TROY GROUP INC
Form PRER14A
September 27, 2004

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SCHEDULE 14A INFORMATION

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

(Amendment No. 3)

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 any matters not known by our board of directors a reasonable time before TROY mailed this proxy statement 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.

The Merger (pages 48 to 49 and 60 to 66)

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 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.

The cash consideration of $3.06 per share currently is, and at the effective time of the merger may be, less than the market price for our common stock. The market price for our common stock as of September 23, 2004 was $3.35 per share.

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.

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.

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 14 to 16)

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 58 to 59)

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 59)

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. Based on the factors discussed under "SPECIAL FACTORS Reasons for the Special Committee's Determination; Fairness of the Merger" and "SPECIAL FACTORS Reasons for the Board of Directors' Determination; Fairness of the Merger," the special committee and our board of directors determined that the Merger Agreement and the merger were both substantively and procedurally fair to our stockholders (other than Mergerco and the Affiliated Stockholders) and that it would not be necessary to condition approval of the Merger Agreement and the merger upon the affirmative vote of a majority of our 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.

Our Purpose and Reasons for the Merger (pages 22 to 23)

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 44 to 45)

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 17)

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."

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Recommendations of the Special Committee and TROY's Board of Directors; Fairness of the Merger (pages 23 to 29)

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 29 to 43)

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 (pages 43 to 44)

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 49)

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 51 to 53)

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 48)

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 50 to 51)

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 53 to 57)

- 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 60 to 66)

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 63 to 64)

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 62 to 63)

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 64 to 65)

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 65 to 66)

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 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 ("Osmium"), Ralph Hamer ("Hamer"), Roy Liedtkie ("Liedtkie"), Tilson Growth Fund, L.P. ("Tilson"), and Ray Stanley ("Stanley") filed purported class action complaints in the California Superior Court for Orange County against TROY and our directors. In all five 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 five actions seek declaratory relief, an order enjoining the acquisition, and attorneys' fees. The Liedtkie complaint also names Dirk, Inc. and seeks damages. Pursuant to a stipulated order, Osmium, Hamer, Liedtkie and Tilson have been consolidated, and these four plaintiffs have adopted the allegations of the Tilson complaint. On September 13, 2004 defendants filed a demurrer to the Tilson complaint, and on September 21, they filed a demurrer to the Stanley complaint. On September 17, Osmium and Stanley filed a motion for class certification. On September 23, 2004, Liedtkie submitted a stipulation and proposed Order dismissing his action with prejudice. 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.

On September 7, 2004, TROY, Mergerco, and the Dirk Family Trust commenced an action against Westar in the United States District Court for the Central District of California, for violations of the Williams Act, tortious interference with contract, tortious interference with prospective economic advantage, and unfair business practices. The complaint alleges in this regard that Westar's purported offers to purchase all of the outstanding stock of TROY are nothing more than shams designed to disrupt the market for TROY common stock and the proposed merger between TROY and Mergerco. The complaint seeks damages of an unspecified amount as well as injunctive relief. Westar was served on September 7, and has 20 days to respond to the complaint. By stipulation of the parties, the time for Westar's response has been extended to September 29, 2004, subject to Court approval.

Recent Developments

On September 27, 2004, TROY announced financial results for our third quarter and first nine months of fiscal year 2004, which ended August 31, 2004.

Net sales for the third quarter of fiscal 2004 decreased 10.0% to $13.2 million, compared to $14.7 million in the third quarter of fiscal year 2003, due to a $0.8 million decrease in sales of Secure Payment Systems products and a $0.7 million decrease in sales of Wireless and Connectivity products. The decline in Secure Payment Systems products was primarily due to increased competition and an overall decline in check printing. The decline in Wireless and Connectivity products was primarily due to timing of orders and increased competition.

Net income for the third quarter of fiscal 2004 increased to $243,000, or $0.02 per share diluted, compared to net income of $107,000, or $0.01 per share diluted, in the prior year's third quarter, primarily due to improved gross profit partially offset by increased professional fees in connection with the proposed merger between TROY and Mergerco and the related litigation.

Net sales for the first nine months of fiscal 2004 decreased 2.9% to $41.2 million, compared to $42.5 million for the first nine months of fiscal year 2003, primarily due to a $1.9 million decrease in sales of Secure Payment Systems products partially offset by a $0.7 million increase in Wireless and Connectivity products. The decline in Secure Payment Systems products was primarily due to increased competition and an overall decline in check printing. The increase in Wireless and Connectivity was primarily due to large orders received in the first half of 2004.

Net income for the first nine months of fiscal 2004 increased to $604,000, or $0.06 per share diluted, compared to net income of $579,000, or $0.05 per share diluted, in the prior year's first nine months, primarily due to improved gross profit partially offset by increased professional fees in connection with the proposed merger between TROY and Mergerco and the related litigation.

In light of this decrease in revenues for the third quarter of 2004, TROY believes that it will be difficult to achieve the revenue projections for 2004 that are presented under "SPECIAL FACTORS Projections Prepared by TROY."

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 meeting of stockholders. At this board meeting, the board discussed the year-end process, the financial results for 2003, the status of management's cost control efforts and preliminary estimates for first quarter 2004 results. Mr. Dirk noted that, although management had been successful in returning TROY to the point where its operations had been profitable for five consecutive quarters, this had been accomplished through significant cost control measures. Management had not been able to grow revenues as hoped or at a level consistent with the internal projections that had been included in the proxy materials distributed in connection with the Prior Merger Proposal. In fact, he noted that revenues for 2003 were down three percent from the revenues that had been projected for 2003 in the proxy materials for the Prior Merger Proposal. He further noted that management was currently in the process of preparing revised internal projections.

Mr. Dirk stated that lower revenue growth and higher costs were putting increasing pressure on management's ability to maintain an appropriate cost structure. In that regard, he informed the board that he had met with Stephen Holmes, the chair of our board's audit committee, a few days prior to the board meeting to discuss this issue. This meeting had been precipitated by the significant costs incurred in connection with the year-end audit. At that meeting, Mr. Dirk stated that Mr. Holmes had raised significant concerns not only regarding the costs for the year-end audit but also the costs going forward of satisfying all of the new accounting and other requirements associated with being a public company. Mr. Dirk indicated that he was also concerned regarding these costs, including the anticipated costs of complying with the new internal controls requirements under the Sarbanes-Oxley Act of 2002 and the increasing costs of maintaining director and officer insurance, and the ongoing impact they could have on our operations. Mr. Dirk informed the board that, following his meeting with Mr. Holmes, he began to re-consider whether TROY should continue to try and operate as a public company. He also reminded the board that one of our major stockholders had raised the issue of whether we should be public at the annual stockholders' meeting earlier that day. This stockholder had raised many of the same concerns regarding our low growth rate and increasing costs.

The board then discussed the issue of whether TROY should remain public. In the course of this discussion, Mr. Dirk stated that the Prior Merger Proposal had been very damaging to TROY in terms of the distractions to management and the significant costs incurred. The process had taken almost a year and a half and had diverted considerable resources that would have been better devoted to our business. Nevertheless, Mr. Dirk indicated that he might be interested in again making an offer to take TROY private if the process, whether or not successful, could be completed in a more expeditious and cost-effective manner in order to avoid the damaging effect the Prior Merger Proposal had on TROY. Although Mr. Dirk was aware that any transaction of this kind would involve a certain amount of costs and distractions, Mr. Dirk believed that these costs and distractions, if kept to a minimum, would be outweighed by the benefits of potentially completing a transaction that Mr. Dirk believed would be in the best interests of the stockholders other than Mergerco and the Affiliated Stockholders. He reiterated, however, that the Dirk family members were not interested in selling their majority interest nor would they be interested in partnering with any third parties in any such transaction.

Following this discussion, the board determined, given the possibility that Mr. Dirk might again make an offer to take TROY private, that it would be appropriate to appoint a special independent committee to review this matter. Accordingly, the board approved the establishment of a special independent committee for this purpose and elected Stephen G. Holmes (Chair), Gene A. Bier and Lambert Gerhart, TROY's independent directors, to serve on such special committee. The board also authorized the special committee to begin the process of interviewing possible legal and financial advisors.

Between March 31, 2004 and April 15, 2004, Mr. Holmes interviewed several law firms and financial advisors, and selected legal counsel and a financial advisor subject to the approval of the special committee and the board. On April 15, 2004, the special committee members met telephonically and selected Self & Bhamre as its legal counsel and BEAR as its financial advisor. At this meeting, BEAR described to the special committee members the process it would undertake to conduct and prepare a valuation and financial analysis of TROY. During this meeting, the special committee members were advised on the procedural and legal requirements should an offer be made by Mr. Dirk.

On April 27, 2004, our board met to receive a report from the special committee. Mr. Holmes, as Chairman of the special committee, summarized the activities of the special committee since the March 29 board meeting. He stated that the special committee had interviewed independent legal and financial advisors and had engaged Self & Bhamre as its legal counsel and BEAR as its financial advisor should Mr. Dirk again be interested in pursuing a going private transaction. Mr. Holmes informed the board that the special committee had reviewed with such advisors the procedural and legal requirements with respect to such a going private transaction. Mr. Holmes also informed the board that the special committee had met by teleconference on April 15, 2004 to discuss these matters further. Mr. Holmes then summarized the background of these advisors as well as the compensation arrangements that had been tentatively agreed to by the special committee. The board then ratified the engagement of these advisors on the terms described.

Mr. Dirk then informed the board that he had considered the factors that had been discussed at the March 29 board meeting and the issues that had been raised by one of our major stockholders at the annual meeting of stockholders and had determined to make a formal proposal to take the Company private following the board meeting. He reiterated, however, that he felt it was important that the process be conducted in a manner that, whether or not successful, would not damage TROY. He also reiterated that the Dirk family members were not interested in selling their majority interest nor would they be interested in partnering with any third parties in any such transaction. In light of this, the board discussed its fiduciary duties to TROY and its stockholders, and the proper role for the special committee. After considering these facts, the board determined that it would a waste of the special committee's time and TROY's resources for the special committee to search for other strategic alternatives, partners or transactions because the Dirk family members would not be interested in selling their shares of our common stock. Accordingly, the board determined, in accordance with Delaware law, that the special committee's authority should be limited to reviewing the proposal to be made by Mr. Dirk, negotiating the price and other terms of such proposal and determining whether such price and terms are fair to the stockholders other than Mergerco and the Affiliated Stockholders and whether such proposal should therefore be recommended to our board and stockholders. Mr. Dirk stated that the decision of whether to recommend any such transaction with the Dirk family would be completely within the discretion of the special committee and that, if the special committee and Mr. Dirk were unable to agree on a price and terms deemed fair by the special committee, Mr. Dirk would withdraw his proposal and focus his efforts on operating TROY as a public company and attempting to return TROY to long-term profitability and growth.

Following this board meeting, Mr. Dirk delivered to Mr. Holmes, as Chairman of the special committee, a proposal pursuant to which Mergerco would be merged into TROY and all outstanding shares of our common stock (other than shares owned by Mergerco and the Affiliated Stockholders) would be converted into $2.76 per share in cash. The proposal specified that completion of the proposed merger would be conditioned upon, among other things, negotiation of a mutually acceptable definitive merger agreement, approval of filings required by applicable regulatory agencies, the determination by the special committee and our board of directors that the merger is fair to our stockholders other than Mergerco and the Affiliated Stockholders, completion of financing arrangements necessary to fund the merger and approval of the merger by our board of directors and stockholders. The closing price of our common stock on April 27, 2004 was $2.95 per share.

Mr. Dirk informed Mr. Holmes that he felt a price of $2.76 was fair. This price had been found to be fair a year earlier by the previous special committee and their financial advisors based in part on projections existing at that time and the Lloyd Lawsuit had been tentatively settled based on that price. Since that time, TROY had not been able to achieve the revenue growth anticipated in those projections and in fact had recently concluded that those projections were no longer achievable.

On May 3, 2004, the special committee members met telephonically to review and discuss Mr. Dirk's April 27, 2004 proposal. At this meeting, a representative from BEAR provided the special committee with a preliminary indication that the value of the TROY stock was $3.01 per share, subject to further analyses and a site visit. In addition, Mr. Holmes, as chairman of the special committee, reported that he had been specifically informed by Mr. Dirk that the Dirk family members were not interested in selling their shares and were not interested in partnering with any third parties. Following a lengthy discussion among the special committee members and its legal counsel and BEAR, the special committee determined that the cash offer of $2.76 per share was inadequate and that Mr. Dirk needed to provide the terms and conditions of any proposed merger agreement in addition to a bank commitment letter showing the financing arrangement.

On May 4, 2004, Mr. Dirk and Mr. Holmes held a conference call to discuss the proposal by Mr. Dirk. During that call, Mr. Holmes informed Mr. Dirk that the special committee had rejected Mr. Dirk's proposal on the basis that the price of $2.76 per share was inadequate. Mr. Dirk reiterated for Mr. Holmes why he felt that the price of $2.76 was fair. Mr. Holmes stated that he understood Mr. Dirk's position but that, nevertheless, the guidance the special committee had received from its financial advisor indicated that a higher price would be needed. Mr. Dirk then suggested to Mr. Holmes that it might be prudent for the special committee's financial advisor to come to TROY's facility to conduct due diligence meetings with certain members of management, and Mr. Holmes agreed.

On May 5, 2004, Mr. Holmes and a representative of the financial advisor to the special committee attended due diligence meetings at TROY's facility. At these meetings, management provided the financial advisor with additional information and answered questions. At the end of these due diligence meetings, Mr. Dirk, Mr. Holmes and the financial advisor engaged in a discussion regarding Mr. Dirk's proposal. Mr. Dirk again reiterated why he felt $2.76 was a fair price. Mr. Holmes disagreed, stating that TROY had more cash than a year ago, that the Wireless and Connectivity business was no longer losing money and that TROY had now been profitable for five consecutive quarters. Mr. Dirk responded by pointing out that most of that recovery had begun last year and had been factored into the valuation by last years' committee. He also reminded Mr. Holmes that a significant portion of the cash increase was due to delays in payables. Mr. Holmes stated that he still thought the price was too low. Mr. Dirk, in a follow-up call to Mr. Holmes stated that, although he still believed that $2.76 per share was a fair price, because there was more cash in the business, he would be willing to increase the offer to $2.86 per share. Mr. Holmes asked Mr. Dirk to send him a formal proposal to that effect. On May 5, 2004, Mr. Dirk delivered to the special committee a proposal increasing the merger consideration to $2.86 per share.

On May 10, 2004, Mr. Holmes had a lengthy telephone call with the representative of BEAR and the special committee's legal counsel to discuss a draft valuation report provided by BEAR.

On May 12, 2004, the special committee met telephonically to review and discuss the May 5, 2004 offer by Mr. Dirk. At this meeting, a representative of BEAR provided a lengthy presentation of the analyses used by BEAR to value the shares of TROY. This discussion covered the selection of market data, adjustments made to the financial statements, derivation of capitalization rates, discounts rates, and value multipliers, the methods applied, and the conclusion of value. The BEAR representative opined that the value of TROY's shares was $3.04 per share, and thereafter the special committee members and the BEAR representative engaged in a question and answer session. At the conclusion of a lengthy discussion, the special committee determined that $2.86 per share was inadequate and Mr. Holmes should pursue negotiations with Mr. Dirk to increase the merger consideration to $3.14 per share. The special committee reiterated the need to see the proposed merger agreement and a bank commitment letter regarding financing terms.

On May 12, 2004, Mr. Dirk and Mr. Holmes held a conference call to discuss Mr. Dirk's revised proposal. During that call, Mr. Holmes informed Mr. Dirk that the special committee had rejected Mr. Dirk's revised proposal on the basis that the price of $2.86 per share was inadequate. Although Mr. Holmes would not provide Mr. Dirk with information regarding the valuation information on which the special committee was basing its decision, he did indicate to Mr. Dirk that the special committee believed that a more appropriate price would be $3.14 per share. Mr. Dirk expressed disappointment that the special committee had rejected what he believed to be a price that was more than fair and stated that he could not understand how the special committee could arrive at such a high price given the factors he had repeatedly pointed out to the special committee regarding the basis for last years' proposal and TROY's reduced prospects. Mr. Dirk then indicated that he would need to think about the special committee's position and would get back to him. Mr. Holmes reminded Mr. Dirk that, in addition to price, the special committee would also need to see as part of their deliberations, the other terms of a merger agreement as well as a bank commitment letter regarding financing terms.

Later in the day on May 12, 2004, Mr. Dirk contacted Mr. Holmes. He reiterated his reasons why $2.86 was more than fair but Mr. Holmes informed him that a price of $2.86 was not going to be approved. Mr. Dirk stated that he did not see any basis for the special committee to conclude that $3.14 per share was an appropriate price. However, Mr. Dirk reiterated his concern that he didn't want the process to drag out over an extended period of time as it had the prior year, because it had been very damaging to TROY. Mr. Dirk stated that he would be willing to make a significant increase in price so long as the transaction could be structured in such a way as to ensure an expeditious and efficient process that would not drag out and damage TROY. As a result, Mr. Dirk increased his offer price to $3.06 per share provided that the transaction was not subject to majority of the minority voting condition. Mr. Holmes stated that Mr. Dirk should submit this revised proposal in writing along with a draft of a merger agreement. Mr. Dirk indicated he would do so. However, he also informed Mr. Holmes that this was his final offer unless the special committee could provide him with new information that would clearly support a higher value.

On May 12, 2004, Mr. Dirk's counsel delivered to the special committee a draft form of merger agreement providing for the acquisition of all of our common stock not held by Mergerco and the Affiliated Stockholders. Mr. Dirk structured the transaction as a merger of Mergerco into TROY, which would permit the shares owned by the stockholders other than Mergerco and the Affiliated Stockholders to be converted into cash by operation of the merger statute and preserve TROY's identity and existing contractual arrangements with third parties. During the period from May 12 through May 20, 2004, counsel for the special committee negotiated the material terms of the merger agreement with counsel for Mergerco.

On May 14, 2004, the special committee met to review and discuss the May 12, 2004 proposal from Mr. Dirk. A representative from BEAR stated that the cash consideration of $3.06 per share was fair from a financial point of view. The special committee engaged in a discussion of the May 12, 2004 offer made by Mr. Dirk and considered BEAR's opinion. During the discussion, the special committee was advised again on the legal requirements concerning the stockholder vote required to approve the Merger Agreement and the merger. After its discussion, the special committee determined to accept the $3.06 cash offer made by Mr. Dirk and not to require a majority of the minority requirement, subject to review and negotiation by the special committee's legal counsel of the proposed merger agreement and an acceptable commitment letter from a financial institution.

During the period between May 12, 2004 and May 24, 2004, the special committee's legal counsel discussed and negotiated the proposed merger agreement with Mergerco's legal counsel. Also during this period, Mr. Holmes communicated regularly with the special committee's legal counsel regarding the terms and conditions of the proposed merger agreement. On May 21, 2004, Mr. Holmes received a copy of the commitment letter from Comerica Bank and discussed this commitment letter with legal counsel to the special committee.

On May 24, 2004, the special committee held a telephonic meeting. At this meeting, the special committee reviewed and discussed the Merger Agreement and the Comerica commitment letter. The legal counsel to the special commitment made a presentation of the salient terms and conditions of the revised Merger Agreement and the special committee members held a question and answer session with their legal counsel. Mr. Holmes made a presentation of the Comerica commitment letter and the special committee engaged in discussion of the commitment letter. At this time the special committee members were briefed, again, by its legal counsel on their fiduciary duties. At the conclusion of this meeting, the special committee unanimously (i) determined that approval and adoption of the Merger Agreement was advisable and in the best interests of TROY and its stockholders (other than Mergerco or the Affiliated Stockholders), (ii) determined that the Merger Agreement was substantively and procedurally fair to, and in the best interests of, the stockholders of TROY (other than Mergerco or the Affiliated Stockholders), (iii) recommended to the board that the Merger Agreement be approved by the board, and (iv) recommended that the stockholders of TROY vote to approve and adopt the Merger Agreement and the merger. Following this meeting, Mr. Holmes called Mr. Dirk to inform him that the special committee had accepted his offer.

On May 26, 2004, our board of directors held a telephonic meeting. At this meeting, the board received a report from Mr. Holmes regarding the deliberations and actions of the special committee. Following this, the special committee recommended that our board approve the May 26, 2004 merger agreement and the merger. Following discussion with the special committee members, their financial and legal advisors and our legal advisors, the board of directors accepted the special committee's recommendations and, on the basis thereof, unanimously (i) determined that such May 26, 2004 merger agreement and the merger were advisable and were substantively and procedurally fair to, and in the best interests of, the stockholders of TROY (other than Mergerco and the Affiliated Stockholders), (ii) approved such merger agreement and the merger, and (iii) recommended that the stockholders of TROY vote to approve such merger agreement and the merger. Neither the special committee, our board nor BEAR relied upon the fairness opinion prepared by Houlihan Lokey Howard & Zukin in connection with the Prior Merger Proposal. Following approval by our board of directors, the parties signed the merger agreement and issued a press release. The closing price of our common stock on May 26, 2004 was $2.70 per share.

On July 20, 2004, Mr. Dirk received a letter from Westar in which Westar reaffirmed their interest in purchasing all of the outstanding equity of TROY, including the majority interest held by the Dirk family and stated that they were prepared to purchase all of the outstanding shares at a price of $4.00 per share, subject to a possible upward adjustment depending on the level of increased cash on hand since Westar's offer in June 2002 and satisfactory completion of further due diligence. Mr. Dirk informed the special committee of the receipt of the letter from Westar and forwarded a copy to the special committee. On July 21, 2004, Mr. Dirk sent a response letter to Westar stating once again that the majority interest was not for sale and suggesting that Westar contact the special committee if they were interested in purchasing the shares not held by the Dirk family. Mr. Dirk also sent the special committee a copy of his response letter. On July 23, 2004, legal counsel to the special committee sent a letter to Westar asking that they contact the special committee directly regarding the possibility of purchasing the shares of TROY that were not held by the Dirk family. Westar did not respond to the the special committee regarding the purchase of shares not held by the Dirk family and on July 26, 2004 issued a press release announcing is offer to purchase all of the outstanding equity of TROY, including the majority interest held by the Dirk family.

On August 5, 2004, legal counsel for the special committee received a letter from Westar in which they offered to purchase all of the outstanding shares of TROY, including the majority interest held by the Dirk family, at a price of $4.50 per share, subject to completion of due diligence. Legal counsel for the special committee discussed the Westar letter with the special committee and forwarded a copy to Mr. Dirk. Mr. Dirk informed the special committee that neither he nor his family members were interested in selling their majority interest. After consulting with the members of the special committee, legal counsel for the special committee sent a response letter to Westar on August 6, 2004, advising Westar that Mr. Dirk had confirmed once again that the Dirk family was not interested in selling their majority interest and that, as a result, a transaction involving a sale of all of the outstanding shares was not capable of being consummated. Legal counsel for the special committee also informed Westar that the special committee was willing to discuss an offer involving only the minority interest and requested that Westar notify the special committee whether Westar had an interest in purchasing the minority interest.

Westar once again did not respond to the special committee's offer to discuss a transaction involving the minority interest. Given this and the fact that the Dirk family had repeatedly confirmed that the majority interest was not for sale, the special committee determined once again that the Merger Agreement was the only transaction involving the minority interest that was capable of being consummated. The special committee was also concerned that Westar was not serious about purchasing an equity interest in TROY at the price indicated in their correspondence. Westar refused to discuss price or any other terms of a transaction involving the minority interest, which was a transaction that could be completed. In addition, the special committee noted that, even in the context of Westar's purported desire to purchase all of the outstanding equity of TROY, these "offers" always took the form of letters and press releases containing various conditions rather than a fully financed, firm offer. As a result of these factors, and the reasons set forth under "SPECIAL FACTORS Reasons for the Special Committee's Determination; Fairness of Merger," "SPECIAL FACTORS Reasons of the Board of Directors' Determination; Fairness of the Merger" and "SPECIAL FACTORS Advantages and Disadvantages of the Merger," the special committee and our board of directors continued to believe the Merger Agreement and the merger were advisable and were substantively and procedurally fair to, and in the best interest of, TROY and our stockholders (other than Mergerco and the Affiliated Stockholders).

On September 7, 2004, TROY, Mergerco and the Dirk Family Trust commenced an action against Westar in the United States District Court for the Central District of California for violations of the Williams Act, tortious interference with contract, tortious interference with prospective economic advantage, and unfair business practices. The complaint alleges that Westar's purported offers to purchase all of the outstanding stock of TROY are nothing more than shams designed to disrupt the market for TROY common stock and the Merger Agreement. The complaint seeks damages of an unspecified amount as well as injunctive relief. See "INFORMATION RELATING TO TROY GROUP, INC. Legal Proceedings."

Our Purpose and Reasons for the Merger

Our common stock became publicly traded after our July 1999 initial public offering at a price of $7 per share. Beginning in November 1999 and for several months thereafter, our common stock traded at or above $14 per share. By February 2000, the market price of our common stock had peaked at a closing day high of $38 per share. Throughout this short period, trading volumes were moderate to heavy, and even through December 2000 daily trading volumes were not infrequently between 50,000 to 80,000 shares. By December 2000, however, the stock had dropped to between $4 and $5 per share. The per share price continued to drop throughout 2001 and 2002 and by March 2003 (the month in which the Prior Merger Proposal was first announced) had reached a share price of $1.45 per share with only nominal trading volumes. Although the price and volume increased during the course of the Prior Merger Proposal, the price dropped to $2.45 per share following the announcement that the Prior Merger Proposal had not been approved and over the six-month period prior to the announcement of the Merger Agreement the closing price has averaged $2.96 per share and the daily trading volume has averaged 13,191 shares. On May 26, 2004 (the date prior to public announcement of the Merger Agreement), our common stock closed at $2.70 per share, which was only 6.7% above our book value per share. Because the public markets focus on companies with higher growth rates, we believe that our stock price and volumes could continue to suffer unless we are able to demonstrate the type of growth expected of a public company. Unfortunately, our revenues for fiscal year 2003 increased by only 2.9% over fiscal year 2002 and our revenues for the first six months of fiscal year 2004 increased by only 0.8% over the same period in fiscal year 2003. In addition, our revenues are not projected to return to 1999 levels, our highest revenues to date, until fiscal year 2006 and are projected to increase on average only approximately 2.2% per year over the next five years. We therefore believe that the price of our common stock will continue to suffer because the public markets reward companies with high sales growth and we are not projecting high sales growth in the next five years.

Of the approximately 10.6 million shares of our common stock outstanding, stockholders other than the Affiliated Stockholders hold only approximately 3.5 million shares, or 33%. Because of the relatively low number of outstanding shares and the fact that the Affiliated Stockholders have not heavily traded their shares, the trading volume of shares of our common stock has been, and continues to be, limited. During the three months prior to the announcement of the Merger Agreement and the merger, the average daily trading volume of our common stock has been less than 6,077 shares per day. Because the stock is so thinly traded, many stockholders lack sufficient liquidity to sell their shares without a significant impact on the market price of our common stock. The public markets have less interest in companies with small market capitalization and a limited amount of stock available for trading.

The costs of operating as a public company have increased significantly and are expected to continue to increase. These increased costs are due to factors such as compliance with new accounting, disclosure and legal requirements and higher directors' and officers' insurance premiums. Given that many of these costs must be incurred regardless of the size of the public company or its operations, these costs have a significantly disproportionate impact on smaller public companies such as TROY.

We believe the public marketplace has had less interest in public companies with a small market capitalization and a limited amount of stock available for trading. We believe that this is particularly true as to specialty office products and software companies with relatively modest growth rates. Our board of directors believes it is highly speculative whether our common stock would ever achieve significant market value because of our size, the lack of liquidity, the increased costs of operating as a public company and the uncertainty regarding our ability to generate significant profitable growth in the near future. The realization that our common stock may never achieve significant market value as a public company is one of the reasons that ultimately caused our board of directors to conclude that we no longer are benefiting from operating as a public company and that it would be in the best interests of TROY and our stockholders for us to be privately held.

The Merger Agreement and the merger presented us with the opportunity to return to the status of a private company while affording our stockholders, other than Mergerco and the Affiliated Stockholders, the opportunity to liquidate their common stock at a price that represents, without incurring any brokerage commissions:

- 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.

In addition, being a private company would relieve us of the significant expenses associated with operating as a public company, eliminate various obligations applicable to a public company, increase management's flexibility to consider and initiate actions geared to modest, long-term growth as opposed to short-term earnings per share, and allow us to elect S corporation status and avoid federal income tax at the corporate level.

We believe that providing liquidity today to the maximum number of stockholders is in the best interest of TROY and our stockholders and is preferable to attempting to achieve a future share price in excess of $3.06 per share as a publicly traded company for the reasons described above and under "SPECIAL FACTORS Reasons for the Special Committee's Determination; Fairness of the Merger," "SPECIAL FACTORS Reasons for the Board of Directors' Determination; Fairness of the Merger" and "SPECIAL FACTORS Advantages and Disadvantages of the Merger." Although the price of our common stock has increased since the announcement of the Merger Agreement and the merger, we cannot predict whether the market price of our common stock will remain at these levels. In addition, the trading volume of our common stock has remained low, and sales of our common stock in the open market would therefore likely have a negative impact on the market price of our common stock. As a result, our board of directors believes that the merger is the most expeditious and economical way of providing liquidity to the maximum number of stockholders at a fair price and at a price that is significantly higher than that which could be achieved in the open market.

Reasons for the Special Committee's Determination; Fairness of the Merger

The special committee, which is composed solely of directors who are neither employees of TROY nor affiliates of Mergerco or the Affiliated Stockholders, has unanimously determined that approval and adoption of the Merger Agreement and the merger is 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), and recommended that our full board of directors approve and adopt the Merger Agreement and the merger and that our stockholders approve and adopt the Merger Agreement and the merger. The following are the material positive factors the special committee considered in reaching its conclusion:

- The efforts of the special committee, assisted by BEAR, commencing in April 2004, to evaluate the proposals received from the Affiliated Stockholders.

- The fact that the Merger Agreement with Mergerco allows the special committee a reasonable opportunity to respond to certain third party alternative proposals, does not include a termination fee (other than an obligation to reimburse Mergerco's transaction expenses under certain circumstances) and requires the holders of a majority of shares of our common stock to approve the merger, and that, subsequent to entering into the Merger Agreement, the special committee has not received any proposal to acquire the shares that are not held by the Affiliated Stockholders.

That the consideration of $3.06 per share to be received by our stockholders (other than Mergerco and the Affiliated Stockholders) in the merger would consist entirely of cash, which provides greater assurance of stockholder value and eliminates any uncertainties in valuing the merger consideration to be received by our stockholders.

That the cash price of $3.06 per share to be paid in the merger 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 receipt by Mr. Dirk of a commitment letter from Comerica Bank-California with respect to its commitment to provide financing that would be sufficient to pay the aggregate purchase price in the merger, and the belief that the Affiliated Stockholders have the ability to complete the merger in a timely manner.

The delivery to the special committee of a written opinion of BEAR, dated May 24, 2004, stating that the cash merger consideration of $3.06 per share of TROY common stock was fair, from a financial point of view, to TROY's stockholders (other than Mergerco and the Affiliated Stockholders).

The significant challenges facing us in continuing to operate as an independent public company, including the significantly increasing compliance costs associated with operating as a public company and the possibility that our common stock could again be delisted from the Nasdaq National Market if we do not satisfy the conditions required by the Nasdaq National Market to maintain our listing, including the requirement that we must have two registered market makers quoting our common stock.

Our prospects as an independent, publicly held entity, taking into account our current growth prospects contrasted against the expectations of the public markets for short-term and long-term growth and profitability.

The limitations we have suffered and, in the special committee's view, would likely continue to suffer as a public company, including low trading volume, limited institutional sponsorship and diminished research attention from analysts, all of which could adversely affect the trading market and market value of our common stock. The merger will provide our unaffiliated stockholders with immediate liquidity for their shares without the usual transaction costs associated with open market sales.

The current and prospective business environment in which we operate, including that the market acceptance for the true "wireless" products of our wireless and connectivity segment has been slower than anticipated, and that our existing print server business still requires significant product support despite it being in a declining market.

The terms of the Merger Agreement, including the parties' representations, warranties and covenants, and the conditions to their respective obligations. The special committee concluded that these terms provide a high degree of certainty that the merger can be completed, particularly in light of the Affiliated Stockholders' limited right to terminate the Merger Agreement.

That the Merger Agreement, after giving consideration to the requirements and limitations contained therein, allows the special committee a reasonable opportunity to respond to certain third party alternative proposals, and, if a superior proposal were made, to terminate the Merger Agreement and accept the superior proposal up until the time of the stockholder vote on the merger, subject to certain limitations, including the reimbursement of expenses to Mergerco.

That negotiations with the Affiliated Stockholders resulted in an increase in the cash price per share that the Affiliated Stockholders were willing to pay in the merger, and that the Affiliated Stockholders agreed to increase the cash price per share to be paid in the merger from $2.76 to $3.06.

The ability of stockholders who may not support the merger to obtain "fair value" for their shares if they properly perfect and exercise their appraisal rights under Delaware law. See "SPECIAL FACTORS Appraisal Rights."

The special committee also considered the following positive factors, among others, relating to the procedures involved in the negotiation of the merger:

Our board of directors established a special committee, comprised solely of directors who are neither employees of ours nor affiliates of the Affiliated Stockholders, to evaluate the Affiliated Stockholders' proposal, negotiate with the Affiliated Stockholders, consider whether the proposed transaction was in the best interest of our stockholders and, if appropriate, recommend the proposed transaction to our full board of directors.

The special committee retained BEAR and Self & Bhamre, both of whom are unaffiliated with the Affiliated Stockholders, as the special committee's outside financial and legal advisors, and these advisors reported directly to, and took direction from, the special committee.

The special committee instructed BEAR to perform a financial analysis of TROY, following which BEAR delivered to the special committee a written opinion regarding the fairness, from a financial point of view, of the per share cash merger consideration of $3.06.

Our stockholders will have the opportunity to approve or disapprove the Merger Agreement and the merger.

Our stockholders who do not vote to approve and adopt the Merger Agreement and the merger will have the right to seek an appraisal of their shares in accordance with Delaware law.

The special committee also considered a variety of risks and other potentially negative factors concerning the merger, including the following:

Unlike the Prior Merger Proposal, the Merger Agreement and the merger do 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.

If the merger is not consummated under circumstances further discussed under the heading "THE MERGER AGREEMENT Fee and Expense Reimbursement Upon Termination," we may be required to reimburse Mergerco for all out-of-pockets fees and expenses, including reasonable legal, accounting and financial advisory fees and expenses.

Certain terms and conditions set forth in the Merger Agreement, as required by the Affiliated Stockholders as a prerequisite to entering into the Merger Agreement, prohibit the special committee or our board of directors from soliciting third party bids and accepting, approving or recommending third-party bids except in specified circumstances and upon reimbursement to Mergerco of its out-of-pocket fees and expenses, and these terms could have the effect of discouraging a third party from making a bid to acquire us.

The cash consideration to be received by a TROY stockholder will generally be taxable to the stockholder in an amount equal to the excess of $3.06 over the stockholder's tax basis in the stockholder's shares of our common stock.

The cash consideration of $3.06 per share currently is, and at the effective time of the merger may be, less than the market price of the our common stock.

Westar made an offer to purchase all the outstanding shares of TROY for $4.50 per share, subject to completion of due diligence.

Following the merger, we will be a privately held company, and our stockholders, other than the Affiliated Stockholders, will cease to participate in any of our future earnings growth or benefit from any increase in our enterprise value.

The fact that the Affiliated Stockholders hold approximately 67% of our outstanding common stock may have discouraged other parties from becoming bidders.

The special committee also considered the offer by Westar to purchase all of the outstanding shares of TROY at $4.50 per share. With respect to the Westar offer, the special committee considered the fact that (i) the offer was for all of the outstanding equity of TROY, including the majority interest held by the Dirk family, that Mr. Dirk had specifically informed the special committee that such majority interest was not for sale, and that a transaction with Westar was therefore not capable of being consummated, (ii) Westar did not respond to the special committee's repeated requests to discuss whether Westar had an interest in purchasing the minority interest in TROY and (iii) the offer was contingent on the completion of due diligence. The special committee also considered their concern that Westar was not serious about purchasing an equity interest in TROY at the price indicated in their correspondence. In this regard, the special committee noted that, even in the context of Westar's purported desire to purchase all of the outstanding equity of TROY, these offers always took the form of letters and press releases containing various conditions rather than a fully financed, firm offer.

With respect to the decision not to condition the merger upon receiving the affirmative vote of a majority of the stockholders other than Mergerco and the Affiliated Stockholders, the special committee considered the fact that the Prior Merger Proposal had been conditioned upon receiving the affirmative vote of a majority of the stockholders (other than Mergerco and the Affiliated Stockholders) and that TROY had not received the requisite vote; however the special committee also considered a number of other factors, including the fact that (i) Delaware law clearly allows such a transaction to be approved without such a condition, (ii) the special committee was independent, was able to act in a fully informed manner based on the advice of legal and financial advisors, had the freedom to negotiate the proposed merger such that the terms of the Merger Agreement were not less favorable than those that would have been obtainable in an arms'-length transaction and to terminate the negotiations at any time, and was therefore fully capable of making a determination that the Merger Agreement and the merger were substantively and procedurally fair to the stockholders other than Mergerco and the Affiliated Stockholders, (iii) the special committee was able to obtain a significant price increase by agreeing not to impose such a condition, and (iv) the Merger Agreement allowed the special committee to consider alternative superior proposals up to the time of the stockholder vote. The special committee considered these factors and concluded that the benefits of not conditioning the merger on such a condition outweighed any negative factors and that such a procedural safeguard was not necessary to ensure that the Merger Agreement and the merger were substantively and procedurally fair to the stockholders other than Mergerco and the Affiliated Stockholders.

After considering these positive and negative factors as well as the advantages and disadvantages of the merger described under the heading "SPECIAL FACTORS Advantages and Disadvantages of the Merger," the special committee concluded that the positive factors relating to the merger outweighed the negative factors.

Because of the variety of factors considered, the special committee did not find it practicable to quantify or otherwise assign relative weights to, and did not make specific assessments of, the specific factors considered in reaching its determination. However, individual members of the special committee may have assigned different weights to various factors. The determination of the special committee was made after consideration of all of the factors taken together as a whole and upon reliance on BEAR's fairness opinion and the special committee adopts BEAR's analyses and conclusions. However, the special committee did not consider net book value or liquidation value to be material to their determination as to the fairness of the merger. As TROY is a going concern, the special committee did not believe the net book value (approximately $2.54 on May 26, 2004) would accurately reflect the value of TROY because it did not take into account goodwill and other intangible assets. Similarly, the special committee believed the liquidation value was an inappropriate measure given TROY is not going out of business or selling off our assets and because this measure would value our assets at an amount less than net book value, which would then be further reduced by the estimated cost of the liquidation. In such event, using either of these measures would result in a value that was less than the merger consideration. Further, the special committee did not consider TROY's repurchases of our common stock as a relevant factor as TROY had not repurchased a significant number of shares, had not repurchased any shares since the first fiscal quarter of 2004 and the highest purchase price was $2.97, which was less than the merger consideration. The special committee did not consult with our independent public accountants in evaluating our financial condition or projections.

Reasons for the Board of Directors' Determination; Fairness of the Merger

Our board of directors consists of five directors, three of whom serve on the special committee. In reporting to our board of directors regarding its determination and recommendation, the special committee, with its legal and financial advisors participating, advised the other members of our board of directors of the process which the special committee underwent in the course of reaching its determination that the terms of the Merger Agreement and the merger, including the offer price of $3.06 per share, are advisable and in the best interests of TROY and our stockholders (other than Mergerco and the Affiliated Stockholders) and 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 determination and recommendation of the special committee, 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 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 considered the following factors in reaching this determination and recommending that our stockholders vote **FOR** approval and adoption of the Merger Agreement and the merger:

- the recommendation of the special committee;

- the delivery to the special committee of a written opinion of BEAR, dated May 24, 2004, stating that the cash merger consideration of $3.06 per share of TROY common stock was fair, from a

- financial point of view, to our stockholders (other than Mergerco and the Affiliated Stockholders);
- the factors referred to above as having been taken into account by the special committee; and
- the procedural factors described below.

Our board of directors believes that the merger is procedurally fair because, among other things:

- the special committee consisted entirely of independent, non-employee directors appointed by our board of directors to represent solely the interests of our stockholders other than Mergerco and the Affiliated Stockholders;
- the special committee retained and was advised by its own independent financial advisor to assist it in evaluating the Merger Agreement and the merger and provide it with financial advice;
- the special committee retained and was advised by its own independent legal counsel;
- the special committee engaged in extensive negotiations and deliberations in evaluating the Merger Agreement and the merger;
- the merger consideration and the other terms and conditions of the Merger Agreement resulted from active negotiations between the special committee and representatives of Mergerco and the Affiliated Stockholders and resulted in an increase in the price per share offered by the Affiliated Stockholders from $2.76 to $3.06; and
- the ability of the special committee to consider certain superior proposals and terminate the Merger Agreement if they determine that the failure to do so would be a breach of their fiduciary duties under applicable law.

In view of the foregoing, our board of directors adopted the special committee's determination that the merger is fair to and in the best interest of our stockholders (other than Mergerco and the Affiliated Stockholders). In adopting the special committee's determination, our board of directors believes that sufficient procedural safeguards were present to ensure fairness and to permit the special committee to effectively represent the interests of our stockholders other than Mergerco and the Affiliated Stockholders or to condition the merger upon receiving the affirmative vote of a majority of the stockholders, other than Mergerco and the Affiliated Stockholders and that it was not therefore necessary to appoint an unaffiliated representative to act solely on behalf of our stockholders other than Mergerco and the Affiliated Stockholders.

In view of the variety of factors considered by our board of directors and the complexity of these matters, our board of directors did not find it practicable to, and it did not, quantify or otherwise attempt to assign relative weights to the factors considered in making its determination, nor did it evaluate whether these factors were of equal importance. In considering the factors described above, individual members of our board of directors may have given different weight to the various factors. Our board of directors did not consider net book value or liquidation value to be material to their determination as to the fairness of the merger. As TROY is a going concern, our board did not believe the net book value (approximately $2.54 on May 26, 2004) would accurately reflect the value of TROY because it did not take into account goodwill and other intangible assets. Similarly, our board believed the liquidation value was an inappropriate measure given we are not going out of business or selling off our assets and because this measure would value our assets at an amount less than our net book value, which would then be further reduced by the estimated cost of the liquidation. In such event, using either of these measures would result in a value that was less than the merger consideration. Further, our board did not consider the repurchases of our common stock as a relevant factor as we had not repurchased a significant number of shares, had not repurchased any shares since the first fiscal quarter of 2004 and the highest purchase price was $2.97, which was less than the merger consideration. Our board of directors did not consult with our independent public accountants in evaluating our financial condition or projections.

Opinion of Financial Advisor to the Special Committee

The special committee retained BEAR as its financial advisor in connection with its evaluation of the offer by the Affiliated Stockholders to acquire the shares of our common stock that they did not already own and, if appropriate, to render an opinion as to whether the consideration to be received by our stockholders (other than Mergerco and the Affiliated Stockholders) in connection with any transaction was fair to such holders from a financial point of view. The fairness opinion was prepared to assist the special committee in evaluating the terms of the Merger Agreement and the merger. Mr. Holmes, as chairman of the special committee, interviewed three firms with investment banking or valuation experience before presenting Mr. Hans Schroeder, a representative of BEAR, to the special committee. Mr. Schroeder provided the special committee with a non-disclosure agreement, a proposed engagement letter, a qualification statement and a sample valuation report. The special committee retained BEAR following an interview with Mr. Schroeder on April 15, 2004. The special committee chose to retain BEAR based upon BEAR's experience in the valuation of businesses and their securities in connection with going private transactions, recapitalizations and similar transactions. BEAR is a recognized appraisal firm that is actively engaged in providing financial advisory services and rendering fairness opinions in connection with mergers and acquisitions, leveraged buyouts, and business and securities valuations for a variety of regulatory and planning purposes, recapitalizations, financial restructurings and private placements of debt and equity securities. BEAR has no material prior relationship with us or our affiliates.

As compensation to BEAR for its services in connection with the merger, we agreed to pay BEAR an aggregate fee of up to $25,000 in addition to BEAR's expenses. No portion of BEAR's fee is contingent upon the successful completion of the merger, any other related transaction, or the conclusions reached in BEAR's opinion. We has also agreed to indemnify and hold harmless BEAR and any employee, agent, officer, director, attorney, stockholders or any person who controls BEAR, against any and all losses in connection with, arising out of, based upon, or in any way related to BEAR's engagement by the special committee.

The full text of BEAR's opinion, which describes, among other things, the assumptions made, general procedures followed, matters considered, limitations on and qualifications made by BEAR in its review, is attached hereto as Appendix B and is incorporated herein by reference. The summary of the BEAR opinion in this proxy is qualified in its entirety by reference to the full text of the BEAR opinion. You are urged to read BEAR's opinion in its entirety. BEAR also provided the special committee with a report in support of its opinion on May 28, 2004 (the "Report").

In arriving at its fairness opinion, among other things, BEAR did the following:

1. visited our business offices and met with certain members of our senior management to discuss our operations, financial condition, future prospects and projected operations and performance;

2. reviewed a proposed purchase offer letter from Mr. Dirk to the special committee and a draft of the proposed Merger Agreement;

3. reviewed our Proxy Statement on Schedule 14A filed with the SEC on July 3, 2003 related to the Prior Merger Proposal, including an Agreement and Plan of Merger by and between the Company and Dirk, Inc. dated March 20, 2003, as amended;

4. reviewed our Form 10-K for the fiscal year ended November 30, 2003 and our preliminary internal financial statements for the quarter ended February 29, 2004, which our management identified as being the most current financial statements available;

5. made certain adjustments to our historical and projected financial statements to obtain an estimate of our financial condition and outlook on an "as if private" basis and to evaluate the potential financial effects of the proposed merger;

6. reviewed the minutes of our board of directors meetings for the period January 1, 1999 through February 28, 2004;

7. reviewed forecasts and projections prepared by our management with respect to TROY, and our individual segments, for the fiscal years ending 2004 through 2008;

8. reviewed the conditions and outlook for the U.S. economy and the various industry segments in which we operate;

9. reviewed the historical market prices and trading volume for our publicly traded securities;

10. reviewed certain other publicly available financial data for certain companies that were deemed comparable to TROY; and

11. conducted such other studies, analyses and inquiries as were deemed appropriate.

Draft Valuation Reports

Prior to providing the special committee with the Report, BEAR provided the special committee with two draft valuation reports dated May 7, 2004. These two draft reports provided the special committee with two approaches to conducting the valuation of TROY. One approach was to value TROY as a public company going forward and the other was to value TROY as a private company going forward. In addition, these draft reports were provided in order to confirm that the information regarding TROY used by BEAR and the adjustments and discounts made were correct and appropriate. It was determined that the appropriate method of valuation was to value TROY as if a private company as the alternative method would have resulted in an undervaluation of our common stock. As a result, the draft valuation report valuing TROY as if a public company was deemed inappropriate and was not used. BEAR revised the draft valuation report valuing TROY as if a private company to create the Report. This draft valuation report is substantially similar to the Report. The following summarizes the material differences between the draft valuation report and the Report:

The adjustment in the income statement for the "Go private effort" in 2003 was increased from $1,152,000 to $1,543,000 as BEAR determined which expenses were non-recurring and/or related to TROY going private. This change also increased the Weighted Average Adjusted Earnings from $4,621,000 to $4,914.000 in 2003.

To allow for a higher rate of income from cash and investments based on BEAR's market analysis, the cash flow projections increased in each year as follows:

($000)	**Nov-2004**	**Nov-2005**	**Nov-2006**	**Nov-2007**	**Nov-2007**
Draft valuation report	100	130	160	180	210
Report	385	654	791	924	1,063

The estimated level of risk for "Strength of the market" and "Size of the market" increased from Strong to Stable and from Very Large to Moderate, respectively.

In order to present the value as a Fair Value rather than Fair Market Value, the discount for lack of marketability was not included in the Report.

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As a result of removing the marketability discount from the public company multipliers, TROY'S capitalization rate decreased and its multipliers increased as follows:

	Draft valuation report	Report
Cap rate	20.5%	15.0%
EBITDA discount rate	24.2%	18.0%
Price/Sales	.34	.51
Goodwill/Sales	.12	.18
Goodwill/SDCF	.83	1.25

The cash flow capitalization rate in the draft valuation report was derived from the earnings capitalization rate. However, in the Report it was derived from using the Capital Asset Pricing Model.

Based on an analysis of the guideline companies and industry norms, the estimated Surplus Net Worth was reduced from $14,727,000 to $3,200,000.

As a result of the above changes, the net value increased from $29,602,000 to $32,340,000 and the per share value increased from $2.78 to $3.04. The projected valuations provided in both of these draft valuations reports were less than the valuation provided in the Report.

Analyses

BEAR stated that value is defined as "the present worth of future benefits." Accordingly, BEAR focused on the earnings and cash flow that are expected to be generated by us in the future, as those appear from the vantage point of the "as of" date of the valuation. BEAR also focused on the risks facing our business and the possible effects of those risks on future benefits.

BEAR considered historical earnings and financial condition because they generally are indicative of the expected future income, although BEAR did indicate that this is not always true. Adjustments are usually necessary to recast the historical financials so that they more fairly represent the likely pattern of future income and financial condition. In this case, BEAR made adjustments to eliminate non-recurring expenses and other expenses that would not be incurred if we were a privately held company.

Adjustments made to the income statement:

BEAR made certain adjustments in each year to arrive at EBITDA earnings. These adjustments were for the purpose of eliminating non-recurring or non-operating expenses that would have understated TROY's sustainable earnings, including:

1. The expenses associated with the Prior Merger Proposal because they were not part of normal operations. An accounting analysis of these expenses was obtained from TROY's management.

2. An estimate of the average expenses associated with being a public company over the past five years, assuming no unusual expenses, that could be eliminated if the merger is successful. This was estimated from the expenses reported in TROY's Form 10-K for the fiscal year ended November 30, 2003 and confirmed by TROY's management.

3. A non-recurring inventory writedown in fiscal year 2002.

4. A non-recurring impairment writedown in fiscal year 2001.

5.

The expenses associated with defending a stockholder lawsuit during fiscal year 2003 because they were not part of normal operations. An accounting analysis of these expenses was obtained from TROY's management.

The following table quantifies the adjustments made to the income statement:

($ in 000's)	Nov-99	Nov-2000	Nov-2001	Nov-2002	Nov-2003
Reported Earnings before Tax	9,042	3,559	(9,748)	(4,857)	1,659
Depreciation	758	662	778	863	685
Amortization	415	1,018	1,281	1,271	386
Interest expense	234	19	138	34	10
Go private effort	0	0	0	0	1,543
Expense of being public	200	200	200	200	200
Inventory writedown	0	0	0	1,878	0
Impairment writedown	0	0	5,634	0	0
Legal defense S/H suit	0	0	0	0	250
Net adjustment	1,607	1,899	8,031	4,246	3,074
Adjusted EBITDA Earnings	10,649	5,458	(1,717)	(611)	4,733

The adjustments had the effect of increasing earnings for valuation purposes by amounts ranging from $1.607 million in fiscal year 1999 to $8.031 million in fiscal year 2001. The result of these adjustments was that earnings used in the valuation were substantially greater than those reported in TROY's Forms 10-K for the fiscal years ended November 30, 1999 through 2003.

Adjustments to the Balance Sheet:

The reported Book Value, otherwise known as Net Worth, was reduced by the amount of intangible assets remaining on TROY's books as of November 20, 2003. This adjustment was made so as to arrive at Tangible Net Worth. The result of the valuation analysis is to arrive at a new value for the equity of the business, from which a new determination of intangible value can be made by subtracting Tangible Net Worth from the enterprise value of equity.

The following table quantifies the adjustments made to the balance sheet:

	Nov-2000	Nov-2001	Nov-2002	Nov-2003
Book Value	35,615	28,732	25,626	26,659
Remove Intangible Assets	(7,530)	(2,469)	(1,243)	(814)
Tangible Book Value	28,085	26,263	24,383	25,845

BEAR also reviewed, analyzed and interpreted both internal and external factors that influence our value. These internal factors included our financial condition, results of operations and the size and marketability of the interest being valued. In addition, the external factors included, among other things, the status of the industry and our position relative to others in the industry.

In particular, BEAR relied primarily on market transactions involving businesses similar to TROY, with special attention to our current and anticipated cash flow. After the value was determined, BEAR performed a "Cash Flow Coverage" calculation, to determine if a leveraged purchase of our business at that price could realistically be supported by our cash flow.

Because it is often difficult or impossible to find market transactions or public companies that are strictly comparable to the business under consideration, BEAR generally collects market data that provides the best available evidence, and uses that as a starting point for the analysis of market pricing patterns. Revenue Ruling 59-60 advocates use of public companies that are the same as or similar to the subject company where "similar" has been interpreted to allow wide latitude in guideline company selection. For example, in "Estate of Gallo v Commissioner," there were no good public winemaker comparables, so experts on both sides used brewers, distillers, soft drink bottlers, and brand-name recognition consumer food packagers. The object is to find companies that have similar risk characteristics, similar modes of operation, similar financial structure, and similar size and profitability, to the greatest extent possible.

BEAR analyzed our historical income statements for the years ended November 30, 1999 through 2003, and balance sheets for the periods November 30, 2000 through 2003. BEAR also reviewed our internally prepared financial statements for the first quarter of fiscal 2004 ended February 29, 2004, and our Form 10-Q for the corresponding period one year earlier. BEAR made several adjustments to the income statements to eliminate non-recurring and non-operating expenses and calculate adjusted, normalized income statements for each year. Fiscal years 2001 and 2002 were considered not representative of our sustainable financial performance and were excluded from further analysis. Fiscal year 1999 was exceptionally strong, and was also excluded from further analysis by BEAR.

BEAR performed an extensive analysis of the investment risks in TROY, including consideration of such factors as how well we are established in our industry, our proprietary position with respect to technology employed in our business, industry stability, customer concentration, management depth, and numerous other factors. Further, BEAR performed an analysis of our financial condition, including a comparison of TROY and our peers with regard to such factors as return on sales, return on equity, debt in relation to equity, net worth in relation to sales, current assets in relation to current liabilities, our Altman Z-Score, and numerous other factors. From this analysis, BEAR concluded that the risk in our business was moderate compared to our peers, and our financial condition was very good, although profitability was slightly below the industry norm and we had a recent history of operating losses. The following table summarizes some of the key ratios considered in the financial risk analysis:

		Industry Rates(1)			
(Ratios based on adjusted statements)	**Company Nov-2003**	**LoQtile**	**Med**	**HiQtile**	**Risk Level**
Revenue Growth Rates (BEAR)	-0.7%	1.5%	3.0%	4.5%	High
Adjusted Return on Sales(2)	8.9%	7.1%	11.7%	16.3%	Med
SDCF/Revenue(2)	9.4%	7.9%	12.6%	17.4%	Med
Return on Invested Capital(3)	18.6%	10.0%	12.8%	21.0%	Med
Net Cash Return on Equity	-8.0%	4.5%	17.6%	30.0%	High
Gross Profit Margin	39.6%	18.8%	37.6%	68.8%	Med
Current Ratio	3.3	1.1	1.9	4.3	Med
Quick Ratio	2.2	0.6	0.9	2.9	Med
Debt/Equity Ratio	0.0	0.3	1.1	6.3	Low
Interest Coverage	474.3	(9.9)	2.1	11.5	Low
Net Worth/Sales	0.466	0.197	0.323	0.452	Low
Sales/Total Assets	1.7	1.0	1.4	2.3	Med
Sales/Working Capital	3.0	2.5	5.1	43.4	Med
Days Receivable	54.3	40.6	52.1	67.6	Med
Days Inventory	51.4	41.0	68.9	110.6	Med
Days Payable	22.8	26.6	43.5	64.0	Low
Z-Score	15.7	1.81		2.99	Low

Industry Sources:

(1) *Unless otherwise noted, industry ratios are from RMA (Risk Management Association)*

(2) *Combined Market Data*

(3) *Public Companies and RMA*

BEAR reviewed our projected income and cash flow for the fiscal years 2004 through 2008, and projected EBITDA earnings. In addition, BEAR calculated the Net After Tax Cash Flow to Equity, after adjusting for anticipated capital spending, changes in working capital, and changes in corporate borrowings.

BEAR obtained market pricing information from several sources, including several private transaction databases and publicly traded company information. The sources of the information were:

S & P's Compustat database of public company financial and stock price information;

Pratts Stats, a database of private company sales transactions;

Done Deals, a database from The M&A Group, describing sales of closely held companies with sales prices typically in the range of $1 million to $100 million; and

Mergerstat, a database of larger market transactions, primarily publicly reported, which includes an analysis of control premiums reported in each transaction.

BEAR considered several hundred private market transactions and public companies from the universe of companies engaged in similar lines of business. Transactions were chosen by BEAR for this purpose using the most closely comparable data available, based on descriptions of their business activities, and their size, general industry group, and profitability. In general, an attempt was made by BEAR to find market data that provided the best available evidence and BEAR used that as a starting point for the analysis of market pricing patterns.

In this case, because we are now profitable but of modest size, BEAR eliminated from consideration those potential guideline companies that were (a) very large relative to TROY, (b) not profitable, or (c) which had negative net worth. Further, BEAR eliminated those companies for which the market pricing multipliers or earnings margins were "outliers" in that they were greatly different than the others or very far from the median. In this process, BEAR eliminated many companies that in some ways are similar to us but were deemed unsuitable for comparison purposes. For example, BEAR excluded Checkfree Corp, our primary competitor in the ACH marketplace, because it had losses of $11.5 million on revenues of $590 million and Shareholder's Equity of $1.3 billion. Checkfree Corp's revenue was far greater than ours, it was losing money while we are profitable, and its capital reserves in relation to its revenue are far greater than ours. Accordingly, BEAR found Checkfree Corp was not financially similar to us although engaged in a related line of business. After this selection process, BEAR included data from eight public companies, AMX Corporation, Checkpoint Systems, Inc., Color Imaging, Inc., Creative Technology Ltd., Fargo Electronics Inc., NETGEAR, Inc., Printronix, Inc., and RadiSys Corporation, with revenues ranging from $21 million to $725 million, and included data from 23 private transactions, with revenues ranging from $4 million to $600 million.

BEAR analyzed the data from these various sources, which resulted in determination of earnings capitalization rates, earnings and cash flow discount rates, price/sales multipliers, and goodwill multipliers that were then applied to the historical earnings and revenues, and the projected earnings and cash flow. BEAR used this data as the source of the industry peer data used in the financial risk analysis.

Determinations of Equity Value and Resulting Per Share Value

BEAR used seven valuation methods, each of which provided a different perspective on the value of our business, all with approximately the same degree of confidence. The results of all the methods were in reasonable agreement, with the indicated equity values for the various methods summarized in the following table:

Summary of Methods Used