TROY GROUP INC
Form PRER14A
August 10, 2004

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SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

(Amendment No. 1)

Filed by the Registrant ý

Filed by a Party other than the Registrant o

Check the appropriate box:

ý Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as Permitted by Rule 14a-6(e)(2))**

o Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to Section 240.14a-12

TROY GROUP, INC

(Name of Registrant as Specified In Its Charter)

Not Applicable

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

o No fee required.

ý Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:
common stock, $.01 par value per share

(2) Aggregate number of securities to which transaction applies:
3,520,170 shares of common stock

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):
Pursuant to the Agreement and Plan of Merger, dated May 26, 2004, by and between Dirk, Inc. and TROY Group, Inc., Dirk, Inc. will merge into TROY Group, Inc., and each outstanding share of common stock of TROY Group, Inc., except for shares owned by Dirk, Inc. and certain affiliated stockholders, will be converted into the right to receive $3.06 in cash.

(4) Proposed maximum aggregate value of transaction:
$10,771,720

(5) Total fee paid:
$1,365

ý Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:
$

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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TROY GROUP, INC.
2331 South Pullman Street
Santa Ana, California 92705

A MERGER PROPOSAL YOUR VOTE IS VERY IMPORTANT

August [ ], 2004

Dear Stockholder,

You are cordially invited to attend a special meeting of the stockholders of TROY Group, Inc. to be held on September [ ], 2004, at [ ] Pacific Time. The special meeting will be held at [ ].

As described in the enclosed proxy statement, at this important special meeting of stockholders, you will be asked to consider and vote upon a proposal to approve an Agreement and Plan of Merger, dated as of May 26, 2004 (the "Merger Agreement") pursuant to which Dirk Inc., a Delaware corporation, will be merged with and into TROY Group, Inc. ("TROY"), with TROY continuing as the surviving corporation in the merger. Dirk, Inc. is a corporation that I incorporated to facilitate the merger. Just prior to the merger, I, along with the Dirk Family Trust, the Patrick and Mary Dirk Grantor Trust, Brian P. Dirk, the Brian Dirk Trust, Lorrie Dirk Brown, Suzanne Dirk Anderson, Kristine Dirk Gigerich, the Dirk 1998 Alaska Trust, the Dirk Education Trust and The Dirk Foundation (collectively referred to for purposes of the merger as the "Affiliated Stockholders"), will contribute to Dirk, Inc. the shares beneficially owned by us directly and through certain trusts. Together, these shares represent approximately 67% of our outstanding common stock.

If the merger is completed, each stockholder (other than Dirk, Inc. and any of the Affiliated Stockholders) will receive $3.06 in cash, without interest, for each share of TROY common stock owned at the time of the merger. We will then become a private company and will be wholly owned by the Affiliated Stockholders.

A special committee of our board of directors, comprised solely of independent, non-employee directors, was formed by the board of directors to investigate, consider and evaluate the "going private" proposal submitted by me to the board of directors. The special committee, after extensive negotiations in which it was advised by its own financial and legal advisors, unanimously recommended to TROY's board of directors that the Merger Agreement and related merger be approved and adopted. The board of directors, upon the recommendation of the special committee and taking into consideration the fairness opinion rendered to the special committee by its financial advisor as well as other factors, unanimously determined that the terms of the Merger Agreement and the merger are advisable and in the best interests of TROY and our stockholders (other than Dirk, Inc. and the Affiliated Stockholders) and that the Merger Agreement and the merger are substantively and procedurally fair to, and in the best interests of, TROY and our stockholders (other than Dirk, Inc. and the Affiliated Stockholders). Accordingly, your board of directors unanimously recommends that our stockholders vote FOR approval and adoption of the Merger Agreement and related merger.

Your vote is very important. Whether or not you plan to attend the special meeting in connection with the proposed merger, please promptly complete, sign and return the enclosed proxy card in the envelope provided. Your shares will then be represented at the special meeting. If you attend the special meeting, you may, by following the procedures discussed in the accompanying documents, withdraw your proxy and vote in person.

The accompanying notice of special meeting, proxy statement and proxy card explain the proposed merger and provide specific information concerning the special meeting. Please read these materials carefully.

Sincerely,

Patrick J. Dirk
President, Chief Executive Officer and Chairman of the Board

Santa Ana, California

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of this transaction, passed upon the fairness or merits of this transaction, or passed upon the accuracy or adequacy of the disclosure in this document. Any representation to the contrary is a criminal offense.

This proxy statement is dated August [ ], 2004 and is first being mailed to TROY stockholders beginning on or about August [ ], 2004.

TROY GROUP, INC.

2331 South Pullman Street
Santa Ana, California 92705

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS TO BE HELD ON SEPTEMBER [ ], 2004

Notice is hereby given that a special meeting of stockholders of TROY Group, Inc., a Delaware corporation, will be held on September [ ], 2004, at [ ] Pacific Time, at [ ], to consider and vote upon:

1. A proposal to approve and adopt the Agreement and Plan of Merger, dated as of May 26, 2004, by and between TROY Group, Inc., a Delaware corporation ("TROY"), and Dirk, Inc., a Delaware corporation ("Mergerco") (the "Merger Agreement"), pursuant to which Mergerco will be merged with and into TROY, with TROY continuing as the surviving corporation.

2. To grant discretionary authority to vote upon such other matters as may properly come before the meeting, including authority to vote in favor of any postponements or adjournments of the meeting.

If the merger is completed, each issued and outstanding share of our common stock will be converted into the right to receive $3.06 in cash, without interest, other than (i) shares of our common stock held by Mergerco, or by Patrick J. Dirk, the Dirk Family Trust, the Patrick and Mary Dirk Grantor Trust, Brian P. Dirk, the Brian Dirk Trust, Lorrie Dirk Brown, Suzanne Dirk Anderson, Kristine Dirk Gigerich, the Dirk 1998 Alaska Trust, The Dirk Education Trust and the Dirk Foundation (collectively referred to for purposes of the merger as the "Affiliated Stockholders"), which shares will be cancelled without any payment for such shares, and (ii) shares of our common stock held by stockholders who properly exercise their appraisal rights under Delaware law as described below.

Only holders of record of our common stock at the close of business on August [ ], 2004, the record date, are entitled to notice of, and to vote at, the special meeting or any adjournments or postponements thereof. A list of stockholders entitled to vote at the special meeting will be open for examination by any stockholder for any purpose germane to the meeting during ordinary business hours for a period of 10 days prior to the special meeting at the offices of TROY, 2331 South Pullman Street, Santa Ana, California 92705.

Approval and adoption of the Merger Agreement and the merger requires the affirmative vote of at least a majority of the outstanding shares of TROY common stock entitled to vote at the meeting in accordance with TROY's certificate of incorporation, bylaws and Delaware law. As of the record date, Mergerco and the Affiliated Stockholders collectively owned approximately 67% of the outstanding shares of our common stock.

If you do not vote in favor of the Merger Agreement and the merger, and you otherwise comply with the applicable statutory provisions of Delaware law, you will be entitled to appraisal rights for your shares if the merger is completed. By properly exercising such appraisal rights, you will be entitled to receive, in lieu of the $3.06 merger consideration, payment in cash equal to the "fair value" of your

shares, as determined in accordance with Delaware law. A copy of these provisions is included as Appendix C to this proxy statement. We also refer you to the information included under the heading "SPECIAL FACTORS Appraisal Rights" in this proxy statement.

The board of directors is not aware of any matters that may be brought before the special meeting other than those set forth in this Notice of Special Meeting. If other matters properly come before the special meeting, including a motion to adjourn the meeting for the purpose of soliciting additional proxies, the persons named in the accompanying proxy will vote the shares represented by all properly executed proxies on such matters in their discretion.

Whether or not you plan to attend the special meeting in person, please complete, date, sign and return the enclosed proxy card to ensure that your shares will be represented at the special meeting. A return envelope (which is postage prepaid if mailed in the United States) is enclosed for that purpose. If you do attend the special meeting and wish to vote in person, you may withdraw your proxy and vote in person. Please note, however, that if your shares are held of record by a broker, bank or other nominee and you wish to vote at the meeting, you must obtain from the record holder a proxy issued in your name.

Please do not send your stock certificates at this time. If the merger is completed, you will be sent instructions regarding surrender of your stock certificates. The board of directors, acting on the unanimous recommendation of a special committee of independent directors, has unanimously approved and adopted the Merger Agreement and the merger and recommends that our stockholders vote FOR approval and adoption of the Merger Agreement and the merger.

The merger is described in the accompanying proxy statement, which you are urged to read carefully. A copy of the Merger Agreement is included as Appendix A to the accompanying proxy statement.

BY ORDER OF THE BOARD OF DIRECTORS,

Brian P. Dirk
Secretary

Santa Ana, California
August [ ], 2004

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SUMMARY TERM SHEET

This summary term sheet summarizes material information contained in this proxy statement but does not contain all of the information that may be important to you. You are urged to read the entire proxy statement carefully, including the appendices. The information contained in this summary term sheet is qualified in its entirety by reference to the more detailed information contained in this proxy statement. The terms "we," "us," "our" and "TROY" refer to TROY Group, Inc. The term "Mergerco" refers to Dirk, Inc., a Delaware corporation, and the term "Mr. Dirk" refers to Patrick J. Dirk.

Parties to the Merger

TROY Group, Inc., a Delaware corporation, is the subject company of the merger. Our principal executive offices are located at 2331 South Pullman Street, Santa Ana, California 92705, and our telephone number is (949) 250-3280.

TROY offers a full range of products to our customers in two primary product lines: Secure Payment Systems and Wireless and Connectivity Solutions. Secure Payment Systems include Security Printing Solutions, which enable the secure printing and management of checks, and Financial Service Solutions, which enable secure electronic payments. Wireless and Connectivity Solutions includes hardware and software solutions that enable enterprises to share intelligent devices, such as printers, either wirelessly or using traditional networks.

TROY is the result of various mergers and acquisitions by a company that was originally founded in 1982. TROY was incorporated in California in 1996 and was reincorporated in Delaware in May 1998. TROY went public in July 1999. Until December 31, 2002, our common stock was quoted on the Nasdaq National Market under the symbol "TROY." From December 31, 2002 to May 14, 2003, TROY's common stock was quoted on the National Quotation Bureau, commonly referred to as the "Pink Sheets." Since May 15, 2003, TROY's common stock has once again been quoted on the Nasdaq National Market under the symbol "TROY."

Patrick J. Dirk, the Dirk Family Trust, the Patrick and Mary Dirk Grantor Trust, Brian P. Dirk, the Brian Dirk Trust, Lorrie Dirk Brown, Suzanne Dirk Anderson, Kristine Dirk Gigerich, the Dirk 1998 Alaska Trust, The Dirk Education Trust and the Dirk Foundation (collectively referred to for purposes of the merger as the "Affiliated Stockholders"), are the majority stockholders of TROY. Patrick J. Dirk is married to Mary J. Dirk and they are the parents of Brian P. Dirk, Lorrie Dirk Brown, Suzanne Dirk Anderson and Kristine Dirk Gigerich. Patrick and Mary Dirk are trustees of the Dirk Family Trust and the Dirk Foundation. Brian P. Dirk is Trustee of the Patrick and Mary Dirk Grantor Trust and the Brian P. Dirk Trust, and, along with Lorrie Dirk Brown, Suzanne Dirk Anderson and Kristine Dirk Gigerich, a trustee of the 1998 Alaska Trust. The Trustee of The Dirk Education Trust is selected by Patrick and Mary Dirk's four children and their grandchildren are the beneficiaries of the trust. As of [Record Date], 2004, the Affiliated Stockholders beneficially owned [7,119,707] shares of our common stock, representing approximately 67% of the total outstanding shares of our common stock. Upon completion of the merger, the Affiliated Stockholders will own 100% of the outstanding shares of our common stock, and the percentage that will be owned by Patrick J. Dirk, Mary J. Dirk, Brian P. Dirk and the trusts for which they serve as trustee is as follows:

Dirk Family Trust Patrick and Mary Dirk, Trustees	66.5%
Patrick and Mary Dirk Grantor Trust Brian P. Dirk, Trustee	12.9%
Brian P. Dirk	1.1%
Brian Dirk Trust Brian P. Dirk, Trustee	5.0%

Each of Patrick J. Dirk, Mary J. Dirk and Brian P. Dirk has his or her principal business address at 2331 South Pullman Street, Santa Ana, California 92705 and a business telephone number of 949-250-8972.

Dirk, Inc., a Delaware corporation, was formed solely for the purpose of completing the merger. The principal executive offices of Mergerco are located at 2331 South Pullman Street, Santa Ana, California 92705, and the telephone number is (949) 250-3280.

Mergerco is controlled by the Affiliated Stockholders.

Prior to the merger, the Affiliated Stockholders will contribute to Mergerco all of the shares of TROY common stock beneficially owned by them directly and through certain trusts.

Prior Merger Proposal (pages 13 to 15)

On September 18, 2003, we held a special meeting of our stockholders to consider a prior merger proposal by Dirk, Inc. and the Affiliated Stockholders (the "Prior Merger Proposal"). At such prior special meeting, the Prior Merger Proposal did not receive the requisite approval. Although the Prior Merger Proposal was approved by the affirmative vote of the holders of a majority of our common stock outstanding, approval of the Prior Merger Proposal was also conditioned on the affirmative vote of the holders of a majority of the shares cast either "for" or "against" the Prior Merger Proposal, excluding the shares held by Dirk, Inc., the Affiliated Stockholders and the officers and directors of Dirk, Inc. and TROY, and a majority of these "unaffiliated" stockholders voted against the Prior Merger Proposal. As a result, the Prior Merger Proposal was terminated and the special committee formed to consider such Prior Merger Proposal was dissolved. If the unaffiliated stockholders had approved the Prior Merger Proposal, the stockholders (other than Dirk, Inc. and the Affiliated Stockholders) would have received $2.76 for each share of our common stock.

The voting results for the Prior Merger Proposal were as follows:

	For	Against	Abstain
Approval by holders of a majority of the outstanding shares	7,761,962	1,488,727	23,425
Approval by holders of a majority of the shares cast either "for" or "against," excluding shares beneficially owned by Dirk, Inc., the Dirk family members and any officers or directors of Dirk, Inc. or TROY.	702,112	1,438,727	N/A

The Special Meeting (pages 54 to 55)

A special meeting of the stockholders of TROY will be held on September [ ], 2004, at [ ] Pacific Time, at , to consider and vote upon a proposal to approve the Merger Agreement and the merger.

You are entitled to vote at the special meeting if you owned shares of our common stock at the close of business on August [ ], 2004, which is the record date for the special meeting. You will have one vote at the special meeting for each share of TROY common stock you owned at the close of business on the record date. If you own shares of our common stock on the record date but transfer your shares after the record date but before the merger, you will retain the right to vote at the special meeting, but the right to receive the $3.06 merger consideration will pass to the person to whom you transferred your shares. On the record date, there were 10,639,877 shares of our common stock outstanding and entitled to be voted at the special meeting.

The presence, in person or by proxy, of the holders of a majority of the outstanding shares of our common stock entitled to vote at the special meeting is necessary to constitute a quorum for the transaction of business at the special meeting.

You are being asked to consider and vote on a proposal to approve the Merger Agreement and the related merger. Under the Merger Agreement, Mergerco will be merged into TROY, with TROY continuing as the surviving corporation. We will continue to operate after the closing of the merger, but will be wholly owned by the Affiliated Stockholders.

You should read this proxy statement carefully, including its appendices, and consider how the merger affects you. Then, mail your completed, dated and signed proxy card in the enclosed return envelope as soon as possible so that your shares can be voted at the special meeting of our stockholders.

Vote Required (page 55)

The Merger Agreement and the merger must be approved by the affirmative vote of the holders of a majority of the shares of our common stock outstanding at the close of business on the record date. This requirement is pursuant to our certificate of incorporation, bylaws and Delaware law. For this vote, proxies that reflect abstentions and broker non-votes, as well as proxies that are not returned, will have the same effect as a vote against approval and adoption of the Merger Agreement and the merger. The Affiliated Stockholders hold sufficient shares of our common stock to satisfy this requirement. The Merger Agreement and the merger does not need to be approved by, and the merger is not conditioned upon receiving, the affirmative vote of a majority of the stockholders other than Mergerco and the Affiliated Stockholders.

Failing to return your proxy card, abstaining from voting or failing to instruct your broker how to vote will have the same effect as voting against the Merger Agreement and the merger.

You may attend the special meeting of our stockholders and vote your shares in person whether or not you sign and return your proxy card. If your shares are held of record by a broker, bank or other nominee and you wish to vote at the meeting, you must obtain a proxy from the record holder.

You may change your vote at any time before your proxy card is voted at the special meeting. You can do this in one of three ways. First, you can send a written notice stating that you

would like to revoke your proxy. Second, you can complete and submit a new proxy card. Third, you can attend the meeting and vote in person. Your attendance at the special meeting will not alone revoke your proxy. If you have instructed a broker to vote your shares, you must follow directions received from your broker to change those instructions.

Your broker will not be able to vote your shares without instructions from you. You should instruct your broker to vote your shares, following the procedures provided by your broker.

The Merger (pages 44 to 45 and 56 to 62)

Prior to the merger, the Affiliated Stockholders will contribute to Mergerco all of the shares of TROY common stock beneficially owned by them directly and through certain trusts.

At the effective time of the merger, Mergerco will be merged with and into TROY with TROY continuing as the surviving corporation. This will permit the cancellation of all of our common stock and other outstanding equity interests and preserve our identity and existing contractual arrangements with third parties. The merger will occur according to the terms and conditions of the Merger Agreement, which is described in, and is attached to, this proxy statement as Appendix A. You

should read the description of the Merger Agreement in this proxy statement

under the heading "THE MERGER AGREEMENT," as well as the Merger Agreement itself, carefully.

At the completion of the merger, each issued and outstanding share of our common stock will be converted into the right to receive $3.06 in cash, without interest, other than (i) shares of our common stock held by Mergerco or any Affiliated Stockholder, which shares will be cancelled without any payment for such shares, and (ii) shares of our common stock held by stockholders who properly exercise their appraisal rights under Delaware law.

At the completion of the merger, holders of options and warrants to purchase our common stock will receive (to the extent such options or warrants are then vested and exercisable) an amount in cash determined by multiplying (i) the excess, if any, of $3.06 over the exercise price per share of the option or warrant by (ii) the number of shares subject to the option or warrant, less any amounts needed to pay any applicable withholding taxes. As of the date of this proxy statement, other than options to purchase 105,000 shares of our common stock with an average exercise price of $2.93 per share, all outstanding options and warrants to purchase our common stock have exercise prices that are greater than the merger consideration and therefore are unlikely to be exercised.

If the Merger Agreement is approved and the other conditions to the merger are satisfied or waived, the merger is expected to be completed as promptly as possible after the special meeting.

Our Purpose and Reasons for the Merger (pages 20 to 21)

The significant increase in the current and anticipated costs associated with operating as a public company and the disproportionate impact such increased costs have on smaller public companies.

The decline in our stock price and trading volume since our public offering.

The limited liquidity available to our stockholders due to the relatively low number of shares held by stockholders other than our Affiliated Stockholders and the fact that our Affiliated Stockholders have not actively traded their shares.

The apparent lack of interest by the public marketplace in public companies with small market capitalizations and relatively modest growth rates, the uncertainty regarding our ability to generate significant profitable growth and the belief that our common stock may therefore never achieve significant market value as a public company.

The opportunity for our stockholders (other than Mergerco and our Affiliated Stockholders) to liquidate their common stock at a price that represents:

a premium of 111.0% over the closing price on March 20, 2003, the date prior to public announcement of the Prior Merger Proposal;

a premium of 13.3% over the closing price on May 26, 2004, the date prior to public announcement of the Merger Agreement;

a premium of 12.8%, 8.4% and 4.8% over the average of, respectively, the 30, 60 and 90 trading day closing prices prior to public announcement of the Merger Agreement; and

a premium of 20.2% over the average of the 18-month trading day closing prices prior to public announcement of the Merger Agreement.

The ability to eliminate the significant costs, expenses and obligations associated with operating as a public company and increase management's flexibility to consider and initiate actions geared to modest long-term growth as opposed to short-term earnings per share.

Different Interests of the Affiliated Stockholders and Stockholders that are not Affiliated Stockholders (pages 6 to 7 and 41)

Affiliated Stockholders

The Affiliated Stockholders will own 100% of our common stock. As a result, the Affiliated Stockholders will receive 100% of the benefit from any of our future earnings and any future increases in our value but will also bear 100% of the risk of any of our future losses and any future decreases in our value.

As the Affiliated Stockholders will not receive the merger consideration, the merger will not be a taxable transaction to them for federal income tax purposes.

In addition to Patrick J. Dirk and Brian P. Dirk, who are members of the Affiliated Stockholder group, it is expected that Dennis C. Fairchild, our new Chief Financial Officer, will continue as a member of the management team of the surviving corporation. The compensation of our officers is not expected to change due to the merger.

The Affiliated Stockholders will be the sole beneficiaries of any future earnings or increase in enterprise value, including our tax credit carry-forwards of $1.3 million.

Stockholders other than Affiliated Stockholders

You will no longer be a stockholder of or have any ownership interest in TROY. As a result, you will not be able to benefit from any of our future earnings or any future increases in our value but you will also not bear the risk of any of our future losses or any future decreases in our value.

Receipt of the cash merger consideration will be a taxable transaction for federal income tax purposes.

Special Committee (page 16)

In order to eliminate any conflict of interest in evaluating, negotiating and recommending the merger proposal, including the terms of the Merger Agreement with Mergerco, our board of directors formed a special committee of directors. The special committee is composed solely of independent directors who are not officers or employees of TROY and who have no financial interest in the proposed merger different from our other stockholders generally. The members of the special committee are Stephen G. Holmes (Chair), Gene A. Bier and Lambert Gerhart. See "SPECIAL FACTORS Background of the Merger and "SPECIAL FACTORS Interests of Certain Persons in the Merger; Potential Conflicts of Interests The Special Committee."

Recommendations of the Special Committee and TROY's Board of Directors; Fairness of the Merger (pages 21 to 25)

Our board of directors, based on the findings of the special committee, believes that the terms of the Merger Agreement and the merger are advisable and in the best interests of TROY and our stockholders (other than Mergerco and the Affiliated Stockholders) and that the Merger Agreement and the merger are substantively and procedurally fair to, and in the best interests of, our stockholders (other than Mergerco and the Affiliated Stockholders).

Our board of directors, based upon the unanimous recommendation of the special committee, has unanimously approved and adopted the Merger Agreement and the merger and unanimously recommends that you vote FOR approval and adoption of the Merger Agreement and the merger.

For a discussion of the material positive and negative factors considered by the special committee and our board of directors in reaching their conclusions, see "SPECIAL FACTORS Reasons for the Special Committee's Determination; Fairness of the Merger," "SPECIAL FACTORS Reasons for the Board of Director's Determination; Fairness of the Merger" and "SPECIAL FACTORS Advantages and Disadvantages of the Merger."

Opinion of Financial Advisor to the Special Committee (pages 26 to 39)

In deciding to approve the terms of the Merger Agreement and the merger, one of the factors that the special committee and the board of directors considered was the written opinion of the special committee's financial advisor, Business Equity Appraisal Reports, Inc. ("BEAR"), dated May 24, 2004, stating that, as of that date, based upon and subject to the assumptions made, matters considered, limitations on, and qualifications made by BEAR in its review, the merger consideration to be received by our stockholders (other than Mergerco and the Affiliated Stockholders) in connection with the merger was fair to such stockholders, from a financial point of view. The full text of BEAR's opinion, which describes, among other things, the assumptions made, general procedures followed, matters considered and limitations and qualifications made by BEAR in its review and in rendering its opinion, is attached in its entirety as Appendix B to this proxy statement. You are urged to read the entire opinion letter carefully.

Position of Mergerco and the Affiliated Stockholders as to Fairness of the Merger (page 40)

Mergerco and the Affiliated Stockholders believe that the merger is substantively and procedurally fair to our unaffiliated stockholders. See "SPECIAL FACTORS Mergerco and Affiliated Stockholders' Position as to the Fairness of the Merger."

Effects of the Merger (page 45)

Upon completion of the merger:

The Affiliated Stockholders will own 100% of our common stock. As a result, the Affiliated Stockholders will receive 100% of the benefit from any of our future earnings and any future increases in our value but will also bear 100% of the risk of any of our future losses and any future decreases in our value.

You will no longer be a stockholder of or have any ownership interest in TROY. As a result, you will not be able to benefit from any of our future earnings or any future increases in our value but you will also not bear the risk of any of our future losses or any future decreases in our value.

We will no longer be a public company, and our common stock will no longer be quoted on the Nasdaq National Market nor will price quotations otherwise be available.

The registration of our common stock under the Securities Exchange Act of 1934 (referred to as the "Exchange Act.") will terminate, and we will cease to file periodic reports with the Securities and Exchange Commission under the Exchange Act.

After the merger is completed, you will receive written instructions for exchanging your shares of our common stock for a cash payment of $3.06 per share, without interest.

Interests of Our Directors and Officers in the Merger (pages 47 to 49)

When considering the recommendation of our board of directors that you vote for approval and adoption of the Merger Agreement and the merger, you should be aware that certain of our directors and officers have interests in the merger that are different from, or in addition to, yours. These interests include the following:

The Affiliated Stockholders will contribute 7,119,707 shares of our common stock, representing approximately 67% of the total of our outstanding common stock, to Mergerco immediately prior to the merger, and Patrick J. Dirk and Brian P. Dirk, who are members of the Affiliated Stockholders group, are also directors and executive officers of TROY.

Each member of the special committee receives $1,500 for each meeting of the special committee attended, whether in person or by teleconference. Each member is also reimbursed for his out-of-pocket expenses.

The Merger Agreement provides that indemnification and insurance arrangements will be maintained for our directors and officers.

In addition to Patrick J. Dirk and Brian P. Dirk, who are members of the Affiliated Stockholder group, it is expected that Dennis C. Fairchild, our new Chief Financial Officer, will continue as a member of the management team of the surviving corporation.

To our knowledge, each of our executive officers and directors intends to vote all of the shares of our common stock that they beneficially own in favor of the merger. Excluding shares owned by Patrick J. Dirk and Brian P. Dirk, as of [Record Date], 2004, our executive officers and directors beneficially owned [128,333] shares of our common stock. See "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT."

Like all other TROY stockholders, members of management and our board of directors (other than those who are also members of the Affiliated Stockholder group) will be entitled to receive $3.06 per share in cash for each share of our common stock they hold.

Material U.S. Federal Income Tax Consequences (page 44)

The receipt of cash in exchange for shares of our common stock in the merger will be a taxable transaction for U.S. federal income tax purposes and may also be a taxable transaction under applicable state, local, foreign or other tax laws. Generally, you will recognize gain or loss for these purposes equal to the difference between $3.06 per share and your tax basis for the shares of common stock that you owned immediately before completion of the merger.

Tax matters are very complex and the tax consequences of the merger to you will depend on the facts of your own situation. You should consult your tax advisor for a full understanding of the tax consequences of the merger to you.

Merger Financing (pages 46 to 47)

The total amount of funds necessary to complete the merger and to pay the related fees and expenses is estimated to be approximately $11,380,000, and the merger is conditioned, among other things, on the availability of sufficient funds to pay these amounts. Mergerco anticipates that the merger consideration will be funded from two primary sources:

TROY's existing cash, cash equivalents and working capital, net of amounts necessary for our ongoing business needs, of which approximately $8.0 million will be used to cover the cost of the merger.

Financing from Comerica Bank in the form of an expansion of TROY's revolving line of credit facility from $5,000,000 to $7,000,000, of which approximately $3.38 million will be used to cover the cost of the merger. The line of credit will be secured by TROY's assets and certain guarantees from Patrick J. Dirk and certain of his affiliated entities. TROY has entered into a commitment letter with Comerica Bank regarding the financing but have not yet negotiated or executed definitive documents.

As of May 31, 2004, our net working capital was $19,767,000 which included cash and cash equivalents of $2,571,000 and available-for-sale securities of $8,000,000. We currently anticipate that we will be able to generate sufficient cash to fund our ongoing operations on an annual basis; however, we estimate that we will require approximately $2,500,000 in cash to fund our monthly changes in working capital.

We have not identified any alternatives to funding the merger and neither Mergerco nor the Affiliated Stockholders will provide any of the merger consideration.

Appraisal Rights (pages 49 to 53)

Under Delaware law, if you do not vote in favor of the merger and instead follow the appropriate procedures for demanding appraisal rights, you will be entitled to receive, in lieu of the $3.06 merger consideration, a cash payment equal to the "fair value" of your shares of our common stock, as determined by the Delaware Court of Chancery.

If you desire to exercise your appraisal rights under Delaware law, you are required to comply with Section 262 of the Delaware General Corporation Law, a copy of which is attached to this proxy statement as Appendix C. Failure to take all of the steps required under Delaware law may result in the loss of your appraisal rights.

The Merger Agreement (pages 56 to 62)

The Merger Agreement, including the conditions to the closing of the merger, is described under the heading "THE MERGER AGREEMENT" and is attached in its entirety as Appendix A to this proxy statement. You should carefully read the entire Merger Agreement, as it is the legal document that governs the merger.

Conditions to Completing the Merger (pages 59 to 60)

Conditions to the obligations of each party. Our obligation and the obligation of Mergerco to complete the merger is subject to the satisfaction or waiver of certain conditions, including the following:

The holders of a majority of the outstanding shares of our common stock must have voted to approve the Merger Agreement and the merger. As of [Record Date], 2004, the Affiliated Stockholders beneficially owned approximately 67% of the outstanding shares of our common stock and intend to contribute all of their shares to Mergerco immediately prior to the merger. As a result, it is anticipated that this condition will be satisfied. Unlike the Prior Merger Proposal, the merger is not conditioned upon the approval of a majority of the stockholders other than Mergerco and the Affiliated Stockholders.

There must not be in effect any law, rule, regulation or order that would make the merger illegal or otherwise prohibit the consummation of the merger.

All consents and approvals required to be obtained to complete the merger must have been obtained, except where the failure to do so could not reasonably be expected to have a material adverse effect on us.

Conditions to the obligation of Mergerco. The obligation of Mergerco to complete the merger is also subject to the satisfaction or waiver of other conditions, including the following:

- Our representations and warranties in the Merger Agreement must be true and correct as of the closing date, except where the failure to be true and correct has not had and could not reasonably be expected to have a material adverse effect on us.
- There must not have occurred a change or event that has had or could reasonably be expected to have a material adverse effect on us.
- Sufficient funds must be available to complete the merger and pay the fees and expenses.
- We must have performed in all material respects all of our obligations under the Merger Agreement as of the closing date.
- Holders of no more than 5% of our outstanding common stock have exercised appraisal rights.

Conditions to our obligations. Our obligation to complete the merger is also subject to the satisfaction or waiver of other conditions, including the following:

- The representations and warranties of Mergerco in the Merger Agreement must be true and correct in all material respects as of the closing date.
- Mergerco must have performed in all material respects with all of its obligations under the Merger Agreement as of the closing date.

At this time, it is not known whether any of these conditions, in particular the condition that holders of no more than 5% of our outstanding common stock have exercised appraisal rights, will be waived by TROY and/or Mergerco, as the case may be. However, in the event any of the closing conditions are waived after the special meeting, we do not anticipate that we will re-solicit proxies.

Limitations on Considering Other Takeover Proposals (pages 58 to 59)

We have agreed not to solicit or enter into discussions with any third party regarding an acquisition proposal while the merger is pending. However, the special committee or our board of directors may furnish non-public information to or enter into discussions or negotiations with a third party regarding an unsolicited takeover proposal if:

- the acquisition proposal is a superior proposal;
- the special committee determines in good faith, after consultation with legal counsel, that failure to take such action would be a breach of the fiduciary duties of the special committee or our board of directors;
- the third party, prior to receiving any non-public information or entering into discussions, enters into a confidentiality agreement with us on customary terms and conditions; and
- we notify Mergerco at least two business days in advance and keep Mergerco reasonably informed of the status and material terms and conditions of such discussions.

In addition, neither the special committee nor our board of directors may withdraw or modify its recommendation of the merger or recommend an acquisition proposal with a third party unless:

the acquisition proposal is superior to the merger;

we have not solicited a third party proposal in material violation of the Merger Agreement; and

the special committee determines in good faith, after consultation with legal counsel, that failure to take such action would be a breach of the fiduciary duties of the special committee or our board of directors.

Termination (pages 60 to 61)

The Merger Agreement may be terminated prior to the effective time of the merger, whether before or after approval by our stockholders, for a number of reasons, including the following:

Either party may terminate the Merger Agreement if the merger is not completed on or before October 31, 2004.

Either party may terminate the Merger Agreement if our stockholders do not approve the Merger Agreement and the merger as required by the terms of the Merger Agreement.

Mergerco may terminate the Merger Agreement if (i) we have breached our non-solicitation obligations under the Merger Agreement, (ii) our board of directors or the special committee has recommended, or failed to recommend against, a third party acquisition proposal, or (iii) our board of directors or the special committee has withdrawn or modified in a manner adverse to Mergerco its recommendation of the merger.

Either party may terminate the Merger Agreement if there has been a material breach by the other party under the Merger Agreement that has not been cured.

We may terminate the Merger Agreement if, as a result of a superior proposal and prior to approval by our stockholders of the Merger Agreement:

- the special committee determines that the failure to terminate the Merger Agreement and accept such superior proposal would be a breach of the fiduciary duties of our board of directors or the special committee;
- we provide notice of the proposed termination to Mergerco; and
- we give Mergerco five days to make an offer that is at least as favorable to our stockholders and negotiate in good faith with Mergerco regarding any revised offer.

Mergerco may terminate the Merger Agreement if there has occurred a change or event that has had or could reasonably be expected to have a material adverse effect on us.

Mergerco may terminate the Merger Agreement if the holders of more than 5% of the outstanding shares of our common stock exercise their appraisal rights.

Expense Reimbursement Upon Termination (pages 61 to 62)

Unless the Merger Agreement is terminated upon the mutual agreement of TROY and Mergerco or is terminated by us as a result of a material breach by Mergerco under the Merger Agreement, we are required to reimburse Mergerco for its out-of-pocket fees and expenses actually and reasonably incurred in connection with the Merger Agreement and the merger.

Stockholder Lawsuits

In connection with the Prior Merger Proposal, on November 21, 2002, Tom Lloyd filed an action in the Superior Court of the State of California in and for Orange County against TROY and its directors, alleging that defendants breached their fiduciary duties in connection with the Prior Merger Proposal by attempting to provide the Dirk family with preferential treatment in connection with their efforts to complete a sale of TROY. The complaint sought to enjoin an acquisition of TROY by the Dirk family, as well as attorneys' fees. Following termination of the Prior Merger Proposal, the plaintiff filed a motion for dismissal of the action and award of attorney's fees and expenses of $387,250. TROY filed a motion in support of the plaintiff's motion for dismissal of the action and in opposition to plaintiff's motion for fees. On March 4, 2004 the court issued a ruling granting the motion for dismissal with prejudice, and granting the motion for attorney's fees of $175,000. On April 30, 2004, TROY filed

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a notice of appeal. TROY has accrued an estimate of expenses to be incurred in connection with this litigation in fiscal 2003 in excess of the deductible amount, which was recorded as an expense in fiscal 2002.

Following the announcement of the merger, Osmium Partners LLC, Ralph Hamer, Roy Liedtkie ("Liedtkie"), and Tilson Growth Fund, L.P. ("Tilson"), filed purported class action complaints in the California Superior Court for Orange County against TROY and our directors. In all four actions plaintiffs allege that defendants breached their fiduciary duties in connection with the merger by attempting to provide the Dirk family with preferential treatment in connection with their efforts to complete a sale of TROY. Plaintiffs in all four actions seek declaratory relief, an order enjoining the acquisition, and attorneys' fees. The Liedtkie complaint also names Dirk, Inc. and seeks damages. On July 28, 2004, the parties stipulated, subject to Court approval, to consolidate these four actions and all four plaintiffs agreed to adopt the allegations of the Tilson complaint. Discovery has commenced, but no trial date has been set in any of these actions. If these actions are successful in enjoining the transaction, it could have a material adverse effect on our business, financial position, or results of operations. Currently, the amount of such an adverse effect cannot be estimated.

Questions About the Merger

If you would like additional copies of this proxy statement (which copies will be provided to you without charge) or if you have questions about the merger, including the procedures for voting your shares, you should contact:

TROY Group, Inc.
Attn: Chief Financial Officer
2331 South Pullman Street
Santa Ana, California 92705
(949) 250-3280

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION

This proxy statement includes forward-looking statements based upon our current expectations, estimates and projections about our industry, management's beliefs, and certain assumptions made by us. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," "may," "will," "likely" and variations of these words or similar expressions are intended to identify forward-looking statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks and uncertainties that are difficult to predict. Therefore, our actual results could differ materially and adversely from those expressed in any forward-looking statements. Factors that could cause actual operating results to differ materially from those in forward-looking statements, include, but are not limited to, the factors set forth in this proxy statement under the heading "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS Certain Important Factors."

Except to the extent required under the federal securities laws, we do not intend to update or revise the forward-looking statements to reflect circumstances arising after the date of the preparation of the forward-looking statements.

SPECIAL FACTORS

Background of the Merger

In response to continuing losses, Mr. Dirk, in May 2002, took over management of our wireless and electronic payment businesses. He also began an analysis of our various businesses for the purpose of determining how to return TROY to profitability and assessing the growth potential of these businesses. Prior to that time, management had been of the view, based on previously existing internal forecasts, that TROY would be able to achieve the type of profitable growth that would attract the interest of the public markets, primarily due to the view that there were significant growth opportunities for our wireless and electronic payment businesses.

In July 2002, we held our regularly scheduled board meeting. At this meeting, Mr. Dirk spent a considerable amount of time discussing the condition of our operations and the status of his analysis. He described for the board the actions he felt would be necessary to return us to profitability, which included additional consolidation and cost control measures as well as greater revenue growth. However, as he continued this analysis of our businesses following this board meeting, Mr. Dirk became increasingly concerned about the viability of the growth forecasts for the wireless and electronic payment businesses. His concern was based in large part on the fact that revenues for these businesses continued to be disappointing. As a result, during July and August 2002, Mr. Dirk worked directly with our management team to review and, as necessary, revise the growth forecasts for these businesses. Upon completion of this process, management determined that revenue growth for these businesses would be significantly less than previously anticipated. As a result, Mr. Dirk implemented steps to reduce our cost structure to that of a company with a significantly lower growth rate.

As a result of this re-assessment of our growth opportunities, Mr. Dirk also began to evaluate and discuss the possibility of pursuing a "going private" transaction in which he and certain members of his family and their trusts would acquire ownership of all of our equity. In evaluating this possibility, Mr. Dirk considered how such a transaction could be financed, including the use of bank financing and third party equity financing. Mr. Dirk ultimately concluded that bank financing was the only financing strategy that would likely be feasible. Mr. Dirk determined that he would need to have complete control and flexibility with respect to our operations in order to pursue a modest, long-term growth strategy. Mr. Dirk believed that such a strategy would be incompatible with having third party equity

partners who, in his view, were likely to seek more aggressive and immediate returns and liquidity on their investment.

Mr. Dirk also considered the possibility of selling TROY. After discussing this possibility with the other Dirk family members, however, he concluded, for a number of reasons, that neither he nor the other Dirk family members had any interest in selling their majority interest in TROY. The Dirk family had founded TROY in 1982, had been involved in all aspects of our operations since that time, and remained committed to continuing their involvement with TROY and pursuing the long-term growth strategy that they believed could return us to profitability. Given this, as well as our financial situation, low stock price and the short-term focus of the public markets and any potential buyers, Mr. Dirk concluded that no buyer would be willing to pay a price that would be within any realistic range of a price that might be sufficient to cause Mr. Dirk and his family members to sell their majority interest in TROY.

Prior Merger Proposal

Mr. Dirk communicated his interest in engaging in a going private transaction to our board of directors through various informal discussions. As a result, a board meeting was held in August 2002. At this meeting, Mr. Dirk stated his belief that taking TROY private was the best course of action. He therefore asked that the board of directors establish a special independent committee for this purpose. The board then appointed Norman B. Keider, John B. Zaepfel and Dr. Harold L. Clark, who at that time were our non-employee directors, to serve as members of this special committee. Mr. Dirk informed the committee members that the Affiliated Stockholders had no interest in selling their majority interest in TROY or collaborating with third party equity partners and summarized the reasons for this position.

Mr. Dirk and the special committee then engaged in numerous negotiations over a period of seven months regarding the price, terms and structure of a potential transaction. During this time, the special committee also received an unsolicited proposal from The Amara Group, Inc. ("Amara") to acquire all of our outstanding common stock for $2.50 per share. Amara subsequently indicated that it would be willing to raise its offer to include an additional per share amount in cash equal to all available cash and investments on TROY's balance sheet, which it estimated to be approximately an additional $0.50 per share. Amara also proposed that the Affiliated Stockholders join in with Amara's offer by rolling their interests in TROY into a private company that would be formed to complete the proposed transaction and to agree to acquire Amara's minority interest at a later date at an agreed upon premium amount. The special committee informed Amara that Mr. Dirk had indicated to the special committee that he and his family were not interested in selling their majority ownership interest in TROY and that, accordingly, the special committee would only be in a position to consider a proposal to purchase shares not held by the Affiliated Stockholders. Mr. Dirk then reiterated this point to Amara by letter in November 2002. Thereafter, neither the special committee nor Mr. Dirk received any further communications from Amara.

In November 2002, we received notice that TROY and its directors had been named as defendants in a lawsuit by one of our stockholders alleging, among other things, that TROY and its directors breached their fiduciary duties by attempting to provide the Dirk family with preferential treatment in connection with their efforts to complete a sale of TROY (the "Lloyd Lawsuit"). The complaint sought to enjoin an acquisition of TROY by the Dirk family.

In the course of the negotiations between Mr. Dirk and the special committee, Mr. Dirk increased the price he was willing to pay from an initial offer of $2.00 per share in August 2002 to $2.70 per share in January 2003. On March 20, 2003, the special committee recommended the approval and adoption of a merger agreement between TROY and Mergerco and our board of directors approved of such merger agreement and recommended that the stockholders of TROY vote to approved the merger agreement under the terms and conditions recommended by the special committee. Pursuant to this

merger agreement, stockholders of TROY other than Mergerco and the Affiliated Stockholders were to receive $2.70 per share in cash for shares of our common stock.

In April 2003, the special committee received an unsolicited written proposal from Westar Capital LLC ("Westar") regarding a proposed acquisition of all of the outstanding shares of our common stock for a cash price of $3.50 per share. In June 2003, Westar also proposed an alternate transaction in which it would acquire our Security Printing Solutions business by acquiring all of our outstanding shares for $3.50 per share and immediately selling to Mergerco our Wireless and Connectivity business for a nominal amount. From April 2003 through June 2003, the special committee and its advisors reviewed, discussed and evaluated these Westar proposals, including proposed sources of financing, due diligence requests and procedures, and proposed structures and conditions. During this time, Mr. Dirk reiterated on numerous occasions, both directly to the special committee and publicly to the market, that the Dirk family was not interested in selling their controlling interest in TROY or the Security Printing Solutions business, and Westar confirmed to the special committee on several occasions that it was only interested in purchasing a controlling interest in TROY or the Security Printing Solutions business. During this time, Mergerco proposed amending the merger agreement to, among other things, increase its offer price from $2.70 per share to $2.76 per share.

On June 24, 2003, the special committee recommended the approval and adoption of an amended merger agreement between TROY and Mergerco and our board of directors approved of such amended merger agreement and recommended that the stockholders of TROY vote to approved the amended merger agreement under the terms and conditions recommended by the special committee. In addition, our board also approved the terms of a Memorandum of Understanding settling the Lloyd Lawsuit. The special committee informed Westar that the special committee had concluded that neither of Westar's proposals was reasonably capable of being consummated. The Dirk family had repeatedly informed the special committee that they were not interested in selling their majority interest in TROY or the Security Printing Solutions business, and Westar had repeatedly informed the special committee that it was only interested in pursuing a transaction involving such majority control.

On June 30, 2003, Westar issued a press release announcing that it would increase its offer to purchase all of our outstanding shares of common stock from $3.50 per share to $4.00 per share. Mr. Dirk reiterated again to the special committee that the Dirk family was not interested in selling their majority interest in TROY. The special committee again determined that such transaction was not capable of being consummated and informed Westar of this fact. Westar made no further offers.

On September 18, 2003, we held a special meeting of our stockholders for the purposes of voting on the proposal to approve the amended merger agreement between TROY and Mergerco, pursuant to which all shares (other than those held by Mergerco and the Affiliated Stockholders) would be converted into the right to receive $2.76 per share in cash. Under the terms of the amended merger agreement, there were two conditions for approval that needed to be satisfied. First, the amended merger agreement needed to be approved by the affirmative vote of the holders of a majority of the outstanding shares. This condition was satisfied. Second, the amended merger agreement needed to be approved by the affirmative vote of the holders of at least a majority of the shares voting on the proposal that were not owned by the Affiliated Stockholders. This condition was not satisfied. The voting results were as follows:

	For	Against	Abstain
Approval by holders of a majority of the outstanding shares	7,761,962	1,488,727	23,425
Approval by holders of a majority of the shares cast either "for" or "against," excluding shares beneficially owned by Dirk, Inc., the Dirk family members and any officers or directors of Dirk, Inc. or TROY.	702,112	1,438,727	N/A

As a result, the proposal did not pass, and we did not consummate the merger with Mergerco pursuant to such amended merger agreement.

At the board meeting that immediately followed this special meeting of stockholders, the special committee and our board agreed to terminate the amended merger agreement and to dissolve the special committee. Following termination of the amended merger agreement, the Lloyd Lawsuit was dismissed but the plaintiff filed a motion for the award of attorney's fees and expenses. TROY filed a motion in opposition to plaintiff's motion for fees.

On March 4, 2004, the court in the Lloyd Lawsuit issued a ruling granting the motion for dismissal with prejudice and granting the motion for attorney's fees of $175,000. On April 30, 2004, we filed a notice of appeal of the award of attorney's fees.

Current Merger Proposal

Following the September 18, 2003 special meeting of stockholders relating to the Prior Merger Proposal, Mr. Dirk stated that the whole process had been very damaging to TROY in terms of the length of the process, the distractions to management and the significant costs that had been incurred. He stated that management intended to focus their time and efforts on operating TROY as a public company and attempting to return TROY to the path of profitability and growth.

On March 29, 2004, we held our first board meeting following the completion of our year-end audit and the filing of our Annual Report on Form 10-K for the year ended November 30, 2003. This meeting was held immediately following our annual meet