TRIMEDYNE INC
Form 10-Q
February 18, 2011

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, 2010

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 18, 2011, 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, 2010	Septe
Current assets:		
Cash and cash equivalents	$ 2,353,000	$
Trade accounts receivable, net of allowance for doubtful accounts of $12,000 at December 31, 2010 and September 30, 2010	741,000	
Inventories	2,471,000	
Other current assets	221,000	
Total current assets	5,786,000	
Property and equipment, net	855,000	
Other	98,000	
Goodwill	544,000	
Total Assets	$ 7,283,000	$
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 200,000	$
Accrued expenses	586,000	
Deferred revenue	61,000	
Accrued warranty	23,000	
Income tax payable	13,000	
Current portion of note payable and capital leases	127,000	
Accrued interest due to related party	11,000	
Total current liabilities	1,021,000	
Senior secured convertible note to related party, net of discount of $94,000 and $99,000, respectively	406,000	
Note payable and capital leases, net of current portion	71,000	
Deferred rent	83,000	
Derivative liabilities	81,000	

Total liabilities	1,662,000	
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, 2010 and September 30, 2010, 18,365,960 shares outstanding at December 31, 2010 and September 30, 2010	186,000	
Additional paid-in capital	51,242,000	
Accumulated deficit	(45,094,000)	
	6,334,000	
Treasury stock, at cost (101,609 shares)	(713,000)	
Total stockholders' equity	5,621,000	
Total liabilities and stockholder's equity	$ 7,283,000	$

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, 2010	2009
Net revenues	$ 1,635,000	$ 1,654,000
Cost of revenues	1,026,000	1,076,000
Gross profit	609,000	578,000
Operating expenses:		
Selling, general and administrative	707,000	629,000
Research and development	210,000	305,000
Total operating expenses	917,000	934,000
(Loss) from operations	(308,000)	(356,000)
Other income, net	17,000	61,000

(Loss) before income taxes	(291,000)	(295,000)
Provision for income taxes	2,000	5,000
Net (loss)	$ (293,000)	$ (300,000)
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, 2010	2009
Cash flows from operating activities:		
Net loss	(293,000)	(300,0
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	4,000	6,0
Depreciation and amortization	63,000	78,0
Amortization of debt discount	5,000	
Change in fair value of derivative liabilities	(15,000)	
Loss on disposal of fixed assets	2,000	
Changes in operating assets and liabilities:		
Trade accounts receivable	(50,000)	52,0
Inventories	142,000	(310,0
Other assets	(40,000)	90,0
Accounts payable	71,000	(22,0
Accrued expenses	(2,000)	16,0
Accrued interest to related party	8,000	
Income tax payable	2,000	5,0
Deferred revenue	(14,000)	
Accrued warranty	6,000	(5,00
Deferred rent	3,000	(9,00

Net cash used in operating activities	(108,000)	(399,0
Cash flows from investing activities:		
Purchase of property and equipment	(12,000)	(25,0
Net cash used in investing activities	(12,000)	(25,0
Cash flows from financing activities:		
Principal payments on notes payable and capital leases	(55,000)	(66,0
Net cash used in financing activities	(55,000)	(66,0
Net decrease in cash and cash equivalents	(175,000)	(490,0
Cash and cash equivalents at beginning of period	2,528,000	1,621,0
Cash and cash equivalents at end of period	$ 2,353,000	$ 1,131,0

Supplemental disclosure of cash flow information:

No cash was paid for income taxes during the three months ended December 31, 2010 and 2009. Cash paid for interest during the three months ended December 31, 2010 and 2009 was approximately $10,000 and $10,000, respectively.

See accompanying notes to condensed consolidated financial statements

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TRIMEDYNE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010
(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.

Management's Plans

We are about to introduce a new line of Single Use optical fibers to supplement our line of Reusable optical fibers. These optical fibers are used with our Holmium lasers and Holmium lasers with compatible connectors made by others for the fragmentation of urinary stones in the kidney, ureter and bladder and biliary stones in the gall bladder. Many hospitals in the United States and other developed countries prefer having a new, sterile optical fiber for each stone case, rather than having to clean, clip and re-sterilize a reusable optical fiber after each case.

We are exploring various avenues to reduce our cost of manufacturing Lasers, expand the distribution of our products, particularly our new VaporMAX Side Firing Fiber and Single Use Optical Fibers, to increase our revenues and improve our profit margins. We are continuing to seek licensees of our patents and proprietary technologies. There is, of course, no assurance that these efforts will be successful.

We believe that existing cash flows are sufficient to fund operations through December 31, 2011; however, we have incurred losses from operations for the past three years. 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, we will raise additional debt and/or equity capital, sell some of our assets, reduce our costs by eliminating certain personnel positions and reducing certain overhead costs in order to fund operations. There is no assurance that our efforts to do so 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, 2010 and the results of its operations and its cash flows for the three months ended December 31, 2010 and 2009. Results for the three months ended December 31, 2010 are not necessarily indicative of the results to be expected for the year ending September 30, 2011.

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 2010 annual report on Form 10-K for the year ended September 30, 2010.

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, 2010, there were no stock options granted.

As of December 31, 2010, there was approximately $27,078 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 Accounting Standards Codification ("ASC") No. 718 Stock Compensation for the three months ended December 31, 2010 and 2009, which was allocated as follows:

	Three Months Ended	
	December 31, 2010 (Unaudited)	December 31, 2009
Stock-based compensation included in:		
Cost of revenues	$ 1,000	$ 1,000
Research and development expenses	$ 1,000	$ 1,000
Selling, general, and administrative expenses	$ 2,000	$ 4,000

NOTE 2 - Composition of Certain Balance Sheet Captions

Inventories, net of reserves, consist of the following:

	December 31, 2010 (Unaudited)	September 30, 2010
Raw materials	$ 908,000	$ 885,000
Work-in-process	718,000	635,000
Finished goods	845,000	1,093,000
	$ 2,471,000	$ 2,613,000

For the three months ended December 31, 2010 and 2009, 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, 2010 (Unaudited)	September 30, 2010
Royalty receivable	$ 19,000	$ 61,000
Prepaid insurance	38,000	55,000
Prepaid income tax	87,000	4,000
Prepaid Rent	26,000	26,000
Short-term deposits	33,000	8,000
Other	18,000	23,000
Total other current assets	$ 221,000	$ 177,000

Property and equipment consist of the following:

	December 31, 2010 (Unaudited)	September 30, 2010
Furniture and equipment	$ 3,384,000	$ 3,377,000
Leasehold improvements	643,000	643,000
Other	244,000	244,000
	4,271,000	4,264,000
Less accumulated depreciation and amortization	(3,416,000)	(3,356,000)
Total property and equipment	$ 855,000	$ 908,000

Accrued expenses consist of the following:

	December 31, 2010 (Unaudited)	September 30, 2010
Accrued vacation	$ 176,000	$ 169,000
Accrued salaries and wages	94,000	78,000
Sales and use tax	65,000	63,000
Accrued legal	--	175,000
Customer deposits	163,000	6,000
Accrued commissions	62,000	79,000
Accrued payroll taxes	13,000	3,000
Other	13,000	15,000
Total accrued expenses	$ 586,000	$ 588,000

NOTE 3 - Convertible Note Payable to Related Party, Notes Payable and Capital Leases

Senior Secured Convertible Note Payable to Related Party

On August 20, 2010, Marvin P. Loeb, the Company's Chairman and CEO, loaned the Company $500,000 evidenced by a 6% Senior Secured Convertible Note with a principal amount of $500,000 (the "Note"), which is secured by all of the assets of the Company, and is due August 19, 2015. However, the Note contained a provision whereby the CEO can redeem the note at any time. The CEO agreed not to redeem the Note, without the written consent of the Company, for a period of two years from September 30, 2010. Thus, the Note is reflected as a long-term obligation as of December 31, 2010 on the accompanying consolidated balance sheet. The funds provided under the Note are to be used for operations.

The Note can be converted at any time into shares of the Company's common stock at a conversion price of $0.21 per share. The conversion price equaled the fair market value of the Company's common stock on the date of the purchase of the Note, and thus no beneficial conversion feature was recorded. However, the Note contains an anti-dilution provision whereby the price resets in the event of the sale or issuance of shares at a price lower than the conversion price set forth in the Note. Thus, the Company determined that this provision caused the conversion feature to be bifurcated from the Note and treated as a derivative and accounted for at its fair value. The Company will revalue the derivative at each reporting period.

At September 30, 2010, management determined the fair market value of the conversion feature was $94,000 and recorded the offset as a discount to the Note. At December 31, 2010, management determined the fair market value of the conversion feature was $80,000, resulting in a gain on change in derivative liability of $14,000.

The Company estimated the fair value of the conversion feature using the Lattice model. Accordingly, the fair value of the conversion feature as determined using the Lattice model is affected by our stock price on the date of issuance as well as assumptions regarding a number of complex and subjective variables. These variables include, but are not limited to, our expected stock price volatility over the term of the Notes, actual and projected redemptions and conversion price resets.

Expected volatility is based primarily on historical volatility. Historical volatility was computed using daily pricing observations for recent periods that correspond to expected remaining life of the Notes. We believe this method produces an estimate that is representative of our expectations of future volatility over the expected term of this conversion feature. We currently have no reason to believe future volatility over the expected remaining life of the conversion feature is likely to differ materially from historical volatility. Volatility used in the calculation ranged from a low of 124% in year one to a high of 301% in year five. Management estimated that the probability of the Note being redeemed 0% increasing by 10% per quarter.

The Company is amortizing the discount over the period of two years, the term of the CEO's commitment not to call the Note, using the effective interest method. During the three months ended December 31, 2010, the Company amortized $5,000 of the discount to interest expense. As of December 31, 2010, the unamortized discount is $94,000.

NOTE 3 - Notes Payable and Capital Leases

Notes payable and capital leases consists of the following at December 31, 2010 and September 30,

	December 31, 2010 (Unaudited)
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.	$ 27,000
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.	109,000
Capital lease agreement in connection with the purchasing of equipment bearing an effective interest rate of 9.23% per annum. The lease requires monthly payments of $526 through February 2013.	12,000

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.	34,000
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.	10,000
Finance agreement issued in connection with the purchasing of certain insurance policies. The note bears interest at 4.7% per annum and require monthly principal and interest payments of $6,042 through January 2011.	6,000
	$ 198,000
Less: current portion	(127,000)
	$ 71,000

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 and 2010. 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 $25,000 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.

To avoid the cost and uncertainty of litigation, on November 24, 2010, we settled the lawsuit filed against us and others by CardioFocus. We paid CardioFocus $175,000,entered into mutual releases and the lawsuit was dismissed. This settlement expense was accrued and included in other expense for the year ended September 30, 2010 and paid during the three months ended December 31, 2010.

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 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, 2010 and 2009 are as follows:

	For the Three Months Ended December 31, 2010 (Unaudited)			For
	Products	Service and Rental	Total	Products
Revenue	$ 929,000	$ 706,000	$ 1,635,000	$ 951,000
Cost of sales	611,000	415,000	1,026,000	682,000
Gross profit	318,000	291,000	609,000	269,000
Expenses:				
Selling, general and administrative	529,000	178,000	707,000	462,000
Research and development	210,000	--	210,000	305,000
Income (loss) from operations	$ (421,000)	$ 113,000	(308,000)	$ (498,000
Other:				
Interest income			1,000	
Interest expense			(18,000)	
Royalty income			19,000	
Change in fair market value of derivative liabilities			15,000	
Other income			--	
Provision for income tax			(2,000)	
Net loss			$ (293,000)	

Sales and gross profit to customers by similar products and services for the three months ended December 31, 2010 and 2009 were as follows:

	For the Three Months Ended December 31, 2010 (Unaudited)	2009
By similar products and services:		
Revenues:		
Laser equipment and accessories	$ 256,000	$ 261,000
Delivery and disposable devices	673,000	690,000
Service and rental	706,000	703,000
Total	$1,635,000	$1,654,000

	2010	2009
Gross profit		
Laser equipment and accessories	$ 15,000	$ 15,000
Delivery and disposable devices	303,000	254,000
Service and rental	291,000	309,000
Total	$ 609,000	$ 578,000

Sales in foreign countries for the three months ended December 31, 2010 and 2009 accounted for approximately 23% and 18%, respectively, of the Company's total sales. The breakdown by geographic region is as follows:

	Three Months Ended December 31, 2010 (Unaudited)	Three Months Ended December 31, 2009
Asia	$ 276,000	$ 132,000
Europe	40,000	62,000
Latin America	44,000	14,000
Australia	11,000	89,000
Middle East	8,000	3,000
Other	--	2,000
	$ 379,000	$ 302,000

All long-lived assets were located in the United States during the three months ended December 31, 2010 and 2009 with the exception of one laser located in Canada. Total segment assets at December 31, 2010 and 2009 for the Products segment were $5,714,000 and $4,841,000, respectively, and for the Service and Rental segment were $1,547,000 and $1,663,000, 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.

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, 2010 contained in our 2010 Annual Report on Form 10-K.

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

OVERVIEW

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

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

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

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

The Company's Lasers and Fibers are also used in Urology to fragment stones in the Kidney, ureter or bladder. The Company's new VaporMAX(R) Side Firing Optical Fiber device is also used to vaporize a portion of the male prostate to treat benign prostate hyperplasia of "BPH", commonly referred to as an "enlarged prostate."

CRITICAL ACCOUNTING POLICIES

Revenue Recognition

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements require the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Our management periodically evaluates the estimates and judgments made. Management bases its estimates and judgments on historical experience and on various factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates as a result of different assumptions or conditions.

The methods, estimates, and judgment we use in applying our most critical accounting policies have a significant impact on the results we report in our financial statements. The SEC has defined "critical accounting policies" as those accounting policies that are most important to the portrayal of our financial condition and results, and require us to make our most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based upon this definition, our most critical estimates relate to the fair value of warrant liabilities. We also have other key accounting estimates and policies, but we believe that these other policies either do not generally require us to make estimates and judgments that are as difficult or as subjective, or it is less likely that they would have a material impact on our reported results of operations for a given period. For additional information see Note 2, "Summary of Significant Accounting Policies" in the notes to our reviewed financial statements appearing elsewhere in this quarterly report and our annual audited financial statements appearing on Form 10-K. Although we believe that our estimates and assumptions are reasonable, they are based upon information presently available, and actual results may differ significantly from these estimates.

RESULTS OF OPERATIONS

Method of Presentation

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

Quarter ended December 31, 2010 compared to quarter ended December 31, 2009

During the quarter ended December 31, 2010, net revenues were $1,635,000 as compared to $1,654,000 for the same period of the previous year, a $19,000 or 1.2% decrease. Net sales from lasers and accessories decreased by $5,000 or 1.9% to $256,000 during the three months ended December 31, 2010 from $261,000 in the same period of the prior year. Net sales from delivery and disposable devices decreased by $17,000 or 2.5% to $673,000 in the current quarter from $690,000 in the same quarter of the prior year. Net sales from service and rental increased by $3,000 or 0.4% to $706,000 from $703,000 for the same quarters.

Cost of sales during the quarter ended December 31, 2010 was 62.8% of net revenue as compared to 65.1% of net revenues for the prior year quarter. Gross profit from the sale of lasers and accessories was 5.9% as compared to 5.7% of net revenues for the prior year three-month period. Gross profit from the sale of delivery and disposable devices was 45.0% as compared to 36.8% for the prior year period. The increase in gross profit during the the current quarter ended December 31, 2010 was primarily due to cost reductions resulting from the reduction of manufacturing staff and less material scrapped due to increased efficiencies in manufacturing. Gross profit from revenue received from service and rentals was 41.2% in the current quarter, as compared to 43.9% for the prior three-month period. The reduction in gross profit for service and rentals was primarily due to periodic repairs and maintenance for the laser fleet and equipment utilized by MST.

Selling, general and administrative expenses increased in the current quarter to $707,000 from $629,000 in the prior year quarter, an increase of $78,000 or 12.4%. The increase in selling, general and administrative expenses was primarily the result of increases of $59,000 in legal expense and $41,000 in marketing expense, offset by decreases of $17,000 in commissions expense, and $9,000 in insurance expense.

Research and development expenditures for the quarter ended December 31, 2010, decreased $95,000 or 3.0% to $210,000 as compared to $305,000 in the quarter ended December 31, 2009. This decrease was a result the Company decreasing its product development efforts and staff as it completed the development of its new VaporMAX(TM) Side-Firing Device.

Other income, net decreased by $44,000 or 72.1% to $17,000 in the first quarter ended December 31, 2010 from $61,000 in the first quarter of the prior year, primarily due to a $49,000 reduction in royalty income received from Lumenis. Other income during the quarter ended December 31, 2010 primarily consisted of $19,000 of royalty income and $15,000 resulting from the change in fair market value of derivative liabilities, offset by $18,000 in interest expense. Other income during the quarter ended December 31, 2009 primarily consisted of $68,000 in royalty income offset by $10,000 in interest expense.

To avoid the cost and uncertainty of litigation, we settled the lawsuit filed against us and others by CardioFocus. We paid CardioFocus $175,000,entered into mutual releases and the lawsuit was dismissed. This settlement expense was accrued and included in other expense for the year ended September 30, 2010.

For the current quarter, the Company had a net loss of $293,000 or $0.02 per share, based on 18,365,960 basic weighted average number of common shares outstanding, as compared to net loss of $300,000, 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, 2010, the Company had working capital of $4,765,000 compared to $5,025,000 at the end of the fiscal year ended September 30, 2010. Cash decreased by $175,000 to $2,353,000 from $2,528,000 at the fiscal year ended September 30, 2010. During the three month period ended December 31, 2010, net cash used in operating activities was $108,000. Net cash used in investing activities was $12,000 for the purchase of equipment. Net cash used in financing activities during the same three month period was $55,000, which was the result of payments on debt incurred for the servicing of loans for equipment and certain insurance policies.

We are about to introduce a new line of Single Use optical fibers to supplement our line of Reusable optical fibers. These optical fibers are used with our Holmium lasers and Holmium lasers with compatible connectors made by others for the fragmentation of urinary stones in the kidney, ureter and bladder and biliary stones in the gall bladder. Many hospitals in the United States and other developed countries prefer having a new, sterile optical fiber for each stone case, rather than having to clean, clip and re-sterilize a reusable optical fiber after each case.

We are exploring various avenues to reduce our cost of manufacturing Lasers, expand the distribution of our products, particularly our new VaporMAX Side Firing Fiber and Single Use Optical Fibers, to increase our revenues and improve our profit margins. We are continuing to seek licensees of our patents and proprietary technologies. There is, of course, no assurance that these efforts will be successful.

We believe that existing cash flows are sufficient to fund operations through December 31, 2011; however, we have incurred losses from operations for the past three years. 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 may be required. If necessary, we will raise additional debt and/or equity capital, sell some of our assets, reduce our costs by eliminating certain personnel positions and reducing certain overhead costs in order to fund operations. There is no assurance that our efforts to do so will be successful.

OFF BALANCE SHEET ARRANGEMENTS

None.

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

ITEM 4. CONTROLS AND PROCEDURES

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

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

PART II Other Information

ITEM 1. Legal Proceedings

To avoid the cost and uncertainty of litigation, as of November 24, 2010, we settled the lawsuit filed against us and others by CardioFocus. We paid CardioFocus $175,000,entered into mutual releases and the lawsuit was dismissed. This settlement expense was accrued and included in other expense for the year ended September 30, 2010 and paid during the three months ended December 31, 2010.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
None

Item 3. Defaults Upon Senior Securities
None

Item 4. [Removed and Reserved]

Item 5. Other Information
None

Item 6. Exhibits

(a) Exhibits

31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for 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 18, 2011 /s/ Marvin P. Loeb

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Marvin P. Loeb
Chairman and
Chief Executive Officer

Date: February 18, 2011 /s/ Jeffrey S. Rudner
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Jeffrey S. Rudner
Principal Financial Officer