

TROY GROUP INC  
Form 10-Q  
April 11, 2002

[QuickLinks](#) -- Click here to rapidly navigate through this document

---

---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

---

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended February 28, 2002.

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 Number: 000-24413

---

**TROY GROUP, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**33-0807798**

(I.R.S. Employer Identification No.)

**2331 South Pullman Street  
Santa Ana, California**

(Address of principal executive offices)

**92705**

(Zip code)

**(949) 250-3280**

(Registrant's telephone number, including area code)

---

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

As of March 29, 2002, there were 10,962,157 shares of our common stock outstanding.

---

---

---

**TROY GROUP, INC.**  
**Quarterly Report on Form 10-Q for the**  
**Quarterly Period Ended February 28, 2002**

**INDEX**

		<b>Page No.</b>
<hr/>		
<b>PART I:</b>	<b>FINANCIAL INFORMATION</b>	
Item 1.	Financial Statements	
	Consolidated Balance Sheets February 28, 2002 and November 30, 2001	3
	Consolidated Statements of Operations for the Three Months ended February 28, 2002 and February 28, 2001	4
	Consolidated Statements of Cash Flows for the Three Months ended February 28, 2002 and February 28, 2001	5
	Notes to Consolidated Financial Statements	6-9
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	10
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	14
<b>PART II:</b>	<b>OTHER INFORMATION</b>	
Item 1.	Legal Proceedings	15
Item 2.	Changes in Securities and Use of Proceeds	15
Item 3.	Defaults Upon Senior Securities	15
Item 4.	Submission of Matters to a Vote of Security Holders	15
Item 5.	Other Information	15
Item 6.	Exhibits and Reports on Form 8-K	15

**PART I: FINANCIAL INFORMATION**

**ITEM 1 FINANCIAL STATEMENTS**

**TROY GROUP, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**(in thousands, except share amounts)**

February 28,  
2002

November 30,  
2001

Edgar Filing: TROY GROUP INC - Form 10-Q

	February 28, 2002	November 30, 2001
	(Unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 3,680	\$ 1,874
Investment in available-for-sale securities	3,488	5,181
Accounts receivable, less allowance for doubtful accounts of \$1,124 and \$1,130, respectively	9,155	9,713
Income tax refund receivable	1,133	1,059
Inventories	9,445	9,251
Prepaid expenses and other	380	358
Deferred tax assets	2,480	2,480
	<u>29,761</u>	<u>29,916</u>
Equipment and leasehold improvements, net	2,427	2,529
Other assets	5,219	5,226
	<u>37,407</u>	<u>37,671</u>
<b>Total assets</b>	<b>\$ 37,407</b>	<b>\$ 37,671</b>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Checks issued not yet presented for payment	\$ 1,707	\$ 664
Current portion of long-term debt	59	70
Accounts payable	2,863	4,418
Accrued expenses	2,531	2,456
Deferred service revenue	1,270	1,138
	<u>8,430</u>	<u>8,746</u>
<b>Total current liabilities</b>	<b>8,430</b>	<b>8,746</b>
Long-term debt, net of current portion	187	193
Stockholders' equity:		
Preferred stock, no par value, authorized 5,000,000 shares, issued none		
Common stock, par value \$.01 per share; authorized 50,000,000 shares, issued and outstanding 2002 10,962,157 shares; and 2001 10,921,032 shares	110	109
Additional paid-in capital	21,084	20,966
Retained earnings	8,771	8,753
	<u>29,965</u>	<u>29,828</u>
Less cost of treasury stock 320,565 common shares in 2002 and 295,320 in 2001	1,175	1,096
	<u>28,790</u>	<u>28,732</u>
<b>Total stockholders' equity</b>	<b>28,790</b>	<b>28,732</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 37,407</b>	<b>\$ 37,671</b>

See Notes to Consolidated Financial Statements.

**TROY GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited)  
(in thousands, except per share amounts)

	Three Months Ended	
	February 28, 2002	February 28, 2001
Net sales	\$ 13,571	\$ 11,309
Cost of goods sold	7,774	6,856
<b>Gross profit</b>	<b>5,797</b>	<b>4,453</b>
Operating expenses:		
Selling, general and administrative	3,779	4,016
Research and development	1,881	1,298
Amortization of intangible assets	130	320
<b>Operating income (loss)</b>	<b>7</b>	<b>(1,181)</b>
Interest income	44	210
Interest expense	(29)	(19)
<b>Income (loss) before income taxes (credits)</b>	<b>22</b>	<b>(990)</b>
Provision for income taxes (credits)	4	(405)
<b>Net income (loss)</b>	<b>\$ 18</b>	<b>\$ (585)</b>
Net income (loss) per share:		
Basic	\$	\$ (.05)
Diluted	\$	\$ (.05)
Weighted-average shares outstanding:		
Basic	10,646	10,921
Diluted	10,705	10,921

See Notes to Consolidated Financial Statements.

**TROY GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)  
(in thousands)

Three Months Ended

Edgar Filing: TROY GROUP INC - Form 10-Q

	February 28, 2002	February 28, 2001
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 18	\$ (585)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	321	510
Provision (recovery) for doubtful accounts	(5)	
Deferred taxes		(29)
Accretion of investment discounts	(30)	(140)
Changes in working capital components, net of effects from acquisition of companies		
(Increase) decrease in:		
Accounts receivable	563	912
Income tax refund receivable	(74)	(512)
Inventories	(193)	(1,864)
Prepaid expenses and other	(21)	(10)
Increase (decrease) in:		
Accounts payable	(551)	1,781
Accrued expenses	(932)	(303)
Deferred service revenue	132	73
	<u>(772)</u>	<u>(167)</u>
<b>Net cash used in operating activities</b>		
<b>Cash flows from investing activities:</b>		
Purchase of equipment and leasehold improvements	(90)	(321)
Purchase of available-for-sale securities	(1,449)	(3,985)
Maturities of available-for-sale securities	3,172	2,642
Increase in other assets, net	(123)	(58)
	<u>1,510</u>	<u>(1,722)</u>
<b>Net cash provided by (used in) investing activities</b>		
<b>Cash flows from financing activities:</b>		
Net borrowings on revolving line of credit		246
Payments on notes payable	(17)	(17)
Increase (decrease) in checks issued not presented for payment	1,043	(588)
Proceeds from issuance of common stock	121	158
Purchase of treasury stock	(79)	
	<u>1,068</u>	<u>(201)</u>
<b>Net cash provided by (used in) financing activities</b>		
Net increase (decrease) in cash and cash equivalents	1,806	(2,090)
Cash and cash equivalents, beginning of period	1,874	2,090
	<u>\$ 3,680</u>	<u>\$</u>
<b>Cash and cash equivalents, end of period</b>		

See Notes to Consolidated Financial Statements.

**TROY GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(unaudited)

**Note 1. Basis of Presentation**

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and adjustments) considered necessary for a fair presentation have been included. Operating results for the three months ended February 28, 2002 are not necessarily indicative of the results that may be expected for the year ended November 30, 2002. For further information, refer to the financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for its fiscal year ended November 30, 2001 (File No. 000-24413).

**Note 2. Inventories**

Inventories consisted of the following as of February 28, 2002 and November 30, 2001 (amounts in thousands):

	February 28, 2002	November 30, 2001
Raw materials	\$ 5,323	\$ 6,997
Work-in-process	1,036	455
Finished goods	4,838	4,306
Reserve for slow moving and obsolete inventories	(1,752)	(2,507)
<b>Total</b>	<b>\$ 9,445</b>	<b>\$ 9,251</b>

**Note 3. Investment in Available-for-sale Securities**

As of February 28, 2002, the Company had approximately \$3.5 million in corporate debt securities with contractual maturity dates of up to one year, which management has determined should be classified as available-for-sale. Market values approximated carrying values. Accordingly, no unrealized gains or losses were recorded at February 28, 2002. There were no gains or loss recognized for the three months ended February 28, 2002 or February 28, 2001.

**Note 4. Stock Option and Stock Warrant Plans**

During the three months ended February 28, 2002, the Company granted options to employees to acquire 210,000 shares of common stock at a weighted-average exercise price of \$4.30 per share and 271,000 options were forfeited at a weighted-average exercise price of \$6.64 per share. The following is a summary of total outstanding options and stock warrants at February 28, 2002:

Range of Exercise Prices	Options and Warrants Outstanding			Options and Warrants Exercisable	
	Number of Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life	Number of Options	Weighted- Average Exercise Price
\$ 2.94 4.51	882,666	\$ 3.91	7.9 years	196,385	\$ 3.60
\$ 6.31 8.75	1,017,000	\$ 7.25	7.6 years	608,250	\$ 7.01
\$ 13.16 14.25	25,000	\$ 13.38	7.8 years		
	<b>1,924,666</b>			<b>804,635</b>	

Options and Warrants Outstanding

Options and Warrants Exercisable

6

At February 28, 2002, there were 907,000 shares remaining available for grant under the Company's option plans.

**Note 5. Net Income Per Share**

The following table sets forth the computation of basic and diluted net income per share:

	Three months ended	
	February 28, 2002	February 28, 2001
(amounts in thousands, except per share data)		
Numerator for basic and diluted net income per share:		
Net income (loss)	\$ 18	\$ (585)
Denominator:		
Denominator for basic net income (loss) per share	weighted-average shares	
outstanding	10,646	10,921
Effect of employee stock options and warrants	59	
Denominator for diluted net income (loss) per share	10,705	10,921
Net income (loss) per share:		
Basic	\$	\$ (0.05)
Diluted	\$	\$ (0.05)

**Note 6. Business Combination**

*Extended Systems Incorporated*

On May 31, 2001, the Company acquired certain assets and assumed certain liabilities of Extended Systems Incorporated, a print server manufacturer, in exchange for \$1,672,000 in cash and \$504,000 in direct expenses. The total acquisition cost was \$2,051,000 and was allocated as follows:

Inventories	\$ 1,600,000
Equipment	46,000
Goodwill	530,000
Current liabilities assumed	(125,000)
	\$ 2,051,000

## Edgar Filing: TROY GROUP INC - Form 10-Q

The acquisition has been accounted for as a purchase. Since the acquisition occurred on the last day of the second quarter of FY 2001, no results of operations for Extended Systems Incorporated are included in the Company's consolidated financial statements for the three months ended February 28, 2001.

7

### Unaudited pro forma information

Unaudited pro forma consolidated results of operations for the three months ended February 28 2001 as though Extended Systems Incorporated had been acquired as of December 1, 2000 are as follows (amounts in thousands, except per share data):

	<b>Three Months Ended February 28, 2001</b>	
Sales	\$	15,323
Pro forma net loss	\$	(579)
Pro forma net loss per share:		
Basic	\$	(.05)
Diluted	\$	(.05)

The above amounts reflect pro forma adjustments for amortization of intangibles and number of shares outstanding. This pro forma financial information does not purport to be indicative of the results of operations had the Extended Systems Incorporated acquisition actually taken place at the earlier date.

### Note 7. Segment Information

The following tables summarize revenues and net income (loss) by operating segment and unallocated corporate for the three months ended February 28, 2002 and February 28, 2001:

	<b>Three months ended</b>	
	<b>February 28, 2002</b>	<b>February 28, 2001</b>
(amounts in thousands)		
Revenues:		
Troy Systems	\$ 10,391	\$ 9,604
Troy Wireless	3,256	1,758
Less intersegment revenue	(76)	(53)
	\$ 13,571	\$ 11,309
Net income (loss):		
Troy Systems	\$ 1,475	\$ 638
Troy Wireless	(739)	(547)
Unallocated Corporate	(717)	(676)



Three months ended	
\$ 18	\$ (585)

8

Certain reclassifications have been made to the February 28, 2001 segment information to conform to the February 28, 2002 presentation.

	February 28, 2002	November 30, 2001
Segment Assets:		
Troy Systems	\$ 12,967	\$ 13,395
Troy Wireless	10,052	10,259
Unallocated Corporate	29,573	29,327
	\$ 52,592	\$ 52,981

The following schedule is presented to reconcile February 28, 2002 and November 30, 2001 segment assets to the amounts reported in the Company's consolidated financial statements (amounts in thousands).

	February 28, 2002	November 30, 2001
Total Assets of Reportable Segments	\$ 52,592	\$ 52,981
Intersegment Receivables	(14,803)	(14,928)
Investment in Subsidiaries	(382)	(382)
	\$ 37,407	\$ 37,671

**Note 8. Cash Flow Information**

Supplemental disclosure of cash flow information

	Three months ended	
	February 28, 2002	February 28, 2001
	(amounts in thousands)	
Cash paid during the period for:		
Interest	\$ 29	\$ 18
Income taxes	\$ 3	\$ 35

9

## Edgar Filing: TROY GROUP INC - Form 10-Q

The following discussion and analysis should be read in conjunction with our Consolidated Financial Statements and related Notes included in this report. This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform act of 1995. The statements contained in this report that are not historical in nature, particularly those that utilize terminology such as "may," "will," "should," "expects," "anticipates," "estimates," "believes" or "plans," or comparable terminology, are forward-looking statements based on current expectations and assumptions.

Various risks and uncertainties could cause actual results to differ materially from those expressed in forward-looking statements. These risks and uncertainties include the growth in acceptance of TROY's electronic payment solutions by online brokerage firms, e-merchants and other bill payment applications; the timely and successful development and integration of the Bluetooth and other wireless standards; the market acceptance of products incorporating wireless printing technologies; the ability to continue to develop and market other e-commerce payment, networked payment and wireless and other connectivity technologies; TROY's ability to refocus its management and resources on these emerging technologies; the ability to hire and retain qualified management, technology and other personnel; the impact of competition from existing and new technologies and companies; the ability to identify and assimilate acquired companies and technologies; the continued demand for printed financial documents; and other factors.

We own or have rights to trademarks that we use in connection with the sale of our products. TROY®, eCheck Secure , PrintraNet , TROYmark , StarACH , Etherwind , Windconnect , Windport , EtherSync , Exact MICR Technology (ExMT ) and Exact Positioning Technology (ExPT ) are among the trademarks that we own. This report also makes reference to trademarks and trade names of other companies.

### Background

TROY Group, Inc. is a leading worldwide provider of enterprise output solutions. For the past three years we have been expanding beyond our core business in digital check printing systems and related consumables by developing electronic payment systems and wired and wireless networking solutions. Most of this new product expansion was accomplished through the acquisition and further investment in five small technology companies. These acquisitions have been organized under two primary business segments: TROY Systems and TROY Wireless.

TROY Systems provides state-of-the-art payment systems ranging from high security digital check printing systems to electronic payment and funds transfer solutions. Our systems are used to transfer monies between bank accounts using paper checks or electronic ACH (Automated Clearing House) processes. Our products provide our customers with payment solutions that offer security, speed, flexibility and efficiency. Ameritrade, Inc., AT&T Corporation, Bank of America Corporation, Eastman Kodak Company, Farmers Group, Inc. (Farmers Insurance), Fidelity Investments, Ford Motor Company, IBM, Manpower Inc., Morgan Stanley Dean Witter & Co., CSFBdirect, Track Data, Mr. Stock, Wal-Mart Stores, Inc., Wells Fargo & Company, Comerica Bank, Red Cross, G.E. Capital Ireland and Ford Credit Europe are among the TROY customers that purchased products during the last 12 months.

TROY Wireless provides hardware and software solutions that enable enterprises to share intelligent devices like printers either wirelessly or using traditional networks. We have been a premiere supplier of hardwired network printing solutions since 1991. Our wireless products allow a wide range of devices to exchange information via *Bluetooth* and 802.11b short-range radio connections. Brother Industries, Ltd., Sony Corporation, Seiko Epson Corporation and DaimlerChrysler AG are among the TROY Wireless customers that have purchased products during the last 12 months.

10

---

We serve a wide variety of industries including financial services, insurance, telecommunications, computer hardware, automotive, personnel, government and others. We distribute our solutions around the world and market our products through a direct sales force and a network of distributors and value-added resellers. More than 5,000 active customers purchase our products and services.

### Overview

Net sales are generated from the sale of our wireless technology, electronic payment solutions and services and our products and services related to specialized printer applications. We recognize revenue from the sale of our products when the goods are shipped to the customer and we recognize maintenance revenue over the period of the contract on a straight-line basis. We recognize revenue from the sale of software licenses upon receipt of an executed sales agreement and shipment to the customer, provided there are no significant obligations, except for one agreement which requires the revenue to be recognized on a per unit basis. All sales are made through purchase orders.

### Results of Operations

## Edgar Filing: TROY GROUP INC - Form 10-Q

The following table sets forth, for the periods indicated, certain information derived from our consolidated statements of operations expressed as a percentage of net sales:

	Three Months Ended	
	February 28, 2002	February 28, 2001
Net sales	100.0%	100.0%
Cost of goods sold	57.3	60.6
<b>Gross Profit</b>	<b>42.7</b>	<b>39.4</b>
Selling, general and administrative expenses	27.8	35.5
Research and development expenses	13.9	11.5
Amortization of intangible assets	1.0	2.8
<b>Operating income (loss)</b>	<b>(0.2)</b>	<b>(10.4)</b>
Interest income	0.3	1.8
Interest expense	(0.2)	(0.2)
<b>Income (loss) before income taxes (credits)</b>	<b>0.1</b>	<b>(8.8)</b>
Provision for income taxes (credits)	(0.1)	(3.6)
<b>Net income (loss)</b>	<b>0.1%</b>	<b>(5.2)%</b>

### Three Months Ended February 28, 2002 Compared to Three Months Ended February 28, 2001

*Net Sales.* Our net sales were \$13.6 million for the three months ended February 28, 2002, with \$10.4 million attributable to Troy Systems and \$3.2 million attributable to Troy Wireless. Net sales in the three months ended February 28, 2002 increased by \$2.3 million, or 20%, from \$11.3 million in the three months ended February 28, 2001. This increase in net sales represents a \$0.7 million increase in sales of our laser printers, proprietary imaging supplies, services, and electronic payment solutions, and an increase of \$1.5 million in sales of our wireless and connectivity products, primarily due to the acquisition of certain assets of Extended Systems, Inc. Net sales were not significantly affected by price changes. We anticipate that net sales from the wired connectivity products will decline as these products are at or approaching end of life.

*Cost of Goods Sold.* Cost of goods sold increased by \$0.9 million or 13.4% to \$7.8 million in the three months ended February 28, 2002 from \$6.9 million in the three months ended February 28, 2001. This increase was primarily due to increased net sales. Cost of goods sold as a percentage of net sales

decreased to 57.3% in the three months ended February 28, 2002 from 60.6% in the three months ended February 28, 2001, primarily due to cost reductions and a shift in mix to higher margin products.

*Gross Profit.* As a result of the above factors, gross profit increased by \$1.3 million to \$5.8 million in the three months ended February 28, 2002 from \$4.5 million in the three months ended February 28, 2001. Gross profit as a percentage of net sales increased to 42.7% in the three months ended February 28, 2002 from 39.4% in the three months ended February 28, 2001.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses decreased by \$200,000 or 5.9% to \$3.8 million in the three months ended February 28, 2002 from \$4.0 million in the three months ended February 28, 2001. This decrease was due primarily to cost reduction efforts in Troy Systems which have resulted in lower administrative expenses, partially offset by increased selling and marketing expenses in Troy Wireless. Selling, general and administrative expenses as a percentage of net sales decreased to 27.8% in the three months ended February 28, 2002 from 35.5% in the three months ended February 28, 2001.

## Edgar Filing: TROY GROUP INC - Form 10-Q

*Research and Development Expenses.* Research and development expenses increased by \$600,000 or 44.9% to \$1.9 million in the three months ended February 28, 2002 from \$1.3 million in the three months ended February 28, 2001. Of this increase, approximately \$300,000 was due to development expenses for our electronic payment solutions and \$300,000 was due to development for our wireless products. The total research and development expenses for 2002 included \$1.1 million for Troy Systems and \$.8 million for Troy Wireless. Research and development expenses as a percentage of net sales was 13.9% in the three months ended February 28, 2002 and 11.5% in the three months ended February 28, 2001.

*Amortization of Intangible Assets.* Amortization of intangible assets decreased by \$190,000 or 59.4% to \$130,000 in the three months ended February 28, 2002 from \$320,000 in the three months ended February 28, 2001. This decrease was the result of the write-down of impaired long-lived assets at the end of fiscal year 2001.

*Operating Income (Loss).* As a result of the above factors, operating income increased by \$603,000 to \$18,000 in the three months ended February 28, 2002 from a loss of \$(585,000) in the three months ended February 28, 2001. Operating income as a percentage of net sales was 0% in the three months ended February 28, 2002 compared to (10.4)% in the three months ended February 28, 2001.

*Interest Income.* Interest income decreased by \$166,000 to \$44,000 in the three months ended February 28, 2002 from \$210,000 in the three months ended February 28, 2001. This decrease is the result of reductions in our investment in available-for-sale securities due to an acquisition, our stock repurchase program and working capital requirements.

*Interest Expense.* Interest expense increased by \$10,000 to \$29,000 in the three months ended February 28, 2002 from \$19,000 in the three months ended February 28, 2001. This increase was due to increased borrowings under our line of credit.

*Income Taxes.* Income taxes increased to a \$4,000 tax expense in the three months ended February 28, 2002 from a \$405,000 tax credit in the three months ended February 28, 2001. This increase is a result of increased income before income taxes. Income taxes (credits) as a percentage of pretax income (loss) were 18% in the three months ended February 28, 2002 compared to (41)% in the three months ended February 28, 2001.

### Liquidity and Capital Resources

Cash flows used by operating activities were \$772,000 in the three months ended February 28, 2002 compared to \$167,000 used by operating activities in the three months ended February 28, 2001. This

12

---

increase was due primarily to a decrease in accounts payable and accrued expenses, offset by a decrease in accounts receivable, and a net income of \$18,000 in 2002 compared to a net loss of \$585,000 in 2001. The accounts receivable decrease resulted primarily from collections.

Cash flows provided by investing activities were \$1.5 million in the three months ended February 28, 2002 compared to \$1.7 million used in the three months ended February 28, 2001. Included in cash flows provided by investing activities in the three months ended February 28, 2002 was \$1.7 million in net maturities of available-for-sale securities. In connection with split-dollar life insurance arrangements with our major stockholder, we are committed to funding the premium on three life insurance policies for the foreseeable future. Annual premiums on these policies are approximately \$563,000 per year for the next five years.

Cash flows provided by financing activities were \$1.1 million in the three months ended February 28, 2002 compared to cash flows used in financing activities of \$201,000 in the three months ended February 28, 2001. Included in cash flows provided by financing activities in the three months ended February 28, 2002 was \$121,000 in proceeds from issuance of common stock under our employee stock purchase plan and \$1.0 million provided by the increase of checks issued not presented for payment.

We currently have a \$5.0 million general line of credit with Comerica Bank California, which is secured by substantially all of our assets and is subject to certain financial covenants. In connection with the general line of credit agreement, we have a \$650,000 standby letter of credit sublimit agreement of which \$80,000 was outstanding at February 28, 2002. As of February 28, 2002, there were no borrowings outstanding against the general line of credit and \$4.9 million was available under the general line of credit. The general line of credit has no expiration date.

We believe that existing cash balances, cash generated by operating activities, and funds available under our credit facility will be sufficient to finance our operating activities for at least the next 12 months. To the extent that the funds generated from these sources are insufficient to finance our operating activities, we would need to raise additional funds through public or private financing. We cannot assure you that additional financing will be available on terms favorable to us, or at all.

## Edgar Filing: TROY GROUP INC - Form 10-Q

In March 2001, Troy established a stock repurchase program under which Troy's common stock, with an aggregate market value up to \$4.0 million, may be acquired in the open market. As of February 28, 2002, Troy has purchased approximately 320,565 shares of common stock in the open market, at an average price of \$3.67 per share, under the stock repurchase program. Approximately \$2.8 million remains available for future common stock repurchases.

### Recently Issued Accounting Standards

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141 (SFAS No. 141), *Business Combinations*, and Statement of Financial Accounting Standards No. 142 (SFAS No. 142), *Goodwill and Other Intangible Assets*. SFAS No. 141 addresses financial accounting and reporting for business combinations and is effective for all business combinations after June 30, 2001. SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets and is effective for fiscal years beginning after December 15, 2001. The Company will adopt as of the beginning of fiscal year 2003. We are in the process of determining the expected impact on earnings and existing goodwill and other intangibles upon adoption, which will include the elimination of goodwill amortization and may include additional impairment. As of February 28, 2002, unamortized goodwill totaled \$308,000.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which supersedes previous guidance on financial accounting and reporting for the impairment or disposal of long-lived assets and for segments of a business to be disposed of. Adoption

13

---

of SFAS 144 is required no later than the beginning of fiscal 2003. Management does not expect the adoption of SFAS 144 to have a significant impact on our financial position or results of operations. However, further impairment reviews may result in charges against earnings to write down the value of long-lived assets.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, exchange rates, commodity prices, equity prices and other market changes. Market risk is attributed to all market sensitive financial instruments, including long-term debt.

We do not utilize derivative financial instruments. Accordingly, our exposure to market risk is through our investments in available-for-sale securities and our bank debt which bears interest at variable rates. Available-for-sale securities consist of corporate debt and marketable equity securities. These securities generally have contractual maturity dates of up to one year. At February 28, 2002, market values approximated carrying values. Due to the short-term maturities of these securities, management believes that there is no significant market risk. At February 28, 2002, we had approximately \$7.2 million in cash, cash equivalents and investments in available-for-sale securities, and, accordingly, a sustained decrease in the rate of interest earned of 1% would cause a decrease in the amount of interest earned of \$72,000. The bank debt is a revolving line of credit. All borrowings bear interest based upon the reference rate per annum as announced by the bank (5.0% at February 28, 2002) less 0.25%. At February 28, 2002, there were no amounts outstanding under the line of credit agreement and, accordingly, a sustained increase in the reference rate of 1% would not cause our annual interest expense to change.

14

---

## PART II: OTHER INFORMATION

### ITEM 1 LEGAL PROCEEDINGS

Not applicable.

### ITEM 2 CHANGES IN SECURITIES AND USE OF PROCEEDS

Not applicable.

**ITEM 3 DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

**ITEM 5 OTHER INFORMATION**

None.

**ITEM 6 EXHIBITS AND REPORTS ON FORM 8-K**

**(a) Exhibits.**

<b>Exhibit Number</b>	<b>Description</b>
---------------------------	--------------------

None.

**(b) Reports on Form 8-K**

None.

15

---

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TROY GROUP, INC.

April 11, 2002

/s/ PATRICK J. DIRK

---

Patrick J. Dirk  
Chairman, President and Chief Executive Officer

/s/ JAMES W. KLINGLER

---

James W. Klingler  
Vice President-Finance, Treasurer and Chief Financial Officer

QuickLinks

[FORM 10-Q](#)

[INDEX](#)

[PART I: FINANCIAL INFORMATION](#)

[ITEM 1. FINANCIAL STATEMENTS](#)

[CONSOLIDATED BALANCE SHEETS](#)

[CONSOLIDATED STATEMENTS OF OPERATIONS](#)

[CONSOLIDATED STATEMENTS OF CASH FLOWS](#)

[NOTES TO CONSOLIDATED FINANCIAL STATEMENTS](#)

[Note 1. Basis of Presentation](#)

[Note 2. Inventories](#)

[Note 3. Investment in Available-for-sale Securities](#)

[Note 4. Stock Option and Stock Warrant Plans](#)

[Note 5. Net Income Per Share](#)

[Note 6. Business Combination](#)

[Note 7. Segment Information](#)

[Note 8. Cash Flow Information](#)

[ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS](#)

[ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK](#)

[PART II: OTHER INFORMATION](#)

[ITEM 1. LEGAL PROCEEDINGS](#)

[ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS](#)

[ITEM 3. DEFAULTS UPON SENIOR SECURITIES](#)

[ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS](#)

[ITEM 5. OTHER INFORMATION](#)

[ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K](#)

[SIGNATURES](#)