TRIMEDYNE INC
Form 10-Q
February 12, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2009

or

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

For the transition period from ____________________ to ______________________

COMMISSION FILE NO. 0-10581

TRIMEDYNE, INC.
(Exact Name of Registrant as Specified in its Charter)

NEVADA	36-3094439
(STATE OR OTHER JURISDICTION OF INCORPORATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)
25901 COMMERCENTRE DRIVE LAKE FOREST, CALIFORNIA (ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	92630 (ZIP CODE)

Registrant's Telephone Number, Including Area Code:

(949) 951-3800

Securities Registered Pursuant to Section 12(b) of the Act:
NONE

Securities Registered Pursuant to Section 12(g) of the Act:
Common Stock, $.01 Par Value per Share
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required

to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [_]

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

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

Large accelerated filer	|_|	Accelerated filer	|_|
Non-accelerated filer	|_|	Smaller reporting company	|X|

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

As of February 12, 2010, there were outstanding 18,365,960 shares of registrant's Common Stock.

TRIMEDYNE, INC.

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TRIMEDYNE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

ASSETS

	December 31, 2009	Septe
Current assets:		
Cash and cash equivalents	$ 1,131,000	$
Trade accounts receivable, net of allowance for doubtful accounts of $12,000 at December 31 and September 30, 2009	936,000	
Inventories	2,576,000	
Other current assets	141,000	
Total current assets	4,784,000	
Property and equipment, net	1,115,000	
Other	82,000	
Goodwill	544,000	
Total Assets	$ 6,525,000	$

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	$ 427,000	$
Accrued expenses	513,000	
Deferred revenue	100,000	
Accrued warranty	49,000	
Income tax payable	25,000	
Current portion of note payable and capital leases	187,000	
Total current liabilities	1,301,000	

Note payable and capital leases, net of current portion	188,000	
Deferred rent	42,000	
Long term warrant liability	33,000	
Total liabilities	1,564,000	
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 at December 31, 2009 and September 30, 2009, 18,365,960 shares outstanding at December 31, 2009 and September 30, 2009	186,000	
Additional paid-in capital	51,228,000	
Accumulated deficit	(45,740,000)	
	5,674,000	
Treasury stock, at cost (101,609 shares)	(713,000)	
Total stockholders' equity	4,961,000	
Total liabilities and stockholder's equity	$ 6,525,000	$

See accompanying notes to condensed consolidated financial statements

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

	For the Three Months Ended December 31,	
	2009	2008
Net revenues	$ 1,654,000	$ 1,610,000
Cost of revenues	1,076,000	1,076,000
Gross profit	578,000	534,000
Operating expenses:		
Selling, general and administrative	629,000	716,000
Research and development	305,000	296,000
Total operating expenses	934,000	1,012,000

(Loss) from operations	(356,000)	(478,000)
Other income, net	61,000	38,000
(Loss) before income taxes	(295,000)	(440,000)
Provision for income taxes	5,000	5,000
Net (loss)	$ (300,000)	$ (445,000)
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

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

	Three Months Ended December 31,	
	2009	2008
Cash flows from operating activities:		
Net loss	(300,000)	(445,0
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	6,000	11,0
Depreciation and amortization	78,000	90,0
Changes in operating assets and liabilities:		
Trade accounts receivable	52,000	4,0
Inventories	(310,000)	106,0
Other assets	90,000	47,0
Accounts payable	(22,000)	(8,0
Accrued expenses	16,000	(31,0
Income tax payable	5,000	
Deferred revenue	--	3,0

Accrued warranty	(5,000)	(3,0
Deferred rent	(9,000)	(5,0
Net cash used in operating activities	(399,000)	(231,0
Cash flows from investing activities:		
Purchase of property and equipment	(25,000)	(22,0
Net cash used in investing activities	(25,000)	(22,0
Cash flows from financing activities:		
Payments on debt	(66,000)	(77,0
Net cash used in financing activities	(66,000)	(77,0
Net decrease in cash and cash equivalents	(490,000)	(330,0
Cash and cash equivalents at beginning of period	1,621,000	2,007,0
Cash and cash equivalents at end of period	$ 1,131,000	$ 1,677,0

Supplemental disclosure of cash flow information:

No cash was paid for income taxes during the three months ended December 31,2009. Cash paid for income taxes during the three months ended December 31, 2008 was $5,000. Cash paid for interest during the three months ended December 31, 2009 and 2008 was approximately $10,000 and $13,000, respectively.

See accompanying notes to condensed consolidated financial statements

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TRIMEDYNE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009
(UNAUDITED)

NOTE 1 - Summary of Significant Accounting Policies

Principles of Consolidation

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

Managements' Plans

The Company has depleted working capital and incurred losses from operations for the past two years. There can be no assurance that the Company will be able to maintain or achieve sales growth to offset these deficiencies, or that the Company will be profitable at all. Based on current cash flow projections, the Company believes that existing cash flows are sufficient enough to fund operations through September 30, 2010. The accompanying financial statements have been prepared assuming the Company will continue as a going concern. However, management is unsure if the Company's liquidity and anticipated revenues will be sufficient to meet its obligations as they become due for the next 12 months from the balance sheet date. This raises substantial doubt about the Company's ability to continue as a going concern. The Company intends to take various steps to reduce losses by reducing its costs through reduction of personnel positions and overhead costs. The Company plans to raise additional capital through the sale of debentures, equity capital or other Company assets. There are no assurances that the 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, 2009 and the results of its operations and its cash flows for the three months ended December 31, 2009 and 2008. Results for the three months ended December 31, 2009 are not necessarily indicative of the results to be expected for the year ending September 30, 2010.

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 2009 annual report on Form 10-K for the year ended September 30, 2009.

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, 2009, there were no stock options granted.

As of December 31, 2009, there was approximately $35,017 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 three years.

The following table summarizes stock-based compensation expense related to employee and director stock options under ASC No. 718 for the three months ended December 31, 2009 and 2008, which was allocated as follows:

	Three Months Ended December 31, 2009	Three Months Ended December 31, 2008
Stock-based compensation included in:		
Cost of revenues	$ 1,000	$ 3,000
Research and development expenses	$ 1,000	$ 1,000
Selling, general, and administrative expenses	$ 4,000	$ 7,000

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

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements", which has been codified into Accounting Standards Codification 825 ("ASC 825"). The standard defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. ASC 825 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. In February 2008, the FASB deferred the effective date of ASC 825 by one year for certain non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). On October 1, 2008, we adopted the provisions of ASC 825, except as it applies to those nonfinancial assets and nonfinancial liabilities for which the effective date has been delayed by one year, which we adopted on October 1, 2009. The adoption of ASC 825 did not have a material effect on our financial position or results of operations. The book values of cash, accounts receivable inventory, accounts payable and notes payableapproximate their respective fair values due to the short-term nature of these instruments. At December 31, 2009, the warrant liability was recorded under a level two assumption; see Note 4 for discussion of the valuation techniques used to measure the fair value of the warrant liability.

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, 2009 one customer accounted for 23% of the Company's receivables.

At December 31, 2009, the Company had cash balances of $789,000 in excess of federally insured limits.

Goodwill

The Company accounts for goodwill and acquired intangible assets in accordance with ASC No. 350 "Intangible and Other", 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.

ASC No. 350 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 first quarter ended December 31, 2009, 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, 2009.

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.

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, 2009 and 2008, outstanding options of 65,000 and 75,056, 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 or Adopted Accounting Pronouncements

In April 2008 the FASB issued FASB Staff Position No. FAS 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP 142-3"). This pronouncement 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 Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("FAS 142"). This pronouncement aims to improve the consistency between the useful life of a recognized intangible asset under FAS 142 and the period of expected cash flows used to measure the fair value of the asset under FAS 141(R). The provisions of FSP 142-3 were incorporated into the Codification within ASC Subtopic 350-30 "General Intangibles other than Goodwill" and are effective for fiscal years beginning after December 15, 2008. On October 1, 2009, the Company adopted the standard with no impact on its financial statements.

Effective October 1, 2009, the Company adopted the provisions of Emerging Issues Task Force 07-5, "Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock" ("EITF 07-5"), which has been codified into ASC 815. The guidance applies to any freestanding financial instruments or embedded features that have the characteristics of a derivative, as defined by SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," (which was codified into ASC 815) and to any freestanding financial instruments that are potentially settled in an entity's own common stock. The guidance had an impact on the Company's financial statements and position due to certain warrants in which the exercise price resets upon certain events. See Note 4 for discussion.

NOTE 2 - Composition of Certain Balance Sheet Captions

Inventories, net of reserves, consist of the following:

	December 31, 2009	September 30, 2009
Raw materials	$ 1,018,000	$ 848,000
Work-in-process	923,000	800,000
Finished goods	635,000	618,000
	$ 2,576,000	$ 2,266,000

For the three months ended December 31, 2009 and 2008, the aggregate net realizable value of demonstration and evaluation lasers did not comprise a material amount in inventories.

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Other current assets consist of the following:

	December 31, 2009	September 30, 2009
Royalty receivable	$ 68,000	$ 93,000
Prepaid insurance	43,000	66,000
Other receivables	--	34,000
Prepaid other	20,000	20,000
Prepaid income tax	2,000	5,000
Short-term deposits	8,000	8,000
Total other current assets	$ 141,000	$ 226,000

Property and equipment consist of the following:

	December 31, 2009	September 30, 2009
Furniture and equipment	$ 3,356,000	$ 3,354,000
Leasehold improvements	642,000	619,000
Other	244,000	244,000
	4,242,000	4,217,000
Less accumulated depreciation and amortization	(3,127,000)	(3,049,000)
Total property and equipment	$ 1,115,000	$ 1,168,000

Accrued expenses consist of the following:

	December 31, 2009	September 30, 2009
Accrued vacation	$ 174,000	$ 182,000
Accrued salaries and wages	87,000	62,000
Sales and use tax	70,000	75,000
Customer deposits	31,000	4,000
Accrued commissions	109,000	145,000
Accrued payroll taxes	23,000	11,000
Accrued 401(k)	8,000	9,000
Other	11,000	9,000
Total accrued expenses	$ 513,000	$ 497,000

NOTE 3 - Notes Payable and Capital leases

Notes payable and capital leases consists of the following at December 31, 2009 and September 30, 2009:

	December 31, 2009
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.	$ 61,000
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.	156,000
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.	17,000
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.	59,000
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.	21,000
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.	45,000
Finance agreement issued in connection with the purchasing of certain insurance policies. The note bears interest at 6.5% per annum and require monthly principal and interest payments of $8,018 through March 2010.	16,000
	$ 375,000
Less: current portion	(187,000)
	$ 188,000

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NOTE 4 - Outstanding Warrant Liability Effective October 1, 2009 we adopted the provisions of EITF 07-5, "Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock" ("EITF 07-5"). EITF 07-5 applies to any freestanding financial instruments or embedded features that have the characteristics of a derivative, as defined by SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and to any freestanding financial instruments that are potentially settled in an entity's own common stock. Both standards were codified into ASC 815. As a result of adopting EITF 07-5, 212,000 of our issued and outstanding common stock purchase warrants previously treated as equity pursuant to the derivative treatment exemption were no longer afforded equity treatment. These warrants have an exercise price of $1.14 and expire in January 2012. As such, effective October 1, 2009 we reclassified the fair value of these common stock purchase warrants, which have exercise price reset features, from equity to liability status as if these warrants were treated as a derivative liability since their date of issue in January 2007. On October 1, 2009, we reclassified from additional paid-in capital, as a cumulative effect adjustment, $204,000 to beginning retained earnings and $35,000 to a long-term warrant liability to recognize the fair value of such warrants on such date. The fair value of these common stock purchase warrants declined to $33,000 as of December 31, 2009. As such, we recognized a gain of approximately $2,000 from the change in fair value of these

warrants for the three months ended December 31, 2009.

These common stock purchase warrants were initially issued in connection with our January 2007 issuance and sale of 2.65 million shares of common stock. The common stock purchase warrants were not issued with the intent of effectively hedging any future cash flow, fair value of any asset, liability or any net investment in a foreign operation. The warrants do not qualify for hedge accounting, and as such, all future changes in the fair value of these warrants will be recognized currently in earnings until such time as the warrants are exercised or expire. These common stock purchase warrants do not trade in an active securities market, and as such, we estimate the fair value of these warrants using the Black-Scholes option pricing model using the following assumptions:

	December 31, 2009	October 1, 2009.
Annual dividend yield	--	--
Expected life (in years)	2.01	2.26
Risk free interest rate	2.69%	2.20%
Expected annual volatility	107.4%	103.0%

Expected volatility is based primarily on historical volatility. Historical volatility was computed using weekly pricing observations for recent periods that correspond to expected remaining life of the warrant. We believe this method produces an estimate that is representative of our expectations of future volatility over the expected term of these warrants. We currently have no reason to believe future volatility over the expected remaining life of these warrants is likely to differ materially from historical volatility. The expected life is based on the remaining term of the warrants. The risk-free interest rate is based on U.S. Treasury securities.

NOTE 5 - Commitments and Contingencies

Litigation

We are subject to various claims and actions that arise in the ordinary course of business. The litigation process is inherently uncertain, and it is possible that the resolution of any future litigation may adversely affect us.

The Company had no product liability lawsuits commenced against it during the three months ended December 31, 2009. 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 coverage 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 $5,000,000 insurance coverage. In such case, Trimedyne would be liable for any liability in excess of $5,000,000.

In February, 2008, we and six other laser manufacturers were sued in the district court of Massachusetts by CardioFocus, Inc., alleging infringement of three of their now expired U.S. Patents, which limits their claim for royalties to six years from their date of expiration. We and two other laser companies joined in a petition to the U.S. Patent & Trademark Office ("USPTO") to re-examine these patents and declare them invalid. The other four defendants likewise individually requested a re-examination of these patents and a declaration of invalidity by the USPTO. The court issued a stay of the proceedings until October 14, 2009. On October 14, 2009, the defendants (including Trimedyne) sought to extend the stay of the proceedings until October 14, 2010, or until the reexamination proceedings have concluded for all three patents-in-suit, whichever is sooner. CardioFocus has opposed the defendant's motion and, as of this filing, we have not received any determination from the

court.

No amount of monetary or other damages is stated in CardioFocus's preliminary case filings and, because the patents have expired, CardioFocus is not entitled to anything other than monetary damages. We have not established a reserve for any damages in the event these patents are finally declared valid by the USPTO in a non-appealable decision.

In the event the litigation is restarted, the Company intends to defend itself vigorously.

Guarantees and Indemnities

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

Risks and Uncertainties

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

NOTE 6 - Other Income

During the three months ended December 31, 2009 and 2008, the Company recognized $68,000 and $45,000, 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 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, 2009 and 2008 are as follows:

For the Three Months Ended For

	December 31, 2009			
	Products	Service and Rental	Total	Products
Revenue	$ 951,000	$ 703,000	$ 1,654,000	$ 984,000
Cost of sales	682,000	394,000	1,076,000	662,000
Gross profit	269,000	309,000	578,000	322,000
Expenses:				
Selling, general and administrative	462,000	167,000	629,000	561,000
Research and development	305,000	--	305,000	296,000
Income (loss) from operations	$ (498,000)	$ 142,000	(356,000)	$ (535,000
Other:				
Interest income			--	
Interest expense			(10,000)	
Royalty income			68,000	
Other income			3,000	
Provision for income tax			(5,000)	
Net loss			$ (300,000)	

Sales and gross profit to customers by similar products and services for the three months ended December 31, 2009 and 2008 were as follows:

	For the Three Months Ended December 31,	
	2009	2008
By similar products and services:		
Revenues:		
Laser equipment and accessories	$ 261,000	$ 325,000
Delivery and disposable devices	690,000	659,000
Service and rental	703,000	626,000
Total	$1,654,000	$1,610,000
Gross profit		
Laser equipment and accessories	$ 15,000	$ 83,000
Delivery and disposable devices	254,000	239,000
Service and rental	309,000	212,000
Total	$ 578,000	$ 534,000

Sales in foreign countries for the quarters ended December 31, 2009 and 2008

accounted for approximately 18% and 26%, respectively, of the Company's total sales. The breakdown by geographic region is as follows:

	Three Months Ended December 31, 2009	Three Months Ended December 31, 2008
Asia	$ 132,000	$ 364,000
Europe	62,000	49,000
Latin America	14,000	--
Australia	89,000	10,000
Middle East	3,000	--
Other	2,000	--
	$ 302,000	$ 423,000

All long-lived assets were located in the United States during the three months ended December 31, 2009 and 2008. Total segment assets at December 31, 2009 and 2008 for the Products segment were $4,841,000 and $5,550,000, respectively, and for the Service and Rental segment were $1,663,000 and $1,602,000, respectively. Total segment assets differ from total assets on a consolidated basis as a result of unallocated corporate assets primarily comprised of immaterial amounts of property and equipment, etc.

The Company evaluated subsequent events through the issuance date of the financial statements, January 13, 2010, and has disclosed the events identified within this filing.

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

FORWARD-LOOKING STATEMENTS

This information should be read in conjunction with the condensed consolidated financial statements and notes thereto included in Item 1 of Part I of this Quarterly Report and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended September 30, 2009 contained in our 2009 Annual Report on Form 10-K.

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

OVERVIEW

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

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

Our 100% owned subsidiary, Mobile Surgical Technologies, Inc. ("MST"), is engaged in the rental of lasers, along with the services of a trained operator and, if requested, the provision of applicable Fibers, Needles or Tips, on a "fee per case" basis to hospitals, surgery centers, group practices and individual physicians in Texas and nearby areas.

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

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, 2009 and 2008, 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

We account for goodwill and acquired intangible assets in accordance with ASC No. 350 "Intangible Goodwill and Other", 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. We have one reporting unit, our service and rental group, to which goodwill is assigned.

ASC No. 350 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, 2009, 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, 2009.

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 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

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, 2009 compared to quarter ended December 31, 2008

During the quarter ended December 31, 2009, net revenues were $1,654,000 as compared to $1,610,000 for the same period of the previous year, a $44,000 or 2.7% increase. Net sales from lasers and accessories decreased by $64,000 or 19.7% to $261,000 during the three months ended December 31, 2009 from $325,000 in the same period of the prior year. Net sales from delivery and disposable devices increased by $31,000 or 4.7% to $690,000 in the current quarter from $659,000 in the same quarter of the prior year. Net sales from service and rental increased by $77,000 or 12.3% to $703,000 from $626,000 for the same quarters. The increase in service and rental revenue was primarily due to an increase in per case revenues from MST as a result of the addition of sales personnel and the expansion of its service business during the latter part of the prior fiscal year.

Cost of sales during the quarter ended December 31, 2009 was 65.1% of net revenue as compared to 66.8% of net revenues for the prior year quarter. Gross profit from the sale of lasers and accessories was 5.7% as compared to 25.5% of net revenues for the prior year three-month period. The lower gross profit was primarily the result of a volumizing difference due to lower production. Gross profit from the sale of delivery and disposable devices was 36.8% as compared to 36.3% for the prior year period. Gross profit from revenue received from service and rentals was 43.9% in the current quarter, as compared to 33.9% for the prior three-month period. This increase in gross profit was primarily due to MST's changing its product mix which resulted in higher revenues with greater margins while maintaining its existing overhead.

Selling, general and administrative expenses decreased in the current quarter to $629,000 from $716,000 in the prior year quarter, a decrease of $87,000 or 12.2%. The decrease in selling, general and administrative expenses was primarily the result of decreases of $48,000 in expense for outside services, $21,000 in professional fees incurred for auditing and preparation of tax returns, $22,000 in commission expense, $15,000 in legal expense, and $12,000 in marketing expense offset by increases of $19,000 in payroll related expense due to increasing staff, and $16,000 in bank fees.

Research and development expenditures for the quarter ended December 31, 2009, increased $9,000 or 3.0% to $305,000 as compared to $296,000 in the quarter ended December 31, 2008. 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 increased by $23,000 or 60.5% to $61,000 in the first quarter ended December 31, 2009 from $38,000 in the first quarter of the prior year. Other income during the quarter ended December 31, 2009 primarily consisted of $68,000 of royalty income, offset by $10,000 in interest expense. 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.

For the current quarter, the Company had a net loss of $300,000 or $0.02 per share, based on 18,365,960 basic weighted average number of common shares outstanding, as compared to net loss of $445,000, 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.

Liquidity and Capital

At December 31, 2009, the Company had working capital of $3,483,000 compared to $3,772,000 at the end of the fiscal year ended September 30, 2009. Cash decreased by $490,000 to $1,131,000 from $1,621,000 at the fiscal year ended September 30, 2009. During the three month period ended December 31, 2009, net cash used in operating activities was $399,000. Net cash used in investing activities was $25,000 for the purchase of equipment. Net cash used in financing activities during the same three month period was $66,000, which was the result of payments on debt incurred for the servicing of loans for equipment and certain insurance policies.

The Company has depleted working capital and incurred losses from operations for the past two years. There can be no assurance that the Company will be able to maintain or achieve sales growth to offset these deficiencies, or that the Company will be profitable at all. Based on current cash flow projections, the Company believes that existing cash flows are sufficient enough to fund operations through September 30, 2010. The accompanying financial statements have been prepared assuming the Company will continue as a going concern. However, management is unsure if the Company's liquidity and anticipated revenues will be sufficient to meet its obligations as they become due for the next 12 months from the balance sheet date. This raises substantial doubt about the Company's ability to continue as a going concern. The Company intends to take various steps to reduce losses by reducing its costs through reduction of personnel positions and overhead costs. The Company plans to raise additional capital through the sale of debentures, equity capital or other Company assets. There are no assurances that the management's plans will be successful.

OFF BALANCE SHEET ARRANGEMENTS

None.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK. N/A

ITEM 4T. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures. Our management has evaluated, under the supervision and with the participation of our chief executive officer and principal financial officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 (the "Exchange Act"). Based

on that evaluation, our chief executive officer and principal financial officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective in ensuring that information required to be disclosed in our Exchange Act reports is (1) recorded, processed, summarized and reported in a timely manner, and (2) accumulated and communicated to our management, including our chief executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

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

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PART II Other Information

ITEM 1. Legal Proceedings

In February, 2008, we and six other laser manufacturers were sued in the district court of Massachusetts by CardioFocus, Inc., alleging infringement of three of their now expired U.S. Patents, which limits their claim for royalties to six years from their date of expiration. We and two other laser companies joined in a petition to the U.S. Patent & Trademark Office ("USPTO") to re-examine these patents and declare them invalid. The other four defendants likewise individually requested a re-examination of these patents and a declaration of invalidity by the USPTO. The court issued a stay of the proceedings until October 14, 2009. On October 14, 2009, the defendants (including Trimedyne) sought to extend the stay of the proceedings until October 14, 2010, or until the reexamination proceedings have concluded for all three patents-in-suit, whichever is sooner. CardioFocus has opposed the defendant's motion and, as of this filing, we have not received any determination from the court.

No amount of monetary or other damages is stated in CardioFocus's preliminary case filings and, because the patents have expired, CardioFocus is not entitled to anything other than monetary damages. We have not established a reserve for any damages in the event these patents are finally declared valid by the USPTO in a non-appealable decision.

In the event the litigation is restarted, the Company intends to defend itself vigorously.

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

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: February 12, 2010

/s/ Marvin P. Loeb

Marvin P. Loeb
Chairman and
Chief Executive Officer

Date: February 12, 2010

/s/ Jeffrey S. Rudner

Jeffrey S. Rudner
Principal Financial Officer