

TROY GROUP INC
Form 10-Q
July 11, 2003

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended May 31, 2003.

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

For the transition period from to

Commission File Number: 000-24413

TROY GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

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

(Address of principal executive offices)

33-0807798

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

92705

(Zip code)

(949) 250-3280

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes No

As of June 30, 2003, 10,653,605 shares of the Registrant's Common Stock were outstanding. The aggregate market value of the Registrant's outstanding common stock as of that date (based upon the last sale price of a share of common stock on that date reported by the Nasdaq National Market), excluding outstanding shares beneficially owned by directors and executive officers, was \$12,059,805.

TROY GROUP, INC.

**Quarterly Report on Form 10-Q for the
Quarterly Period Ended May 31, 2003**

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PART I: FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

**TROY GROUP, INC.
CONSOLIDATED BALANCE SHEETS**

(in thousands, except per share amounts)

	May 31, 2003 (Unaudited)	November 30, 2002
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,474	\$ 6,615
Investment in available-for-sale securities		497
Accounts receivable, less allowance for doubtful accounts of \$1,074 and \$884	8,268	9,227
Income tax refund receivable	1,027	1,076
Inventories	6,675	5,540
Prepaid expenses and other	289	440
Deferred tax assets	3,715	3,715
Total current assets	26,448	27,110
Equipment and leasehold improvements, net	2,263	2,039
Other assets, including notes receivable from stockholders \$2,071 and \$2,123	4,186	4,390
Total assets	\$ 32,897	\$ 33,539
Liabilities and Stockholders Equity		
Current liabilities:		
Current portion of long-term debt	\$ 76	\$ 73
Accounts payable	2,575	4,138
Accrued expenses	2,732	2,218
Deferred revenue	1,245	1,364
Total current liabilities	6,628	7,793
Long-term debt, net of current portion	82	120
Stockholders' equity:		
Preferred stock, par value \$.01 per share, authorized 5,000,000 shares, issued none		
Common stock, par value \$.01 per share; authorized 50,000,000 shares, issued 10,974,170 shares in 2003, and 10,969,657 shares in 2002	110	110
Additional paid-in capital	21,122	21,113
Retained earnings, including accumulated other comprehensive income of \$80 and none	6,130	5,578
	27,362	26,801

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Less cost of treasury stock	320,565 common shares in 2003 and 2002	1,175	1,175
Total stockholders' equity		26,187	25,626
Total liabilities and stockholders' equity		\$ 32,897	\$ 33,539

See Notes to Consolidated Financial Statements.

TROY GROUP, INC.
CONSOLIDATED STATEMENTS
OF OPERATIONS

(Unaudited)
(in thousands, except per share amounts)

	Three Months Ended May 31,		Six Months Ended May 31,	
	2003	2002 Restated	2003	2002 Restated
Net sales	\$ 13,395	\$ 14,025	\$ 27,803	\$ 27,596
Cost of goods sold	8,193	8,487	16,631	16,644
Gross profit	5,202	5,538	11,172	10,952
Operating expenses:				
Selling, general and administrative	3,683	4,088	7,712	7,867
Research and development	1,230	1,622	2,692	3,525
Amortization of intangible assets	11	30	22	60
Operating income (loss)	278	(202)	746	(500)
Interest income	23	35	26	79
Interest expense	(6)	(1)	(8)	(30)
Income (loss) before income taxes	295	(168)	764	(451)
Provision for income taxes (credits)	105	(56)	292	(159)
Net income (loss)	\$ 190	\$ (112)	\$ 472	\$ (292)
Net income (loss) per share:				
Basic	\$.02	\$ (.01)	\$.04	\$ (.03)
Diluted	\$.02	\$ (.01)	\$.04	\$ (.03)
Shares used in per share computations:				
Basic	10,651	10,643	10,650	10,645
Diluted	10,651	10,643	10,650	10,645

See Notes to Consolidated Financial Statements.

TROY GROUP, INC.
CONSOLIDATED STATEMENTS
OF CASH FLOWS

(Unaudited)
(in thousands)

	Six Months Ended May 31,	
	2003	2002 Restated
Cash flows from operating activities:		
Net income (loss)	\$ 472	\$ (292)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	591	685
Provision for (recovery of) doubtful accounts	200	(337)
Accretion of investment discounts, net		(72)
Changes in working capital components:		
(Increase) decrease in:		
Accounts receivable	759	1,363
Income tax refund receivable	49	(183)
Inventories	(1,135)	1,006
Prepaid expenses and other	151	(9)
Increase (decrease) in:		
Accounts payable	(1,563)	(2,058)
Accrued expenses	643	324
Deferred revenue	(119)	95
Net cash provided by operating activities	48	522
Cash flows from investing activities:		
Purchase of equipment and leasehold improvements	(621)	(244)
Purchase of available-for-sale securities		(1,449)
Maturities of available-for-sale securities	497	3,959
Increase in other assets, net	(39)	(355)
Net cash provided by (used in) investing activities	(163)	1,911
Cash flows from financing activities:		
Payments on notes payable	(35)	(34)
Proceeds from issuance of common stock	9	148
Purchase of treasury stock		(79)
Net cash provided by (used in) financing activities	(26)	35
Net increase (decrease) in cash and cash equivalents	(141)	2,468
Cash and cash equivalents, beginning of period	6,615	1,210
Cash and cash equivalents, end of period	\$ 6,474	\$ 3,678

See Notes to Consolidated Financial Statements.

TROY GROUP, INC.
NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS

(unaudited)

Note 1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and adjustments) considered necessary for a fair presentation have been included. Operating results for the three and six months ended May 31, 2003 are not necessarily indicative of the results that may be expected for the year ending November 30, 2003. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for its fiscal year ended November 30, 2002 (File No. 000-24413).

The quarterly results for the first and second quarter of fiscal 2002 have been restated to reflect the recording of certain inventory and inventory related accounts payable adjustments discovered in the third quarter of fiscal 2002 to the relevant periods. During the third quarter, physical inventory counts were conducted and certain inventory adjustments were discovered. The Company completed a comprehensive review of its inventory related internal controls to determine the cause of the identified inventory differences. The Company has determined that certain differences arising from inventory and inventory related accounts payable were attributable to the first and second quarters of fiscal 2002. The Company has restated the results of those quarters and associated year-to-date amounts in those periods and filed amended Forms 10-Q.

The effect of the restatements on the Company's unaudited interim consolidated quarterly financial statements is as follows:

Summary Balance Sheet Data:
(in thousands)

At May 31, 2002:	As previously reported	As restated
Inventory	\$ 8,825	\$ 8,245
Income tax refund receivable	1,059	1,242
Working capital	21,339	20,998
Total assets	35,507	35,110
Accounts payable	2,416	2,360
Total liabilities	6,658	6,602
Retained earnings	8,801	8,460
Stockholders' equity	28,849	28,508

Summary Statements of Operations Data:
(in thousands, except per share data)

	Three months ended May 31, 2002		Six months ended May 31, 2002	
	As previously reported	As restated	As previously reported	As restated
Net sales	\$ 14,025	\$ 14,025	\$ 27,596	\$ 27,596
Gross profit	5,850	5,538	11,647	10,952
Operating expenses	5,833	5,740	11,623	11,452
Income (loss) before income taxes (credits)	51	(168)	73	(451)
Provision for income taxes (credits)	21	(56)	25	(159)
Net income (loss)	\$ 30	\$ (112)	\$ 48	\$ (292)
Basic net income (loss) per share	\$	\$ (.01)	\$	\$ (.03)
Diluted net income (loss) per share	\$	\$ (.01)	\$	\$ (.03)
Weighted average basic shares outstanding	10,643	10,643	10,645	10,645
Weighted average diluted shares outstanding	10,758	10,643	10,731	10,645

Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, prescribes accounting and reporting standards for all stock-based compensation plans, including employee stock option plans. As allowed by SFAS No. 123, the Company has elected to continue to account for its employee stock-based compensation plan using the intrinsic value method in accordance with Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations, which does not require compensation to be recorded if the consideration to be received is at least equal to the fair value of the common stock to be received at the measurement date. Under the requirements of SFAS No. 123, non-employee stock-based transactions require compensation to be recorded based on the fair value of the securities issued or the services received, whichever is more reliably measurable.

The following table illustrates the effect on net income (loss) and net income (loss) per share had compensation costs for the stock-based compensation plan been determined based on grant date fair values of awards under the provisions of SFAS No. 123, for the three-month and six-month periods ended May 31 (unaudited; in thousands, except per share data):

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	Three months ended May 31, (amounts in thousands, except per share data)		Six months ended May 31, (amounts in thousands, except per share data)	
	2003	2002 Restated	2003	2002 Restated
Net income (loss) applicable to common stockholders				