Ended December 31, 2008	Three Months Ended December 31, 2007
Stock-based compensation included in:		
Cost of revenues	$ 3,000	$ 3,000
Research and development expenses	$ 1,000	$ 1,000
Selling, general, and administrative expenses	$ 7,000	$ 11,000

Use of Estimates

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

Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and long-term debt. The carrying amounts of the Company's financial instruments generally approximate their fair values as of December 31, 2008 because of the short maturity of these instruments.

Effective October 1, 2008, the first day of the Company's fiscal year 2009, the

Company adopted SFAS 157 and SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115," for financial assets and liabilities. The Company did not record an adjustment to retained earnings as a result of the adoption of SFAS 157, and the adoption did not have a material effect on the Company's results of operations. SFAS 159 provides companies the irrevocable option to measure many financial assets and liabilities at fair value with changes in fair value recognized in earnings. The Company has not elected to measure any financial assets or liabilities at fair value that were not previously required to be measured at fair value.

Concentration of Credit Risk and Customer Concentration

The Company generates revenues principally from sales of products in the medical field. As a result, the Company's trade accounts receivable are concentrated primarily in this industry. As of December 31, 2008 two customers accounted for 18% and 14% of the Company's receivables.

At December 31, 2008, the Company had cash balances in excess of federally insured limits.

Goodwill

The Company accounts for goodwill and acquired intangible assets in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142 "Goodwill and Other Intangible Assets", whereby goodwill is not amortized, and is tested for impairment at the reporting unit level annually during the fourth quarter and in interim periods if certain events occur indicating that the carrying value of goodwill may be impaired. A reporting unit is an operating segment for which discrete financial information is available and is regularly reviewed by management. The Company has one reporting unit, our service and rental group, to which goodwill is assigned.

SFAS 142 requires a two-step approach to test goodwill for impairment for each reporting unit. The first step tests for impairment by applying fair value-based tests to a reporting unit. The second step, if deemed necessary, measures the impairment by applying fair value-based tests to specific assets and liabilities within the reporting unit. Application of the goodwill impairment tests require judgment, including identification of reporting units, assignment of assets and liabilities to each reporting unit, assignment of goodwill to each reporting unit, and determination of the fair value of each reporting unit. The determination of fair value for a reporting unit could be materially affected by changes in these estimates and assumptions.

As part of the first step, the Company generally estimates the fair value of the reporting unit based on market prices (i.e., the amount for which the assets could be bought by or sold to a third party), when available. When market prices are not available, we estimate the fair value of the reporting unit using the income approach. The income approach uses cash flow projections. Inherent in our development of cash flow projections are assumptions and estimates derived from a review of our historical operating results, future business plans, expected growth rates, cost of capital, future economic conditions, etc. Many of the factors used in assessing fair value are outside the control of management, and these assumptions and estimates can change in future periods. During the fourth quarter of the year ended September 30, 2008, the Company conducted a goodwill impairment test for its service and rental group using a combination of the market and income approach. As a result of the first step analysis, the expected cash flows to be generated by the service and rental were sufficient enough to support the carrying value of the goodwill. Thus, the Company determined there was no impairment of the goodwill as of September 30, 2008.

Shipping and Handling Costs

Costs incurred for shipping and handling are included in cost of equipment and services revenues at the time the related revenue is recognized. Amounts billed to a customer for shipping and handling are reported as revenues. Previously the Company included such revenues as an offset to costs of goods sold. The change in classification did not have a significant impact on the presentation of the Company's financial statements for the three months ended December 31, 2008.

Per Share Information

Basic per share information is computed based upon the weighted average number of common shares outstanding during the period. Diluted per share information consists of the weighted average number of common shares outstanding, plus the dilutive effects of options and warrants calculated using the treasury stock method. In loss periods, dilutive common equivalent shares are excluded as the effect would be anti-dilutive. During the three months ended December 31, 2008 and 2007, outstanding options of 75,056 and 473,538, respectively, were excluded from the diluted net loss per share as the effects would have been anti-dilutive.

Segment Information

The Company reports information about operating segments, as well as disclosures about products and services, geographic areas and major customers (see Note 7). Operating segments are defined as revenue-producing components of the enterprise, which are generally used internally for evaluating segment performance.

Recently Issued Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations." SFAS No. 141R established principles and requirements for how an entity which obtains control of one or more businesses (1) recognizes and measures the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree, (2) recognizes and measures the goodwill acquired in the business combination and (3) determines what information to disclose regarding business combinations. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual report period beginning on or after December 15, 2008. SFAS No. 141R will be effective for the Company's fiscal 2010 beginning October 1, 2009. The Company is currently assessing the potential impact of SFAS No. 141R on its financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value and expands disclosures about assets and liabilities measured at fair value in the financial statements. In February 2008, the FASB issued FASB Staff Position 157-2 ("FSP 157-2") which allows the delay of the effective date of SFAS No. 157 for one year for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Company adopted FAS 157 for financial assets and liabilities effective October 1, 2008 but elected a partial deferral under the provision of FSP 157-2 related to nonfinancial assets and liabilities that are measured at fair value on a nonrecurring basis, including goodwill, other intangible and long-lived assets. The Company is in the process of determining the effects, if any, SFAS No. 157's application to such nonfinancial assets and liabilities will hav e on its financial statements.

In April 2008, the FASB issued FSP No. 142-3, "Determination of the Useful Life of Intangible Assets". FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets". FSP 142-3 is effective for fiscal years beginning after December 15, 2008. Therefore, we will be required to adopt FSP 142-3 for the fiscal year beginning October 1, 2010. We are currently evaluating the impact of FSP No. 142-3 on our consolidated financial position and results of operations.

NOTE 2 - Composition of Certain Balance Sheet Captions

Inventories, net of reserves, consist of the following:

	December 31, 2008	September 30, 2008
Raw materials	$ 950,000	$ 1,036,000
Work-in-process	748,000	722,000
Finished goods	780,000	826,000
	$ 2,478,000	$ 2,584,000

For the three months ended December 31, 2008 and 2007, the aggregate net realizable value of demonstration and evaluation lasers did not comprise a material amount in inventories.

Other current assets consist of the following:

	December 31, 2008	September 30, 2008
Royalty receivable	$ 45,000	$ 58,000
Prepaid insurance	55,000	86,000
Prepaid other	12,000	13,000
Prepaid income tax	5,000	5,000
Short-term deposits	9,000	9,000
Total other current assets	$ 126,000	$ 171,000

Property and equipment consist of the following:

	December 31, 2008	September 30, 2008
Furniture and equipment	$ 3,236,000	$ 3,216,000
Leasehold improvements	619,000	619,000
Other	282,000	282,000
	4,137,000	4,117,000

Less accumulated depreciation and amortization	(2,823,000)	(2,735,000)
Total property and equipment	$ 1,314,000	$ 1,382,000

Accrued expenses consist of the following:

	December 31, 2008	September 30, 2008
Accrued vacation	$ 174,000	$ 187,000
Accrued salaries and wages	72,000	130,000
Sales and use tax	70,000	67,000
Accrued professional expenses	--	4,000
Customer deposits	16,000	13,000
Accrued commissions	82,000	51,000
Accrued payroll taxes	14,000	8,000
Other	8,000	9,000
Total accrued expenses	$ 436,000	$ 469,000

NOTE 3 - Notes Payable and Capital leases

Notes payable and capital leases consisted of the following at December 31, 2008 and September 30, 2008:

	December 3 2008
Capital lease agreement in connection with the purchasing of equipment bearing an effective interest rate of 8.69% per annum. The lease requires monthly payments of $3,147 through September 2012.	$ 92,00
Capital lease agreement in connection with the purchasing of equipment bearing an effective interest rate of 9.25% per annum. The lease requires monthly payments of $4,979 through January 2013.	203,00
Capital lease agreement in connection with the purchasing of ERP software bearing an effective interest rate of 9.23% per annum. The lease requires monthly payments of $526 through February 2013.	22,00
Capital lease agreement in connection with the purchasing of equipment bearing an effective interest rate of 8.82% per annum. The lease requires monthly payments of $2,403 through March 2012.	81,00
Capital lease agreement in connection with the purchasing of equipment bearing an effective interest rate of 8.66% per annum. The lease requires monthly payments of $2,386 through October 2010.	44,00
Capital lease agreement in connection with the purchasing of ERP software bearing an effective interest rate of 8.51% per annum. The lease requires monthly payments of $3,195 through April 2011.	81,00
Finance agreement issued in connection with the purchasing of certain insurance policies. The note bears interest at 6.8% per annum and require monthly principal and interest payments of $12,631 through March 2009.	37,00
	560,00
Less: current portion	(197,00

$ 363,00
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NOTE 4 - Commitments and Contingencies

Litigation

In February 2008, the Company and other manufacturers of lasers were named as defendants in a lawsuit in the State Court of Massachusetts by CardioFocus, Inc. as allegedly infringing three of their now expired patents in 2002 -2006. The Company and two of the other defendants submitted a petition to the U.S. Patent and Trademark Office ("USPTO") to re-examine the patents to determine if they are valid, as did several of the other defendants. The Company and the other defendants petitioned the Court to stay the action, which is commonly done in patent cases, to save the court time in conducting a case on patents which may be later invalidated by the USPTO. The court granted the request of the Company and other defendants to stay the case for at least one year. The USPTO usually takes two to three years to reach a decision on the validity of patents. If the USPTO should find any of the patents to be valid, the Company has other defenses that we believe will enable it to successfully defend against any claims b y CardioFocus, Inc.

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 condensed consolidated statements of operations that may have material impact on the Company's financial position, results of operations or cash flows.

Guarantees and Indemnities

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

Risks and Uncertainties

The Centers for Medicare and Medicaid Services (CMS), the agency of the U.S. Government that administers the Medicare Program, recently announced a decision to deny reimbursement for thermal intradiscal procedures (TIPs). Thermal procedures to treat spinal discs typically entail the use of electrothermal (ET) or radiofrequency (RF) energy to heat or coagulate the nucleus of the disc, a spongy, gelatinous material that absorbs shocks when people run, jump or are injured, to prevent damage to the vertebra.

CMS, however, included the use of laser energy in its denial of reimbursement, as the early lasers used in spinal disc treatment, Nd:YAG and KTP lasers, emit continuous wave (CW) energy at a constant level, which is thermal, like ET or RF energy. The Company's pulsed Holmium Lasers emit pulsed energy, which is highly absorbed by water in the cells, which is rapidly turned to steam, vaporizing the tissue. The tissue cools between the pulses, which last a few hundred microseconds (millionths of a second), and only a small amount of heating or coagulation occurs.

The Company filed an objection to CMS' lumping its pulsed Holmium Lasers with ET, RF and older, thermal Nd:YAG and KTP lasers, few if any of which are still in use in the treatment of spinal discs, and the Company attached ten (10) published papers on clinical studies of Holmium laser energy that support our position.

While the Company disagrees with CMS' decision, very few disc treatments with its lasers are performed, as herniated and ruptured discs typically affect people of an average age of about 45.

NOTE 5 - Other Income

During the three months ended December 31, 2008 and 2007, the Company recognized $45,000 and $44,000, respectively, in royalties in connection with the terms of a 2005 OEM agreement from Lumenis, Inc. These royalties are included in other income in the accompanying statements of operations.

NOTE 6 - Related Party Transactions

On April 7, 2006, the Company entered into an agreement to employ Cardiomedics as a consultant to provide graphics arts services, since the Company did not have any employees with experience in the design and production of brochures and other marketing materials. Under this agreement, Cardiomedics will provide the services of a graphics art specialist at a rate comparable to those presently prevailing in the market in the design and production of marketing materials. During the three months ended December 31, 2008 and 2007, the Company incurred $3,000 and $2,000, respectively in expense for the services provided under the agreement.

NOTE 7 - Segment Information

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

Data with respect to these operating activities for the three months ended December 31, 2008 and 2007 are as follows:

	For the Three Months Ended December 31, 2008			For
	Products	Service and Rental	Total	Products

Revenue	$ 984,000	$ 626,000	$ 1,610,000	$ 771,000
Cost of sales	662,000	414,000	1,076,000	481,000
Gross profit	322,000	212,000	534,000	290,000
Expenses:				
Selling, general and administrative	561,000	155,000	716,000	434,000
Research and development	296,000	--	296,000	253,000
Income (loss) from operations	$ (535,000)	$ 57,000	(478,000)	$ (397,000
Other:				
Interest income			4,000	
Interest expense			(13,000)	
Royalty income			45,000	
Settlements and recoveries			2,000	
Provision for income tax			(5,000)	
Net (loss)			$ (445,000)	

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Sales and gross profit to customers by similar products and services for the three months ended December 31, 2008 and 2007 were as follows:

	For the Three Months Ended December 31,	
	2008	2007
By similar products and services:		
Revenues:		
Laser equipment and accessories	$ 325,000	$ 89,000
Delivery and disposable devices	659,000	682,000
Service and rental	626,000	415,000
Total	$1,610,000	$1,186,000
Gross profit		
Laser equipment and accessories	$ 83,000	$ --
Delivery and disposable devices	239,000	290,000
Service and rental	212,000	65,000
Total	$ 534,000	$ 355,000

Sales in foreign countries for the quarters ended December 31, 2008 and 2007 accounted for approximately 26% and 21%, respectively, of the Company's total sales. The breakdown by geographic region is as follows:

	Three Months Ended December 31, 2008	Three Months Ended December 31, 2007
Asia	$ 364,000	$ 50,000
Europe	49,000	102,000
Latin America	--	11,000
Australia	10,000	1,000
Other	--	80,000
	$ 423,000	$ 244,000

All long-lived assets were located in the United States during the three months ended December 31, 2008 and 2007. Total segment assets for the Products segment were $5,550,000 and Service and Rental were $1,602,000 at December 31, 2008. Total segment assets differ from total assets on a consolidated basis as a result of unallocated corporate assets primarily comprised of immaterial amounts of property and equipment, etc.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

CRITICAL ACCOUNTING POLICIES

Revenue Recognition

The Company's net revenues include revenues from the sale of delivery and disposable devices, the sale and rental of laser equipment and accessories, and service contracts for lasers manufactured by the Company.

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 and lasers are recognized upon shipment and passage of title of the products, provided that all other revenue recognition criteria have been met. Generally, customers are required to insure the goods from the Company's place of business. Accordingly, the risk of loss transfers to the customer once the goods have been shipped from the Company's warehouse. The Company sells its products primarily through commission sales representatives in the United States and distributors in foreign countries. In cases where the Company utilizes distributors, it recognizes revenue upon shipment, provided that all other revenue recognition criteria have been met, and ownership risk has transferred. In general, the Company does not have any post shipment obligations such as installation or acceptance provisions. All domestic laser systems are sold with a one year warranty which includes parts and labor. All international lasers systems are sold with a one year parts only warranty. As each laser sale is recognized, a liability is accrued for estimated future warranty costs.

The Company utilizes distributors for international sales only. All laser system sales are non-returnable. Our international distributors typically locate customers for laser systems before ordering and in general do not maintain inventories. The Company's return policy for laser accessories, delivery and disposable devices sold to distributors is as follows: 1) The Company will accept returns of any unopened, undamaged, standard catalogue items (except laser systems) within sixty (60) days of invoice date. Acceptable returned products will be subject to a 20% restocking fee. 2) A return authorization number is required for all returns. The number can be obtained by contacting the Customer Service Department. 3) Should a product be found defective at the time of initial use, the Company will replace it free of charge.

The Company offers service contracts on its lasers. These service contracts are offered at different pricing levels based on the level of coverage, which include periodic maintenance and different levels of parts and labor to be provided. Since the service contracts have a twelve month term, the revenue of each service contract is deferred and recognized ratably over the term of each service contract.

Trimedyne, Inc. rents its lasers for a flat monthly charge for a period of years, on a month-to-month basis, or on a fee-per-case basis, sometimes with a minimum monthly rental fee. During the three months ended December 31, 2008 and 2007, two lasers were being rented from Trimedyne, Inc., each on a month-to-month basis, respectively. For these lasers, rental revenue is recorded ratably over the rental period. MST generally enters into rental service contracts with customers for a two year period, which unless cancelled, are renewed on an annual basis after the initial period. During the rental service contract period customers do not maintain possession of any rental equipment unless it is for the Company's convenience. Customers are billed on a fee-per-case basis for rentals, which includes the services of the laser operator and, in some cases, the use of a reusable or disposable (single use) laser delivery device. Revenue from these rental service contracts is recognized as the cases are performed.

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.

Inventories

Inventories consist of raw materials and component parts, work in process and finished good lasers and dispensing systems. Inventories are recorded at the lower of cost or market, cost being determined principally by use of the average-cost method, which approximates the first-in, first-out method. Cost is determined at the actual cost for raw materials, and at production cost (materials, labor and indirect manufacturing overhead) for work-in-process and finished goods.

Goodwill

The Company accounts for goodwill and acquired intangible assets in accordance with Statement of Financial Accounting Standards ("SFAS")No. 142 "Goodwill and Other Intangible Assets", whereby goodwill is not amortized, and is tested for impairment at the reporting unit level annually during the fourth quarter and in interim periods if certain events occur indicating that the carrying value of goodwill may be impaired. A reporting unit is an operating segment for which discrete financial information is available and is regularly reviewed by management. The Company has one reporting unit, our service and rental group, to which goodwill is assigned.

SFAS 142 requires a two-step approach to test goodwill for impairment for each reporting unit. The first step tests for impairment by applying fair value-based tests to a reporting unit. The second step, if deemed necessary, measures the impairment by applying fair value-based tests to specific assets and liabilities within the reporting unit. Application of the goodwill impairment tests require judgment, including identification of reporting units, assignment of assets and liabilities to each reporting unit, assignment of goodwill to each reporting unit, and determination of the fair value of each reporting unit. The determination of fair value for a reporting unit could be materially affected by changes in these estimates and assumptions.

As part of the first step, the Company generally estimates the fair value of the reporting unit based on market prices (i.e., the amount for which the assets could be bought by or sold to a third party), when available. When market prices are not available, we estimate the fair value of the reporting unit using the income approach. The income approach uses cash flow projections. Inherent in our development of cash flow projections are assumptions and estimates derived from a review of our historical operating results, future business plans, expected growth rates, cost of capital, future economic conditions, etc. Many of the factors used in assessing fair value are outside the control of management, and these assumptions and estimates can change in future periods. During the fourth quarter of the year ended September 30, 2008, the Company conducted a goodwill impairment test for its service and rental group using a combination of the market and income approach. As a result of the first step analysis, the expected cash flows to be generated by the service and rental were sufficient enough to support the carrying value of the goodwill. Thus, the Company determined there was no impairment of the goodwill as of December 31, 2008.

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.

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.

Stock-based Compensation

The fair value of stock-based awards is calculated using the Black-Scholes option pricing model. The Black-Scholes model requires subjective assumptions regarding future stock price volatility and expected time to exercise, which greatly affect the calculated values. The expected term of options granted is derived from historical data on employee exercises and post-vesting employment termination behavior. The risk-free rate selected to value any particular grant is based on the U.S. Treasury rate that corresponds to the pricing term of the grant effective as of the date of the grant. The expected volatility for the nine months ended June 30, 2008 is based on the Company's historical volatilities of its common stock. These factors could change in the future, affecting the determination of stock-based compensation expense in future periods.

RESULTS OF OPERATIONS

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

Method of Presentation

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

Quarter ended December 31, 2008 compared to quarter ended December 31, 2007

During the quarter ended December 31, 2008, net revenues were $1,610,000 as compared to $1,186,000 for the same period of the previous year, a $424,000 or 35.8% increase. Net sales from lasers and accessories increased by $236,000 or 265.2% to $325,000 during the three months ended December 31, 2008 from $89,000 in the same period of the prior year. Net sales from delivery and disposable devices decreased by $23,000 or 3.4% to $659,000 in the current quarter from $682,000 in the same quarter of the prior year. The net increase in revenues was due to the increase in export sales which increased by $179,000 or 73.4% to $423,000 from $244,000 in the prior year quarter. Net sales from service and rental increased by $211,000 or 50.8% to $626,000 from $415,000 for the same quarters. The increase in service and rental revenue was primarily the result of a 46.8% increase fee per case revenue from MST.

Cost of sales during the quarter ended December 31, 2008 was 66.8% of net revenue as compared to 70.1% of net revenues for the prior year quarter. Gross profit from the sale of lasers and accessories was 25.5% as compared to 0.0% of net revenues for the prior year three-month period. The increase in gross profit was due to a lower percentage of overhead being absorbed in a higher production level as a result of increasing sales. Gross profit from the sale of delivery and disposable devices was 36.3% as compared to 42.5% for the prior year period. This decrease was due to a higher percentage of overhead being absorbed in lower production as a result of decreasing sales. Gross profit from revenue received from service and rentals was 33.9% in the current quarter, as compared to 15.7% for the prior three-month period. This increase in gross profit was primarily due to an increase in MST's sales changing its product mix to offer higher revenue services, while maintaining its existing overhead.

Selling, general and administrative expenses increased in the current quarter to $716,000 from $551,000 in the prior year quarter, an increase of $165,000 or 29.9%. The increase in selling, general and administrative expenses was primarily the result of increases in the following: $12,000 in payroll related expense due to increasing staff, $50,000 in expense for outside services resulting from our planned conversion to a new manufacturing and accounting records processing system,$43,000 in professional fees incurred for auditing and preparation of tax returns, $41,000 in commission expense primarily for international sales, $15,000 in legal expense and $3,000 in insurance expense.

Research and development expenditures for the quarter ended December 31, 2008, increased $43,000 or 17.0% to $296,000 as compared to $253,000 in the quarter ended December 31, 2007. This increase was a result the Company increasing its product development efforts and staff in readying its new VaporMAX(TM) Side-Firing Device for the market.

Other income, net decreased by $34,000 or 47.2% to $38,000 in the first quarter ended December 31, 2008 from $72,000 in the first quarter of the prior year. Other income during the quarter ended December 31, 2008 primarily consisted of $45,000 of royalty income and $4,000 in interest income, offset by $13,000 in interest expense. In the period ended December 31, 2007, other income primarily consisted of $44,000 of royalty income and $26,000 in interest income, offset by $3,000 in interest expense. The decrease in other income was primarily the result of decreasing interest rates the Company realized on its interest bearing investments, offset by an increase in interest resulting from servicing of equipment loans for purchases during the later part of the fiscal year ended September 30, 2008.

For the current quarter, the Company had a net loss of $445,000 or $0.02 per share, based on 18,365,960 basic weighted average number of common shares outstanding, as compared to net loss of $377,000, or $0.02 per share, based on 18,365,960 basic weighted average number of common shares outstanding in the same quarter of the previous year.

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Liquidity and Capital Resources

At December 31, 2008, the Company had working capital of $4,221,000 compared to $4,625,000 at the end of the fiscal year ended September 30, 2008. Cash decreased by $330,000 to $1,677,000 from $2,007,000 at the fiscal year ended September 30, 2008. During the three month period ended December 31, 2008, net cash used in operating activities was $231,000. Net cash used in investing activities was $22,000 for the purchase of equipment. Net cash used in financing activities during the same three month period was $77,000, which was the result of payments on debt incurred for the servicing of equipment loans. We believe our existing working capital will be sufficient to meet Trimedyne's operating needs for the next twelve months. 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 continue to incur losses, 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, which may not be available at an acceptable cost, if and when needed. There can be no assurance that we will be able to operate profitably in the future.

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ITEM 3. CONTROLS AND PROCEDURES

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. As defined in Rule 13a-15(f) under the Exchange Act, internal control over financial reporting is a process designed by, or under the supervision of, our principal executive officer (PEO) and principal financial officer (PFO) and effected by our board of directors, management and other personnel, 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.

Under the supervision and with the participation of our management including our PEO and PFO, we evaluated the effectiveness of our internal control over financial reporting as of December 31, 2008, based on the framework and criteria established by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and we concluded that our Internal controls over financial reporting were not effective.

Our management, including our PEO and our PFO, concluded that our disclosure controls and procedures were not effective as of December 31, 2008, to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to our management, including our PEO and our PFO, as appropriate, to allow timely decisions regarding required disclosure.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

The following material weakness was identified:

1. Procedures were not in place to insure that our Principal Executive Officer and Principal Financial Officer certifications were filed in the exact prescribed form set forth in Item 601(B) (31) of Regulation S-K and include the introductory language of Paragraph 4 of Item 601(B) (31) of Regulation S-K

Changes In Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2008 that materially affected or are reasonably likely to materially affect, our internal control over financial reporting. During 2009, the Company, with the assistance of an external finance and accounting advisory firm with relevant SEC compliance experience has established additional procedures to strengthen the Company's financial and disclosure controls and has taken the following action:

Procedures have been put in place, which includes the review by our external securities attorney, to properly review our future filings to insure that there are no omissions of required disclosures and certifications do not contain language that does not conform to Item (601)(31) of Regulation S-K.

LIMITATIONS ON THE EFFECTIVENESS OF INTERNAL CONTROLS

The Company's management, including the Chief Executive Officer, 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

In February 2008, the Company and other manufacturers of lasers were named as defendants in a lawsuit in the State Court of Massachusetts by CardioFocus, Inc. as allegedly infringing three of their now expired patents in 2002 -2006. The Company and two of the other defendants submitted a petition to the U.S. Patent and Trademark Office ("USPTO") to re-examine the patents to determine if they are valid, as did several of the other defendants. The Company and the other defendants petitioned the Court to stay the action, which is commonly done in patent cases, to save the court time in conducting a case on patents which may be later invalidated by the USPTO. The court granted the request of the Company and the other defendants to stay the case for at least one year. The USPTO usually takes two to three years to reach a decision on the validity of patents. If the USPTO should find any of the patents to be valid, the Company has other defenses that we believe will enable it to successfully defend against any clai ms by CardioFocus, Inc.

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

31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Marvin P. Loeb
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Jeffrey S. Rudner
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Marvin P. Loeb
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Jeffrey S. Rudner

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: March 20, 2009

/s/ Marvin P. Loeb

Marvin P. Loeb
Chairman and
Chief Executive Officer

Date: March 20, 2009

/s/ Jeffrey S. Rudner

Jeffrey S. Rudner
Principal Accounting Officer