

TRIMEDYNE INC
Form 10-Q
February 19, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2012

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
(STATE OR OTHER JURISDICTION OF INCORPORATION)

36-3094439
(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

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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 ☒

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 ☒

As of February 14, 2013, there were outstanding 18,395,960 shares of registrant's Common Stock.

TRIMEDYNE, INC.

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TRIMEDYNE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

ASSETS

	December 31, 2012	September 30, 2012
Current assets:		
Cash and cash equivalents	\$441,000	\$472,000
Trade accounts receivable, net of allowance for doubtful accounts of \$11,000 at December 31, 2012 and September 30, 2012, respectively	627,000	493,000
Inventories	1,786,000	1,847,000
Other current assets	142,000	158,000
Total current assets	2,996,000	2,970,000
Property and equipment, net	708,000	751,000
Other	62,000	68,000
Goodwill	544,000	544,000
Total Assets	\$4,310,000	\$4,333,000

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$234,000	\$149,000
Accrued expenses	438,000	352,000
Deferred revenue	69,000	53,000
Accrued warranty	14,000	23,000
Income tax payable	2,000	—
Current portion of note payable and capital leases	21,000	68,000
Total current liabilities	778,000	645,000
Deferred rent	27,000	43,000
Total liabilities	805,000	688,000
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, 18,497,569 shares issued, 18,395,960 shares outstanding at December 31, 2012 and September 30, 2012, respectively	186,000	186,000

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Additional paid-in capital	51,299,000	51,295,000
Accumulated deficit	(47,267,000)	(47,123,000)
	4,218,000	4,358,000
Treasury stock, at cost (101,609 shares)	(713,000)	(713,000)
Total stockholders' equity	3,505,000	3,645,000
Total liabilities and stockholder's equity	\$4,310,000	\$4,333,000

See accompanying notes to condensed consolidated financial statements

TRIMEDYNE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	For the Three Months Ended December 31,	
	2012	2011
Net revenues	\$1,475,000	\$1,390,000
Cost of revenues	938,000	870,000
Gross profit	537,000	520,000
Operating expenses:		
Selling, general and administrative	573,000	658,000
Research and development	126,000	210,000
Total operating expenses	699,000	868,000
(Loss) from operations	(162,000)	(348,000)
Other income, net	20,000	63,000
(Loss) before income taxes	(142,000)	(285,000)
Provision for income taxes	2,000	—
Net (loss)	\$(144,000)	\$(285,000)
Net (loss) per share:		
Basic	\$(0.01)	\$(0.02)
Diluted	\$(0.01)	\$(0.02)
Weighted average number of shares outstanding:		
Basic	18,395,960	18,395,960
Diluted	18,395,960	18,395,960

See accompanying notes to condensed consolidated financial statements

TRIMEDYNE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Three Months Ended December 31,	
	2012	2011
Cash flows from operating activities:		
Net loss	\$(144,000)	(285,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	4,000	12,000
Depreciation and amortization	70,000	76,000
Changes in operating assets and liabilities:		
Trade accounts receivable	(134,000)	94,000
Inventories	61,000	(158,000)
Other assets	22,000	(1,000)
Accounts payable	85,000	(59,000)
Accrued expenses	86,000	16,000
Accrued interest to related party	—	(1,000)
Income tax payable	2,000	—
Deferred revenue	16,000	(19,000)
Accrued warranty	(9,000)	(13,000)
Deferred rent	(16,000)	(14,000)
Net cash provided by (used in) operating activities	43,000	(352,000)
Cash flows from investing activities:		
Purchase of property and equipment	(27,000)	—
Net cash used in investing activities	(27,000)	—
Cash flows from financing activities:		
Principal payments on notes to related party	—	(31,000)
Principal payments on notes payable and capital leases	(47,000)	(62,000)
Net cash used in financing activities	(47,000)	(93,000)
Net decrease in cash and cash equivalents	(31,000)	(445,000)
Cash and cash equivalents at beginning of period	472,000	1,151,000
Cash and cash equivalents at end of period	\$441,000	\$706,000

Supplemental disclosure of cash flow information:

No cash was paid for income taxes during the three months ended December 31, 2012 and 2011. Cash paid for interest during the three months ended December 31, 2012 and 2011 was approximately \$1,000 and \$4,000, respectively.

See accompanying notes to condensed consolidated financial statements

TRIMEDYNE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012

(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.

Going Concern

At December 31, 2012, the Company had working capital of \$2,218,000 compared to \$2,325,000 at the end of the fiscal year ended September 30, 2012. Cash decreased by \$31,000 to \$441,000 from \$472,000 during three months ended December 31, 2012. During January 2013, we received \$166,304 from our insurance carrier due to its acquisition from another party (see "Subsequent Events" Note 5). As of February 14, 2013, we had cash on hand of \$569,000. We intend to fund operations with cash on hand and from operations, however, additional working capital in the next 12 months will be required based upon our current expenditure rate. We expect current funds available will allow us to operate through May 31, 2013. We will require additional working capital to meet our obligations as they become due after such date. These factors raise substantial doubt about the Company's ability to continue as a going concern.

We will attempt to raise additional debt and/or equity capital, sell some of our assets, reduce our costs by eliminating certain personnel positions and continue to reduce certain overhead costs in order to reduce our consumption levels. During the quarter ended December 31, 2012, the lease for the facility at Lake Forest, California was amended resulting in a savings of \$48,000 in rent expense through May 31, 2013; however, there are no assurances that our additional efforts to complete some or a combination of the above actions necessary will be successful.

During the three months December 30, 2011, we received purchase orders for future delivery of 19 lasers and shipped nine (9) of these lasers during fiscal 2012. During the period ended December 31, 2012, we shipped one (1) laser relating to the above purchase order. We expect to ship more of the lasers relating to the above purchase orders during the current fiscal year ending September 30, 2013. Subsequently, in January of 2013, we received an additional purchase order for future delivery of two (2) 80 watt Lasers.

The Company is currently pursuing market development efforts in growth markets in Pacific Rim countries, Latin America and Eastern Europe. We believe that by expanding healthcare infrastructure in these markets we will create a sustained demand for Holmium Lasers applied to Spinal Endoscopy, Laser Lithotripsy and Laser prostate ablation. Additionally, we expect the global trend toward single-use disposable laser delivery products will improve sales and profit margins as more hospitals convert from multi-use products, due to concerns for sterility, and interests to reduce handling costs incurred in product sterilization and we are developing more single-use products.

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, 2012 and the results of its operations and its cash flows for the three months ended December 31, 2012 and 2011. Results for the three months ended December 31, 2012 are not necessarily indicative of the results to be expected for the year ending September 30, 2013.

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, as well as the valuation of certain derivatives and equity compensation.

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 2012 annual report on Form 10-K for the year ended September 30, 2012.

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. On October 10, 2011, the Board of Directors approved the exchange of 171,000 out-of-money, fully-vested stock options, to certain employees, for an equal number of stock options at the current market price on that date of \$0.13 per option. As a result of the modification, the Company recorded an additional expense of \$9,000 during the three months ended December 31, 2011.

As of December 31, 2012, there was approximately \$16,000 of total unrecognized compensation cost, net of estimated expected forfeitures, related to employee and director stock option compensation arrangements. This unrecognized cost is expected to be recognized on a straight-line basis over the next 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, 2012 and 2011, which was allocated as follows:

	Three Months Ended December 31,	
	2012	December 31, 2011
Stock-based compensation included in:		
Cost of revenues	\$ 1,000	\$ 1,000
Research and development expenses	\$—	\$ 1,000
Selling, general, and administrative expenses	\$ 3,000	\$ 10,000

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, 2012 and 2011, outstanding options of 997,650 and 1,164,379, respectively, were excluded from the diluted net loss per share as the effects would have been anti-dilutive. In addition, the exercise prices of these options were in excess of the average closing price of the Company's common stock for the years ended December 31, 2012 and 2011.

NOTE 2 - Composition of Certain Balance Sheet Captions

Inventories, net of reserves, consist of the following:

	December 31, 2012	September 30, 2012
Raw materials	\$602,000	\$711,000
Work-in-process	318,000	239,000
Finished goods	866,000	897,000
	\$1,786,000	\$1,847,000

For the three months ended December 31, 2012 and 2011, 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, 2012	September 30, 2012
Royalty receivable	\$ 17,000	\$ 32,000
Prepaid insurance	49,000	68,000
Prepaid income tax	3,000	5,000
Prepaid rent	28,000	28,000
Short-term deposits	8,000	8,000
Other	37,000	17,000
Total other current assets	\$ 142,000	\$ 158,000

Property and equipment consist of the following:

	December 31, 2012	September 30, 2012
Furniture and equipment	\$3,903,000	\$3,771,000
Leasehold improvements	643,000	643,000
Other	290,000	268,000
	4,836,000	4,682,000
Less accumulated depreciation and amortization	(4,128,000)	(3,931,000)

Total property and equipment	\$708,000	\$751,000
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Accrued expenses consist of the following:

	December 31, 2012	September 30, 2012
Accrued vacation	\$170,000	\$166,000
Accrued salaries and wages	108,000	45,000
Accrued bonus	9,000	28,000
Sales and use tax	62,000	56,000
Customer deposits	2,000	—
Accrued commissions	39,000	35,000
Other	48,000	22,000
Total accrued expenses	\$438,000	\$352,000

NOTE 3 - 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 is currently a co-defendant in one product liability lawsuit. The case, filed on behalf of Paula Tsakonas, plaintiff, in the Circuit Court of Cook County, Illinois on February 23, 2011, relates to injuries that occurred in connection to a medical procedure in which the Company's laser was used and names Spiros G. Stamelos, MD, Stamelos Bros., LTD., an Illinois Corporation, doing business as Advanced Orthopaedic Associates, Lakeshore Surgery Center, LLC, an Illinois corporation and Trimedyne, Inc. as defendants. The case is currently in litigation. The Company has insurance to cover product liability claims. This insurance provides the Company with \$5,000,000 of coverage for each occurrence with a general aggregate of \$5,000,000. Trimedyne's liability is limited to a maximum of \$25,000 per occurrence unless the judgment against the Company exceeds the insurance coverage. In such case, Trimedyne would be liable for any liability in excess of \$5,000,000. Management had recorded a loss contingency for this claim in the amount of \$25,000 based on the deductible under the insurance policy, of which \$0 remained as of December 31, 2012 and September 30, 2012. Management is not accruing any additional provision for this claim, as it is not expected that this claim will exceed the limits of the insurance coverage.

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 4 - 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, 2012 and 2011 are as follows:

	For the Three Months Ended December 31, 2012			For the Three Months Ended December 31, 2011		
	Products	Service and Rental	Total	Products	Service and Rental	Total
Revenue	\$722,000	\$753,000	\$1,475,000	\$776,000	\$614,000	\$1,390,000
Cost of sales	434,000	504,000	938,000	491,000	379,000	870,000
Gross profit	288,000	249,000	537,000	285,000	235,000	520,000
Expenses:						
Selling, general and administrative	407,000	166,000	573,000	488,000	170,000	658,000
Research and development	126,000	—	126,000	210,000	—	210,000
Income (loss) from operations	\$(245,000)	\$83,000	(162,000)	\$(413,000)	\$65,000	(348,000)
Other:						
Interest expense			(1,000)			(4,000)
Royalty income			17,000			31,000
Other income			4,000			36,000
Provision for income tax			2,000			—
Net loss			\$(144,000)			\$(285,000)

Sales and gross profit to customers by similar products and services for the three months ended December 31, 2012 and 2011 were as follows:

For the Three Months
Ended
December 31,

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	2012	2011
By similar products and services:		
Revenues:		
Laser equipment and accessories	\$48,000	\$102,000
Delivery and disposable devices	674,000	674,000
Service and rental	753,000	614,000
Total	\$1,475,000	\$1,390,000
Gross profit		
Laser equipment and accessories	\$(12,000)	\$(21,000)
Delivery and disposable devices	300,000	306,000
Service and rental	249,000	235,000
Total	\$537,000	\$520,000

Sales in foreign countries for the three months ended December 31, 2012 and 2011 accounted for approximately 9.3% and 25.5%, respectively, of the Company's total sales. The breakdown by geographic region is as follows:

	Three Months Ended December 31,	
	2012	2011
Asia	\$63,000	\$127,000
Europe	27,000	89,000
Latin America	47,000	99,000
Australia	—	39,000
	\$137,000	\$354,000

The Company had three Lasers, of which one each was located in Brazil, Canada and India during the period ended December 31, 2012. During the three months ended December 31, 2011, one laser was located in Canada. Total segment assets at December 31, 2012 and 2011 for the Products segment were \$2,560,000 and \$3,448,000, respectively, and for the Service and Rental segment were \$1,729,000 and \$1,791,000, respectively. The \$888,000 difference between total segment assets for the product segment for the current year quarter as compared to the prior year quarter was primarily the result of a \$534,000 reduction in inventory from the prior year. 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.

NOTE 5 - SUBSEQUENT EVENTS

On January 15, 2013 the Company received \$166,305 from our liability insurance company, MedMarc Insurance Group, as cash consideration to its eligible members resulting from its acquisition by Pro Assurance Corporation in exchange for extinguishing all membership interests.

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, 2012, contained in our 2012 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

Trimeddyne, 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 VaporMAX(R) Side Firing Optical Fiber device is also used to vaporize a portion of the male prostate which is used with the Company's Lasers in the treatment of benign prostate hyperplasia or "BPH", commonly referred to as an "enlarged prostate."

CRITICAL ACCOUNTING POLICIES

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 Trimeddyne, Inc., its wholly owned subsidiary Mobile Surgical Technologies, Inc. ("MST") and its 90% owned subsidiary, Cardiodyne.

Quarter Ended December 31, 2012 Compared to Quarter Ended December 31, 2011

During the quarter ended December 31, 2012, net revenues were \$1,475,000 as compared to \$1,390,000 for the same period of the previous year, a \$85,000 or 6% increase. Net sales from Lasers and accessories decreased by \$54,000 or 53% to \$48,000 during the three months ended December 31, 2012 from \$102,000 in the same period of the prior year. The decrease in laser revenues was due to one laser being sold in the current quarter while three were sold in the

comparable prior period. Net sales from delivery and disposable devices remained unchanged at \$674,000 in the current quarter from the same quarter of the prior year. Net sales from service and rental increased by \$139,000, or 23%, to \$753,000 from \$614,000 for the same quarters. The increase was primarily due to an increase in total fee-per-case revenues provided by MST resulting from an increase in procedures involving prostate ablation.

Cost of sales during the quarter ended December 31, 2012 was 63.6% of net revenue as compared to 62.6% of net revenues for the prior year quarter. Gross profit from the sale of lasers and accessories was (24.5)% as compared to (21.2%) of net revenues for the prior year three-month period. The decrease in gross profit from the sale of Lasers in the current period as compared to the prior period was primarily due the sale of a previously reserved laser during the prior period ended December 31, 2011. Gross profit from the sale of delivery and disposable devices was 45.0% for the current three-month period and the same period for the prior year. Gross profit from revenue received from service and rentals was 33.1% in the current quarter, as compared to 38.3% for the prior three-month period. The decrease in gross profit as a percentage of sales from service and revenue as compared to the prior year period was primarily due to an increase in periodic maintenance costs for MST's Laser fleet during the current year period.

Selling, general and administrative expenses decreased in the current quarter to \$573,000 from \$658,000 in the prior year quarter, a decrease of \$85,000 or 13%. The decrease in selling, general and administrative expenses was primarily the result of decreases of \$38,000 in marketing expense, \$17,000 in outside services, \$16,000 in employee health insurance expense, \$10,000 in commissions expense, \$8,000 in rent expense, \$6,000 in recruiting expense, and \$5,000 in professional fees, offset by an increase of \$16,000 in payroll related expenses. The overall decrease during the current period was the result of the Company's continuing efforts to reduce its overhead expenses.

Research and development expenditures decreased to \$126,000 or 40% for the quarter ended December 31, 2012, as compared \$210,000 for the quarter ended December 31, 2011. The decrease was primarily due to the reduction of staff. During the period ended December 31, 2012, R&D activities consisted of producing samples and documentation for interstitial fiber optic delivery systems, expanding the existing line of single use and reusable bare fibers, optimizing label production and inspection for existing products, and updating risk management files in compliance with current international standards.

Other income, net decreased by \$43,000 or 68% to \$20,000 in the first quarter ended December 31, 2012 from \$63,000 in the first quarter of the prior year. Other income during the quarter ended December 31, 2012 primarily consisted of \$17,000 of royalty income from Lumenis. The decrease of other income during the current year quarter as compared to the prior quarter was primarily the result of a decrease in royalties from Lumenis of \$14,000 and the Company's receipt of an insurance settlement of \$35,000 during the prior year period ended December 31, 2011.

For the current quarter, the Company had a net loss of \$144,000, or \$0.01 per share, as compared to net loss of \$285,000, or \$0.02 per share during the same period of the prior year, based on 18,395,960 basic weighted average number of common shares outstanding.

Liquidity and Capital

At December 31, 2012, the Company had working capital of \$2,218,000 compared to \$2,325,000 at the end of the fiscal year ended September 30, 2012. Cash decreased by \$31,000 to \$441,000 from \$472,000 during three months ended December 31, 2012. During January 2013, we received \$166,304 from our insurance carrier due to its acquisition from another party (see "Subsequent Events" Note 5). As of February 14, 2013, we had cash on hand of \$569,000. We intend to fund operations with cash on hand and from operations, however, additional working capital in the next 12 months will be required based upon our current expenditure rate. We expect current funds available will allow us to operate through May 31, 2013. We will require additional working capital to meet our obligations as they become due after such date. These factors raise substantial doubt about the Company's ability to continue as a going concern.

We will attempt to raise additional debt and/or equity capital, sell some of our assets, reduce our costs by eliminating certain personnel positions and continue to reduce certain overhead costs in order to reduce our consumption levels. During the quarter ended December 31, 2012, the lease for the facility at Lake Forest, California was amended resulting in a savings of \$48,000 in rent expense through May 31, 2013; however, there are no assurances that our additional efforts to complete some or a combination of the above actions necessary will be successful.

During the three months December 30, 2011, we received purchase orders for future delivery of 19 lasers and shipped nine (9) of these lasers during fiscal 2012. During the period ended December 31, 2012, we shipped one (1) laser relating to the above purchase order. We expect to ship more of the lasers relating to the above purchase orders during the current fiscal year ending September 30, 2013. Subsequently, in January of 2013, we received an additional purchase order for future delivery of two (2) 80 watt Lasers.

The Company is currently pursuing market development efforts in growth markets in Pacific Rim countries, Latin America and Eastern Europe. We believe that by expanding healthcare infrastructure in these markets we will create a sustained demand for Holmium Lasers applied to Spinal Endoscopy, Laser Lithotripsy and Laser prostate ablation. Additionally, we expect the global trend toward single-use disposable laser delivery products will improve sales and profit margins as more hospitals convert from multi-use products, due to concerns for sterility, and interests to reduce handling costs incurred in product sterilization and we are developing more single-use products.

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. During the period covered by this report, there have been changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. These changes were the remediation of the material weaknesses identified in Part II, Item 9, of our Annual Report on Form 10-K for the fiscal year ended September 30, 2012.

PART II Other Information

Item 1. Legal Proceedings

None

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

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- 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
- 101.INS XBRL Instance document
- 101.SCH XBRL Schema
- 101.CAL XBRL Calculation Linkbase
- 101.DEF XBRL Definition Linkbase
- 101.LAB XBRL Label Linkbase
- 101.PRE XBRL Presentation Linkbase

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, 2013 By: s/ Marvin P. Loeb
Marvin P. Loeb
Chairman and Chief Executive Officer

TRIMEDYNE, INC.

Date: February 18, 2013 By: s/ Jeffrey S. Rudner
Jeffrey S. Rudner
Principal Financial Officer