

TREND MICRO INC  
Form 6-K  
August 02, 2004  
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# U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## FORM 6-K

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REPORT OF FOREIGN PRIVATE ISSUER  
PURSUANT TO RULE 13a-16 OR 15d-16 UNDER  
THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 333-10486

For the Month of August 2004

## Trend Micro Incorporated

(Translation of registrant's name into English)

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Shinjuku MAYNDS Tower, 1-1, Yoyogi 2-chome,

Shibuya-ku, Tokyo 151-0053, Japan

(Address of principal executive offices)

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Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

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Form 20-F  Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes  No

If  is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-

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Information furnished on this form:

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1. Press release dated July 26, 2004, relating to the revision of the forecast for the second quarter consolidated results of fiscal year ending December 31, 2004
2. Press release dated July 29, 2004, relating to the announcement of the second quarter consolidated results
3. Earnings report for the first half of the fiscal year ending December 31, 2004



**Table of Contents****Trend Micro Announces Revision of Forecast of Consolidated Financial Results for the Second Quarter of Fiscal Year Ending December 31, 2004**

Tokyo, Japan July 26, 2004 - Trend Micro (TSE: 4704; Nasdaq: TMIC), a leader in network antivirus and Internet content security software and services, today announced that the forecast of financial results for the second quarter of the fiscal year ending December 31, 2004, is revised as set forth below.

## 1. Revision of forecast of financial results for the second quarter of FY2004

(April 1, 2004 to June 30, 2004)

(in millions of yen)

	<u>Net Sales</u>	<u>Operating Income</u>	<u>Net Income</u>
Forecast previously published (A)	13,500	4,500	2,650
Revision made (B)	14,843	6,262	3,828
Amount of increase (B-A)	1,343	1,762	1,178
Ratio of increase or decrease	+ 9.9%	+ 39.2%	+ 44.5%

## 2. Reason for Revision

The company has decided to revise its forecasts because operating income and net income are expected to deviate by more than 30% from the previous forecast.

About details of results, the company will disclose on the day of its financial results announcement, July 29, 2004.

**Notice Regarding Forward Looking Statements**

Certain statements that we make in this release are forward-looking statements. These forward-looking statements are based upon management's current assumptions and beliefs in light of the information currently available to it, but involve known and unknown risks and uncertainties.

Many important factors could cause our actual results to differ materially from those expressed in our forward-looking statements. These factors include:

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Difficulties in addressing new virus and other computer security problems;

Timing of new product introductions and lack of market acceptance for our new products;

The level of continuing demand for, and timing of sales of, our existing products;

Rapid technological change within the anti-virus software industry;

Changes in customer needs for anti-virus software;

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Existing products and new product introductions by our competitors and the pricing of those products;

Declining prices for our products and services;

The effect of future acquisitions on our financial condition and results of operations;

The effect of adverse economic trends on our principal markets;

The effect of foreign exchange fluctuations on our results of operations;

An increase in the incidence of product returns;

The potential lack of attractive investment targets; and

Difficulties in successfully executing our investment strategy.

We assume no obligation to update any forward-looking statements.

For more details regarding risk factors relating to our future performance, please refer to our filings with the SEC.

**About Trend Micro**

Trend Micro, Inc. is a leader in network antivirus and Internet content security software and services. The Tokyo-based corporation has business units worldwide. Trend Micro products are sold through corporate and value-added resellers. For additional information and evaluation copies of all Trend Micro products, visit our website at [www.trendmicro.com](http://www.trendmicro.com).

**For additional information**

Mr. Mahendra Negi

Chief Financial Officer / IR Officer

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**Trend Micro Reports Record Second Quarter Results**

*Revenue up 30% and Net income up 144% year over year*

**Tokyo, Japan July 29, 2004** Trend Micro, Inc. (TSE: 4704, NASDAQ: TMIC), a leader in network antivirus and Internet content security software and services, today announced record earnings for the second quarter 2004.

Trend Micro posted consolidated net sales of 14.8 billion Yen (or US \$136 million, based on an exchange rate as of June 30, 2004; 109JPY = 1USD), operating income of 6.3 billion Yen (or US \$57 million) and net income of 3.8 billion Yen (or US \$35 million) for the second quarter 2004. These figures reflect gains of 30% in net sales, 119% in operating income and 144% in net income compared with the same period a year ago.

Net sales from enterprise products grew 26% year over year and comprised 77% of Q2 revenues; net sales from consumer products grew 48% year over year and made up 23% of Q2 sales.

If Q2 results are converted from Japanese yen to US dollars\*, Q2 2004 consolidated net sales grew 41%, net sales of enterprise products grew 36%, and net sales of consumer products grew 60% year over year.

In the first half of 2004, we continued to see good growth from our existing products while simultaneously reaching another milestone in our long history of innovation that we expect will fuel our growth in the future, commented Steve Chang, CEO and founder of Trend Micro. Within a short time, we introduced our network-level virus scanning appliance, Trend Micro Network VirusWall, and unveiled a unique technology and service collaboration with Cisco. Both of these initiatives will better position us to deliver effective solutions to customers worldwide, and to minimize the business disruption caused by network worms, viruses and other such threats.

Based on information currently available to the company, consolidated net sales for the third quarter ending September 30, 2004 is expected to be 15 billion Yen (or US \$138 million, based on an exchange rate as of June 30, 2004; 109JPY = 1USD). Operating income and net income are expected to be 5.5 billion Yen (or US \$50 million) and 3.3 billion Yen (or US \$30 million), respectively.

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\* These numbers were calculated based on the following exchange rates: 1 USD=118.50 JPY for Q2 2003 and 1 USD =109.78 JPY for Q2 2004, which are the weighted average exchange rates used to convert USD net sales to JPY for those respective quarters.



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### **Second Quarter Business Highlights**

Trend Micro and Cisco Systems announced a joint collaboration to deliver comprehensive network worm and virus outbreak-prevention services to help protect networked business. Under this agreement, Cisco will initially integrate Trend Micro's network worm and virus signatures with the Cisco Intrusion Detection System (IDS) deployed in Cisco branded routers, switches, and network security appliances. Cisco has also licensed additional Trend Micro technology to extend its threat prevention capabilities in subsequent phases. Trend Micro also announced its continuing support of the Cisco Network Admission Control program with the release of Trend Micro OfficeScan Corporate Edition v6.5.

In the second quarter of 2004, Trend Micro announced several new enterprise offerings, including: Trend Micro OfficeScan Corporate Edition v6.5, enabled to support the Cisco Network Admission Control program; Trend Micro InterScan Web Security Suite v2.0, enhanced with anti-spam, anti-phishing, anti-spyware, and URL filtering capabilities for more comprehensive Web-based security; Trend Micro ScanMail for Lotus Domino v2.6 for the OS/390 and zOS platforms; and Trend Micro InterScan eManager v5.22 for InterScan Messaging Security Suite 5.15/5.55 for Windows, Linux and Solaris.

New customers gained during the quarter came from the technology, service, and energy sectors including: ARAMARK Canada Ltd, part of ARAMARK Corporation, which provides award-winning food and facilities management services; Dell (UK), part of one of the world's leading computer systems companies; New South Wales Police, Australia's police organization; and Petr oleos de Venezuela, S.A., a Latin American company.

During the second quarter, Trend Micro won awards and recognition for several products offerings for both its enterprise customers and individual consumers. Trend Micro Network VirusWall 1200 outbreak-prevention appliance earned a Recommended title from *CRN* magazine for providing a unique and thorough solution for protecting networks from attack. Trend Micro NeatSuite won the Well-Connected Award from *Network Computing* magazine for 2004. Trend Micro PC-Cillin Internet Security 2004 won the World Class 2004 title from *PC World* magazine for being the best antivirus software solution. Trend Micro ServerProtect achieved a VB100% certification from Virus Bulletin for in-the-wild threat detection.

### **Notice Regarding Forward Looking Statements**

Certain statements that we make in this release are forward-looking statements. These forward-looking statements are based upon management's current assumptions and beliefs in light of the information currently available to it, but involve known and unknown risks and uncertainties.

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Many important factors could cause our actual results to differ materially from those expressed in our forward-looking statements. These factors include:

Difficulties in addressing new virus and other computer security problems

Timing of new product introductions and lack of market acceptance for our new products

The level of continuing demand for, and timing of sales of, our existing products

Rapid technological change within the anti-virus software industry

Changes in customer needs for anti-virus software

Existing products and new product introductions by our competitors and the pricing of those products

Declining prices for our products and services

The effect of future acquisitions on our financial condition and results of operations

The effect of adverse economic trends on our principal markets

The effect of foreign exchange fluctuations on our results of operations

An increase in the incidence of product returns

The potential lack of attractive investment targets and

Difficulties in successfully executing our investment strategy

We assume no obligation to update any forward-looking statements.

For more details regarding risk factors relating to our future performance, please refer to our filings with the U.S. Securities and Exchange Commission.

**About Trend Micro**

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### For additional Information

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**Table of Contents****Supplementary Information****1. CONSOLIDATED BALANCE SHEETS**

(Thousands of yen)

Account	June 30, 2003		June 30, 2004		December 31, 2003	
	Amount	%	Amount	%	Amount	%
<Assets>						
Current assets:						
Cash and cash equivalents	42,654,956		40,462,189		46,718,940	
Time deposits	65,895		460,391		440,323	
Marketable securities	9,198,296		20,079,321		10,253,029	
Notes and accounts receivable, trade less allowance for doubtful accounts and sales returns of (Yen)908,956 in the first half of FY2003, (Yen)842,681 in the first half of FY2004 and (Yen)1,023,734 in FY2003, respectively	9,077,624		12,323,100		11,681,457	
Inventories	143,475		189,226		77,950	
Deferred income taxes	4,383,944		5,962,030		4,896,909	
Prepaid expenses and other current assets	1,097,087		1,108,786		1,397,821	
<b>Total current assets</b>	<b>66,621,277</b>	<b>91.1</b>	<b>80,585,043</b>	<b>93.4</b>	<b>75,466,429</b>	<b>92.9</b>
Investments and other assets:						
Securities investments	597,564		581,375		624,778	
Investment in and advances to affiliated Companies	103,872		138,183		119,591	
Software development costs	708,208		530,841		505,616	
Other intangibles	398,598		307,188		311,756	
Deferred income taxes	1,681,569		1,767,857		1,804,238	
Other	1,130,687		652,561		734,533	
<b>Total investments and other assets</b>	<b>4,620,498</b>	<b>6.3</b>	<b>3,978,005</b>	<b>4.6</b>	<b>4,100,512</b>	<b>5.0</b>
Property and equipment:						
Office furniture and equipment	2,922,056		2,943,219		2,823,506	
Other properties	1,010,080		1,162,394		1,038,524	
	3,932,136		4,105,613		3,862,030	
Less: Accumulated depreciation	(2,016,352)		(2,389,676)		(2,157,884)	
<b>Total property and equipment</b>	<b>1,915,784</b>	<b>2.6</b>	<b>1,715,937</b>	<b>2.0</b>	<b>1,704,146</b>	<b>2.1</b>
<b>Total assets</b>	<b>73,157,559</b>	<b>100.0</b>	<b>86,278,985</b>	<b>100.0</b>	<b>81,271,087</b>	<b>100.0</b>

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(Thousands of yen)

Account	June 30, 2003		June 30, 2004		December 31, 2003	
	Amount	%	Amount	%	Amount	%
<Liabilities and shareholders equity>						
Current liabilities:						
Current portion of long-term debt	6,500,000				6,500,000	
Notes payable, trade	94,611		63,044		96,204	
Accounts payable, trade	986,193		1,824,187		899,508	
Accounts payable, other	1,286,402		1,987,842		1,326,244	
Withholding income taxes	437,663		572,839		490,315	
Accrued expenses	1,941,800		2,185,496		1,984,175	
Accrued income and other taxes	3,232,548		4,638,402		4,280,797	
Deferred revenue	15,067,937		20,409,178		17,486,298	
Other	220,188		796,297		557,050	
<b>Total current liabilities</b>	<b>29,767,342</b>	<b>40.7</b>	<b>32,477,285</b>	<b>37.6</b>	<b>33,620,591</b>	<b>41.4</b>
Long-term liabilities:						
Deferred revenue	3,061,910		3,187,325		3,017,105	
Accrued pension and severance costs	437,021		588,430		487,409	
Other	255,113		160,329		194,185	
<b>Total long-term liabilities</b>	<b>3,754,044</b>	<b>5.1</b>	<b>3,936,084</b>	<b>4.6</b>	<b>3,698,699</b>	<b>4.5</b>
Shareholders equity:						
Common stock						
Authorized						
-June 30, 2003 250,000,000 shares						
-June 30, 2004 250,000,000 shares						
-December 31, 2003 250,000,000 shares (no par value)						
Issued						
-June 30, 2003 132,503,417 shares	7,257,060					
-June 30, 2004 133,997,891 shares			9,144,983			
-December 31, 2003 132,620,100 shares					7,396,194	
Additional paid-in capital	12,936,584		14,756,997		13,165,881	
Retained earnings	22,294,463		33,355,669		28,236,466	
Accumulated other comprehensive income						
Net unrealized gain (loss) on debt and equity securities	66,163		(91,832)		70,965	
Cumulative translation adjustments	531,776		(565,491)		(500,946)	
	<b>597,939</b>		<b>(657,323)</b>		<b>(429,981)</b>	
Treasury stock, at cost						
-June 30, 2003 1,456,770 shares	(3,449,873)					
-June 30, 2004 2,504,854 shares			(6,734,710)			
-December 31, 2003 1,958,647 shares					(4,416,763)	

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Total shareholders' equity	39,636,173	54.2	49,865,616	57.8	43,951,797	54.1
Total liabilities and shareholders' equity	73,157,559	100.0	86,278,985	100.0	81,271,087	100.0

**Table of Contents****2. CONSOLIDATED STATEMENTS OF INCOME**

(Thousands of yen)

Account	For the six months ended June 30, 2003		For the six months ended June 30, 2004		For the year ended December 31, 2003	
	Amount	%	Amount	%	Amount	%
	Net sales	22,309,642		28,464,157		48,088,347
Cost of sales	1,528,771		1,902,555		3,168,467	
Gross profit	20,780,871	100.0	26,561,602	100.0	44,919,880	100.0
Operating expenses:						
Selling	8,015,856		7,457,213		15,360,532	
Research and development and maintenance	1,929,219		2,278,974		3,919,024	
Customer support	2,402,122		2,717,490		4,830,660	
General and administrative	2,611,807		2,705,635		5,656,168	
Total operating expenses	14,959,004	72.0	15,159,312	57.1	29,766,384	66.3
Operating income	5,821,867	28.0	11,402,290	42.9	15,153,496	33.7
Other incomes (expenses):						
Interest income	206,035		160,957		412,635	
Interest expense	(114,829)		(44,644)		(173,830)	
Gain (loss) on sales of marketable securities			82,857		(65,259)	
Impairment loss of securities investments	(7,360)				(7,360)	
Foreign exchange gain (loss), net	134,469		(29,075)		120,650	
Loss of disposal of inventory			(24,214)			
Other income (expense), net	(162,948)		(21,451)		(111,345)	
Total other income (expense)	55,367	0.3	124,430	0.5	175,491	0.4
Net income before taxes	5,877,234	28.3	11,526,720	43.4	15,328,987	34.1
Income taxes:						
Current	3,145,367		5,498,022		7,437,576	
Deferred	(568,140)		(922,416)		(1,334,998)	
	2,577,227	12.4	4,575,606	17.2	6,102,578	13.6
Income before equity earnings (losses) of affiliated companies	3,300,007	15.9	6,951,114	26.2	9,226,409	20.5
Equity in earnings (losses) of affiliated companies	7,755	0.0	17,893	0.0	23,623	0.1

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Net income	3,307,762	15.9	6,969,007	26.2	9,250,032	20.6
	<u>Yen</u>		<u>Yen</u>		<u>Yen</u>	
Per share data:						
Net income						
-Basic	25.04		52.41		70.11	
-Diluted			51.47		69.95	



**Table of Contents****3. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

(Thousands of yen)

<b>Account</b>	<b>For the six months ended June 30, 2003</b>	<b>For the six months ended June 30, 2004</b>	<b>For the year ended December 31, 2003</b>
Net income	3,307,762	6,969,007	9,250,032
Other comprehensive income (loss), before tax:			
Unrealized gains (losses) on debt and equity securities:			
Unrealized holding gains (losses) arising during period	160,406	(198,675)	135,323
Less reclassification adjustment for gains or losses included in net income	101,133	(67,303)	132,701
	261,539	(265,978)	268,024
Foreign currency translation adjustments	246,697	(64,545)	(786,025)
Total	508,236	(330,523)	(518,001)
Income tax expense related to unrealized gains (losses) on debt and equity securities	(111,499)	103,181	(113,182)
Other comprehensive income (loss), net of tax	396,737	(227,342)	(631,183)
Comprehensive income	3,704,499	6,741,665	8,618,849

**Table of Contents****4. CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Thousands of yen)

Account	For the six months ended June 30, 2003	For the six months ended June 30, 2004	For the year ended December 31, 2003
Cash flows from operating activities:			
Net income	3,307,762	6,969,007	9,250,032
Adjustments to reconcile net income to net cash provided by operating activities -			
Depreciation and amortization	1,106,517	785,396	2,266,356
Pension and severance costs, less payments	80,842	99,262	140,661
Deferred income taxes	(568,140)	(922,416)	(1,334,998)
(Gain) loss on sales of marketable securities		(82,857)	65,259
Impairment of securities investments	7,360		7,360
Equity in gain of affiliated companies	(7,755)	(17,893)	(23,623)
Changes in assets and liabilities:			
Increase in deferred revenue	2,033,045	3,201,387	5,036,872
(Increase) decrease in accounts receivable, net of allowances	2,488,094	(719,133)	(446,201)
(Increase) decrease in inventories	219,748	(112,030)	278,751
Increase (decrease) in notes and accounts payable, Trade	(32,030)	896,839	(52,021)
Increase (decrease) in accrued income and other taxes	(856,478)	358,248	193,227
(Increase) decrease in other current assets	(67,865)	16,948	(67,898)
Increase (decrease) in accounts payable, other	(98,894)	279,029	(11,962)
Increase in other current liabilities	52,313	908,479	602,296
(Increase) decrease in other assets	(280,659)	390,684	(324,879)
Other	111,933	117,191	87,072
	7,495,793	12,168,141	15,666,304
Cash flows from investing activities:			
Payments for purchases of property and equipment	(483,462)	(226,434)	(715,901)
Software development cost	(356,809)	(402,096)	(788,760)
Payments for purchases of other intangibles	(111,050)	(200,253)	(270,570)
Proceeds from sales of marketable securities	1,700,000	954,474	2,945,331
Payments for purchases of marketable securities and security investments	(7,862,856)	(11,062,351)	(10,248,908)
Payments for time deposits	(173)	(20,068)	(374,601)
	(7,114,350)	(10,956,728)	(9,453,409)
Cash flows from financing activities:			
Issuance of common stock pursuant to exercise of stock purchase warrants and stock acquisition rights		3,493,706	278,002
Redemption of bonds	(5,000,000)	(6,500,000)	(5,000,000)
Purchase of treasury stock	(1,127,586)	(2,357,697)	(2,094,476)
Tax benefit from exercise of non-qualified stock warrants	143,115	115,383	233,277
Tax recognition derived from elimination of reversed warrant related with stock option plan	(228,085)	(249,978)	(228,085)
Dividend paid		(1,814,984)	

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Net cash used by financing activities	(6,212,556)	(7,313,570)	(6,811,282)
Effect of exchange rate changes on cash and cash equivalents	656,248	(154,594)	(512,494)
Net decrease in cash and cash equivalents	(5,174,865)	(6,256,751)	(1,110,881)
Cash and cash equivalents at beginning of period	47,829,821	46,718,940	47,829,821
Cash and cash equivalents at end of period	42,654,956	40,462,189	46,718,940
Supplementary information of cash flow:			
Payment for interest expense	117,289	19,424	151,623
Payment for income taxes	3,935,610	5,754,866	7,102,721

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July 29, 2004

**Report of First Half Results (Consolidated)****For Fiscal Year Ending December 31, 2004****[ Prepared in accordance with US GAAP ]**

Company: Trend Micro Incorporated Tokyo Stock Exchange 1<sup>st</sup> Section  
Code: 4704 Location : Tokyo  
(URL <http://www.trendmicro.co.jp/>)  
Representative: Title Representative Director and Chief Executive Officer  
Name Chang, Ming-Jang  
Contact: Title Controller, Finance&Accounting Department and General Manager, Corporate Affairs  
Department  
Name Yuzuru Nanami (Phone: 81-3-5334-3600)

Date of the board of directors meeting authorizing the first-half results: July 29, 2004

## 1. Financial Highlights for the first half of FY 2004 (January 1, 2004 through June 30, 2004)

## (1) Consolidated Results of Operations

(All figures except for per share information are rounded to millions of yen.)

	<u>Net Sales</u>	<u>Growth rate</u>	<u>Operating income</u>	<u>Growth rate</u>	<u>Net income before tax</u>	<u>Growth rate</u>
	Millions of yen	%	Millions of yen	%	Millions of yen	%
The first half of FY 2004	28,464	27.6	11,402	95.9	11,527	96.1
The first half of FY 2003	22,310	8.8	5,822	(8.3)	5,877	(8.3)
<b>FY 2003 (annual)</b>	<b>48,088</b>		<b>15,153</b>		<b>15,329</b>	
					<u>Net income</u>	<u>Net income</u>
					<u>per share (basic)</u>	<u>per share (diluted)</u>
		<u>Net income</u>	<u>Growth rate</u>			

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	Millions of yen	%	Yen	Yen
The first half of FY 2004	6,969	110.7	52.41	51.47
The first half of FY 2003	3,308	(9.5)	25.04	
<b>FY 2003 (annual)</b>	<b>9,250</b>		<b>70.11</b>	<b>69.95</b>

(Note)

- Equity in earnings (losses) of affiliated companies: 18 million yen (8 million yen in the first half of FY 2003, 24 million yen in FY 2003)
- The company made no changes in accounting principle that had material effects on the financial position, results of operations, and cash flow position, during the current period.
- Weighted average number of shares outstanding: 132,974,192 shares (132,097,979 shares in the first half of FY 2003, 131,940,179 shares in FY 2003)
- The percentage of net sales, operating income, net income before tax and net income represent comparison to the corresponding financial figures for the first half of prior fiscal year.

(2) Consolidated Financial Position

As of	Total assets	Shareholders equity	Shareholders equity ratio	Shareholders equity per share
	Millions of yen	Millions of yen	%	Yen
June 30, 2004	86,279	49,866	57.8	379.23
June 30, 2003	73,158	39,636	54.2	302.46
<b>December 31, 2003</b>	<b>81,271</b>	<b>43,952</b>	<b>54.1</b>	<b>336.38</b>

(Note)

Number of shares outstanding : 131,493,037 shares (131,046,647 shares as of June 30, 2003, 130,661,453 shares as of December 31, 2003)

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(3) Consolidated Cash Flow Position

	<u>Cash flows from operating activities</u>	<u>Cash flows from investing activities</u>	<u>Cash flows from financing activities</u>	<u>Ending balance of cash and cash equivalents</u>
As of	Millions of yen	Millions of yen	Millions of yen	Millions of yen
June 30, 2004	12,168	(10,957)	(7,314)	40,462
June 30, 2003	7,496	(7,114)	(6,213)	42,655
December 31, 2003	15,666	(9,453)	(6,811)	46,719

(4) Basis of consolidation and application of equity method:

The number of consolidated subsidiaries	18
The number of unconsolidated subsidiaries accounted by equity method	0
The number of affiliated companies	2

(5) Changes in the basis of consolidation and application of equity method:

The number of additional consolidated subsidiaries	1
The number of excluded consolidated subsidiaries	0
The number of additional consolidated affiliated companies	0
The number of excluded consolidated affiliated companies	1

2. Projected consolidated earnings

Projected earnings for the next quarter (July 1, 2004 through September 30, 2004)

	<u>Net Sales</u>	<u>Operating income</u>	<u>Net income</u>
	Millions of yen	Millions of yen	Millions of yen
3rd Qtr	15,000	5,500	3,250

(Note)

Since the business environment surrounding Trend Micro Group tends to fluctuate in the short run, it is difficult to make the highly reliable projection figures on a yearly basis. We, therefore, decided to announce the earnings on a quarterly basis in the fiscal year ending in December 2004 as well as earnings projection of the succeeding quarter.

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If we found through our calculation conducted from time to time that the net sales fluctuate from the most recent quarterly projection by more than 10%, or operating income or net income fluctuates by more than 30%, we will announce the revision of the earnings projection.

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Attachment to the Report

**1. Condition of corporate group**

Trend Micro Group consists of Trend Micro Inc. (Japan), and its subsidiaries which develop and sell anti-virus products and offer other related services. Affiliated companies are Soft Trend Capital Corporation which manages capital funds to be invested into Internet-related ventures and NetSTAR Inc. which develops and offers the products of URL filtering.

The business related to anti-virus are described below.

Products related to anti-virus:

PC client products	Trend Micro Inc. (Japan) develops and sells the products. Some parts of the research and development activities are entrusted to Trend Micro Incorporated (Taiwan), Trend Micro Inc. (U.S.A.), Trend Micro Deutschland GmbH (Germany), Trend Micro (UK) Limited (UK), and Trend Micro (China) Incorporated.
LAN server products	(China). Trend Micro Incorporated (Taiwan) also operates manufacturing and sales of the products too, part of which are purchased by Trend Micro Inc. (Japan), Trend Micro Inc. (U.S.A.), Trend Micro Korea Inc.
Internet server products	(Korea), Trend Micro Deutschland GmbH (Germany), Trend Micro Italy S.r.l. (Italy), Trend Micro Australia Pty. Ltd. (Australia), Trend Micro do Brasil Ltda. (Brazil), Trend Micro France (France), Trend Micro Hong Kong Limited (China), Trend Micro (UK) Limited (UK), Trend Micro Latinoamerica S.A.de C.V (Mexico),
Other products	Trend Micro (China) Incorporated (China). Besides below indicated chart, Trend Micro (EMEA) Limited (Ireland) provides the back office functions for our business in Europe. In addition, Trend Micro Inc. (Japan) owns software copyrights and receives from its overseas subsidiaries royalties based on the respective sales of products to such subsidiaries.



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### **2. Management Policy and Business Performance**

#### **Basic Management Policy**

We are committed to providing solutions for protecting corporate networks and home computers from invasion of malicious contents such as computer viruses for the purpose to realize safe digital network society under the vision of realizing A world safe for exchanging digital information.

Computer network systems including the Internet serve as an infrastructure for information society full of a wide variety of information and are used as a means of communication along with telephone and facsimile as well as a means to improve and streamline business flow for higher productivity. Networks also eliminate geographical restrictions in corporate activities enabling such employment patterns as small offices and home offices etc. which in turn enable to perform the activities in remote places. They also make it possible to establish a corporate structure which locates data management and customer support bases etc. across borders for lower labor cost.

Like this, information of all sorts, from everyday conversation between individuals to highly confidential corporate information, is circulating round the world today. In the meantime, keeping network traffic under control and ensuring security of flowing data are critical to enable individuals and corporations to use networks without anxiety. Therefore, the responsibility of network security vendors who provide products for those purposes is becoming ever greater.

The network security industry is characterized by fierce competition among participating companies and rapidly changing business environment as is often said about the entire IT industry. The industry includes several areas such as antivirus, firewall and intrusion detection areas which deal with different threats with products incorporating different technologies.

Among the areas, we are strategically focusing on the antivirus area. We believe that it is important to develop and provide original solutions to keep up with changes in the business environment and progress of viruses ahead of competitors concentrating management resources on the antivirus area to gain superiority in the industry. We intend in this way to expand our position in the industry as well as to contribute to further development of the information society.

#### **Basic Profit Sharing Policy**

We intend to continue to return profits to shareholders based on the net profit on the consolidated basis while striving to enhance financial strength and secure inner reserve in order to deal with significantly changing business environment and maintain competitive edge against competitors. This year, we plan to pay a year-end dividend on the basis of the dividend ratio of 20%, the same level as that in the previous year.

#### **Views and Policies for Investment Unit**

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While we recognize that securing liquidity of our shares is an important issue, we consider the current liquidity is at a satisfactory level. With that background, we conclude that reducing investment unit which will incur considerable expense is not necessarily profitable to all shareholders.

We intend to review in the future the investment unit as needed taking into consideration the shareholders' interest and influences to the liquidity of our shares.

### Corporate Governance

Our management system is administering business operations under the recognition that quickly corresponding to changes in the environment of our company group and securing transparency and soundness of management as well as keeping reliability of disclosures are of prime importance.

The Board of Directors is composed of four directors and holding the Board meetings according to circumstances so that it can quickly make decisions. One of the four directors is appointed from outside of our company to enhance supervisory function for appropriate operation of the Board.

An executive is appointed for each business unit to take responsibility for executing respective operation so that our management policy decided by the Board of Directors is reflected in actual operation in the business area extending into over 20 countries in the world.

We have appointed four corporate auditors all from outside of our company so that the Board of Auditors can audit without bias the operation of the Board of Directors and business execution by the directors. The Board of Auditors has formulated a guideline for the relationship with the external auditor in order to ensure independence of the external auditor which takes charge of audit of our consolidated financial statements. The guideline prohibits commissioning the external auditor any affair which may impair independence of the said auditor. The guideline has also established a system in which the Board of Auditors is to make advance approval according to the guideline for audit and non-audit services we receive from the said auditor.

We have a function in the Corporate Affairs Department with specialized person to establish an effective internal control management for the entire group taking into consideration our business model and business environments. We have formulated a Code of Conduct intended for all executives and regular employees of our group including CEO and CFO. With the Code of Conduct, we aim to thoroughly enforce observation of laws and regulations of Japan and other countries and faithful and ethical actions as well as to establish a system in which accurate internal information of the group companies is sufficiently gathered and justly disclosed on a timely basis.

We are subject to the U.S. Sarbanes-Oxley Act legislated on the occasion of corporate scandals such as the Enron affair and the Corporate Governance Rules of NASDAQ which bases on the said Act because we are listed on the U.S. NASDAQ Stock Market. Not only conforming to those regulations, we also intend to establish an internal control system aiming at promoting our unique and global business operation leaping across time and space and cultural barrier.

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### Challenges for the Company

There are two competitors in the U.S. holding a market share greater than us in the antivirus industry. Those competitors possess strong brand strength and selling power especially in overseas markets partly because they have preceded us in the business. They are deploying the business falling back upon larger management resources than ours including work forces and financial power. Under such a situation, we intend to establish an advantage in terms of the product developing original solutions to counter evolution of viruses ahead of competitors and releasing products which will better meet customers' needs. In addition, we will market the products capitalizing on their features and originality to enhance our brand strength and selling power aiming for future growth.

We, specializing in the antivirus area, have formed several alliances with dominant vendors in areas other than antivirus solutions. During this quarter, we announced affiliation with the U.S. Cisco Systems, the world's biggest network equipment vendor. In consequence of the affiliation, we have now a plan to put our antivirus solutions on the market as internal functions of Cisco's routers, switches and security appliance products. We consider that this sort of affiliation plays an important role in our sales strategy since we can expect effects of combination of products which are competitive in the respective area and of complementation of each other's sales channel.

### Results of Operations

While there were still remaining harsh economic situation in this quarter, overall economic climate started to show a sign of upturn: expansion of capital investment by enterprises and recovery in consumer spending in Japan.

We put Network VirusWall on sale as a solution against viruses such as MSBLAST appeared last year and SASSER prevailed this year which exploit security holes of operating systems and can infect your computer only if the computer is connected to the Internet. We expanded our product lineup for corporate users releasing products which can easily be introduced and managed targeting at small-to-medium-sized companies which are lacking in network management staff. We have also started to provide Virus Buster on a flat monthly rate through ISP (Internet Service Providers) to personal users to expand the customer base for our products.

In such situations, we largely expanded sales of a consumer product Virus Buster in Japan. We consider this to be a result of emergence of several viruses including NETSKY which caused heavy damages and the number of broadband users expanding at a satisfactory pace. In addition, antivirus products have started to penetrate in earnest not only to big businesses but also to small-to-mid-sized companies contributing to steady increase in sales of products for corporate users. Consequently, net sales in Japan during the semi-annual period came to 12,067 million yen (27% increase compared with the same period of the previous year).

In North America, net sales on a local currency basis massively increased compared with the same period of the previous year owing to certain changes in the attitude of firms toward investment in security products which was in low gear until the previous term and the result of sales channel enhancement measures for expanding sales to small-to-mid-sized corporate users. Net sales in this region during the semi-annual period, which was adversely adjusted by foreign exchange fluctuation, came to 5,342 million yen (20% increase compared with the same period of the previous year).

Also in Europe, sales to small-to-mid-sized companies raised net sales to 7,375 million yen (35% increase from the same period of the previous year). This owes to significant sales expansion in the U.K., Germany and France as well as sharp increase in sales in North Europe including

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Norway and Sweden and South Europe including Spain.

With regard to the Asia-Pacific region and Latin America, sales increased in Australia, China and Mexico etc. to boost up net sales for the semi-annual period in these regions to 2,821 million yen (30% increase from the same period of the previous year) and 860 million yen (28% increase) respectively.

In consequence, consolidated net sales for the semi-annual period totaled 28,464 million yen (28% increase from the same period of the previous year).

In the meantime, operating expenses totaled 15,159 million (1% increase from the same period of the previous year). Consequently, consolidated operating income for the semi-annual period became 11,402 million yen (96% increase from the same period of the previous year) and consolidated net income became 6,969 million yen (111% increase from the same period of the previous year).

### Cash Flows

Cash flows from operating activities for this fiscal year increased by 12,168 million yen because of net income of 6,969 million yen and the increase of deferred revenue, etc., while cash flows from investing activities decreased by 10,957 million yen because of purchasing securities, etc. Cash flows from financing activities decreased by 7,314 million yen because of the redemption of our bonds, etc. As a result of adding effect of exchange rate changes, the balance of cash and cash equivalents as of end of the semi-annual period of the fiscal year 2004 amounted to 40,462 million yen decreased by 6,257 million yen from at the end of the previous fiscal year.

### Projection for the Third Quarter of the fiscal year 2004 (from July 1, 2004 to September 30)

The business environment tends to drastically change over a short term. Consequently, it is difficult to calculate highly reliable values about the projection for the whole financial year. Instead, we make it a rule to announce a business forecast for the coming quarter term at the time of reporting quarterly results.

In the event forecast numbers are revised by more than 10% for net sales or 30% for operating income and net income from the last forecast, we will announce revision of the earnings forecast.

### Earnings forecast for the 3<sup>rd</sup> quarter of FY2004 (from July 1, 2004 to September 30)

Consolidated net sales	15,000 million yen
Consolidated operating income	5,500 million yen
Consolidated net income	3,250 million yen

The following exchange rates are assumed in calculating the above forecasts:

1 US\$=111 JPY  
1 euro=134 JPY

**Table of Contents****3 CONSOLIDATED FINANCIAL STATEMENTS****(1) CONSOLIDATED BALANCE SHEETS**

(Thousands of yen)

Account	June 30, 2003		June 30, 2004		December 31, 2003	
	Amount	%	Amount	%	Amount	%
<b>&lt;Assets&gt;</b>						
Current assets:						
Cash and cash equivalents	42,654,956		40,462,189		46,718,940	
Time deposits	65,895		460,391		440,323	
Marketable securities	9,198,296		20,079,321		10,253,029	
Notes and accounts receivable, trade less allowance for doubtful accounts and sales returns of (Yen)908,956 in the first half of FY2003, (Yen)842,681 in the first half of FY2004 and (Yen)1,023,734 in FY2003, respectively	9,077,624		12,323,100		11,681,457	
Inventories	143,475		189,226		77,950	
Deferred income taxes	4,383,944		5,962,030		4,896,909	
Prepaid expenses and other current assets	1,097,087		1,108,786		1,397,821	
<b>Total current assets</b>	<b>66,621,277</b>	<b>91.1</b>	<b>80,585,043</b>	<b>93.4</b>	<b>75,466,429</b>	<b>92.9</b>
Investments and other assets:						
Securities investments	597,564		581,375		624,778	
Investment in and advances to affiliated Companies	103,872		138,183		119,591	
Software development costs	708,208		530,841		505,616	
Other intangibles	398,598		307,188		311,756	
Deferred income taxes	1,681,569		1,767,857		1,804,238	
Other	1,130,687		652,561		734,533	
<b>Total investments and other assets</b>	<b>4,620,498</b>	<b>6.3</b>	<b>3,978,005</b>	<b>4.6</b>	<b>4,100,512</b>	<b>5.0</b>
Property and equipment:						
Office furniture and equipment	2,922,056		2,943,219		2,823,506	
Other properties	1,010,080		1,162,394		1,038,524	
	3,932,136		4,105,613		3,862,030	
Less: Accumulated depreciation	(2,016,352)		(2,389,676)		(2,157,884)	
<b>Total property and equipment</b>	<b>1,915,784</b>	<b>2.6</b>	<b>1,715,937</b>	<b>2.0</b>	<b>1,704,146</b>	<b>2.1</b>
<b>Total assets</b>	<b>73,157,559</b>	<b>100.0</b>	<b>86,278,985</b>	<b>100.0</b>	<b>81,271,087</b>	<b>100.0</b>



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(Thousands of yen)

Account	June 30, 2003		June 30, 2004		December 31, 2003	
	Amount	%	Amount	%	Amount	%
<Liabilities and shareholders equity>						
Current liabilities:						
Current portion of long-term debt	6,500,000				6,500,000	
Notes payable, trade	94,611		63,044		96,204	
Accounts payable, trade	986,193		1,824,187		899,508	
Accounts payable, other	1,286,402		1,987,842		1,326,244	
Withholding income taxes	437,663		572,839		490,315	
Accrued expenses	1,941,800		2,185,496		1,984,175	
Accrued income and other taxes	3,232,548		4,638,402		4,280,797	
Deferred revenue	15,067,937		20,409,178		17,486,298	
Other	220,188		796,297		557,050	
<b>Total current liabilities</b>	<b>29,767,342</b>	<b>40.7</b>	<b>32,477,285</b>	<b>37.6</b>	<b>33,620,591</b>	<b>41.4</b>
Long-term liabilities:						
Deferred revenue	3,061,910		3,187,325		3,017,105	
Accrued pension and severance costs	437,021		588,430		487,409	
Other	255,113		160,329		194,185	
<b>Total long-term liabilities</b>	<b>3,754,044</b>	<b>5.1</b>	<b>3,936,084</b>	<b>4.6</b>	<b>3,698,699</b>	<b>4.5</b>
Shareholders equity:						
Common stock						
Authorized						
-June 30, 2003 250,000,000 shares						
-June 30, 2004 250,000,000 shares						
-December 31, 2003 250,000,000 shares (no par value)						
Issued						
-June 30, 2003 132,503,417 shares	7,257,060					
-June 30, 2004 133,997,891 shares			9,144,983			
-December 31, 2003 132,620,100 shares					7,396,194	
Additional paid-in capital	12,936,584		14,756,997		13,165,881	
Retained earnings	22,294,463		33,355,669		28,236,466	
Accumulated other comprehensive income						
Net unrealized gain (loss) on debt and equity securities	66,163		(91,832)		70,965	
Cumulative translation adjustments	531,776		(565,491)		(500,946)	
	597,939		(657,323)		(429,981)	
Treasury stock, at cost						
-June 30, 2003 1,456,770 shares	(3,449,873)					
-June 30, 2004 2,504,854 shares			(6,734,710)			
-December 31, 2003 1,958,647 shares					(4,416,763)	

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Total shareholders' equity	39,636,173	54.2	49,865,616	57.8	43,951,797	54.1
Total liabilities and shareholders' equity	73,157,559	100.0	86,278,985	100.0	81,271,087	100.0



**Table of Contents****(2) CONSOLIDATED STATEMENTS OF INCOME**

(Thousands of yen)

Account	For the six months ended June 30, 2003		For the six months ended June 30, 2004		For the year ended December 31, 2003	
	Amount	%	Amount	%	Amount	%
	Net sales	22,309,642		28,464,157		48,088,347
Cost of sales	1,528,771		1,902,555		3,168,467	
Gross profit	20,780,871	100.0	26,561,602	100.0	44,919,880	100.0
Operating expenses:						
Selling	8,015,856		7,457,213		15,360,532	
Research and development and maintenance	1,929,219		2,278,974		3,919,024	
Customer support	2,402,122		2,717,490		4,830,660	
General and administrative	2,611,807		2,705,635		5,656,168	
Total operating expenses	14,959,004	72.0	15,159,312	57.1	29,766,384	66.3
Operating income	5,821,867	28.0	11,402,290	42.9	15,153,496	33.7
Other incomes (expenses):						
Interest income	206,035		160,957		412,635	
Interest expense	(114,829)		(44,644)		(173,830)	
Gain (loss) on sales of marketable securities			82,857		(65,259)	
Impairment loss of securities investments	(7,360)				(7,360)	
Foreign exchange gain (loss), net	134,469		(29,075)		120,650	
Loss of disposal of inventory			(24,214)			
Other income (expense), net	(162,948)		(21,451)		(111,345)	
Total other income (expense)	55,367	0.3	124,430	0.5	175,491	0.4
Net income before tax	5,877,234	28.3	11,526,720	43.4	15,328,987	34.1
Income taxes:						
Current	3,145,367		5,498,022		7,437,576	
Deferred	(568,140)		(922,416)		(1,334,998)	
	2,577,227	12.4	4,575,606	17.2	6,102,578	13.6
Income before equity earnings (losses) of affiliated companies	3,300,007	15.9	6,951,114	26.2	9,226,409	20.5
Equity in earnings (losses) of affiliated companies	7,755	0.0	17,893	0.0	23,623	0.1
Net income	3,307,762	15.9	6,969,007	26.2	9,250,032	20.6

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	<u>Yen</u>	<u>Yen</u>	<u>Yen</u>
Per share data:			
Net income			
-Basic	25.04	52.41	70.11
-Diluted		51.47	69.95

**Table of Contents****(3) CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

(Thousands of yen)

<b>Account</b>	<b>For the six months ended June 30, 2003</b>	<b>For the six months ended June 30, 2004</b>	<b>For the year ended December 31, 2003</b>
Net income	3,307,762	6,969,007	9,250,032
Other comprehensive income (loss), before tax:			
Unrealized gains (losses) on debt and equity securities:			
Unrealized holding gains (losses) arising during period	160,406	(198,675)	135,323
Less reclassification adjustment for gains or losses included in net income	101,133	(67,303)	132,701
	261,539	(265,978)	268,024
Foreign currency translation adjustments	246,697	(64,545)	(786,025)
Total	508,236	(330,523)	(518,001)
Income tax expense related to unrealized gains (losses) on debt and equity securities	(111,499)	103,181	(113,182)
Other comprehensive income (loss), net of tax	396,737	(227,342)	(631,183)
Comprehensive income	3,704,499	6,741,665	8,618,849

**Table of Contents****(4) CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**

(Thousands of yen)

Account	For the six months ended June 30, 2003	For the six months ended June 30, 2004	For the year ended December 31, 2003
<b>&lt;Common stock&gt;</b>			
Balance at beginning of period	7,257,060	7,396,194	7,257,060
Exercise of stock purchase warrants and stock acquisition rights		1,748,789	139,134
<b>Balance at end of period</b>	<b>7,257,060</b>	<b>9,144,983</b>	<b>7,396,194</b>
<b>&lt;Additional paid-in capital&gt;</b>			
Balance at beginning of period	13,021,554	13,165,881	13,021,554
Tax benefit from exercise of non-qualified stock warrants	143,115	115,383	233,277
Tax recognition derived from elimination of reversed warrant related with stock option plan	(228,085)	(249,978)	(228,085)
Loss on sales of treasury stock, net of tax		(22,941)	
Exercise of stock purchase warrants and stock acquisition rights		1,748,652	139,135
<b>Balance at end of period</b>	<b>12,936,584</b>	<b>14,756,997</b>	<b>13,165,881</b>
<b>&lt;Retained earnings&gt;</b>			
Balance at beginning of period	18,986,701	28,236,466	18,986,701
Net income	3,307,762	6,969,007	9,250,032
Stock issue costs, net of tax		(3,735)	(267)
Cash dividends		(1,829,260)	
Loss on sales of treasury stock, net of tax		(16,809)	
<b>Balance at end of period</b>	<b>22,294,463</b>	<b>33,355,669</b>	<b>28,236,466</b>
<b>&lt;Net realized gain (loss) on debt and equity securities&gt;</b>			
Balance at beginning of period	(83,877)	70,965	(83,877)
Net change during the period	150,040	(162,797)	154,842
<b>Balance at end of period</b>	<b>66,163</b>	<b>(91,832)</b>	<b>70,965</b>
<b>&lt;Cumulative translation adjustments&gt;</b>			
Balance at beginning of period	285,079	(500,946)	285,079
Aggregate translation adjustments for the period	246,697	(64,545)	(786,025)
<b>Balance at end of period</b>	<b>531,776</b>	<b>(565,491)</b>	<b>(500,946)</b>
<b>&lt;Treasury stock, at cost&gt;</b>			
Balance at beginning of period	(2,322,287)	(4,416,763)	(2,322,287)
Purchase of treasury stock	(1,127,586)	(2,616,694)	(2,094,476)
Sales of treasury stock		298,747	

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Balance at end of period	(3,449,873)	(6,734,710)	(4,416,763)
Total shareholders' equity	39,636,173	49,865,616	43,951,797

**Table of Contents****(5) CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Thousands of yen)

Account	For the six months ended June 30, 2003	For the six months ended June 30, 2004	For the year ended December 31, 2003
Cash flows from operating activities:			
Net income	3,307,762	6,969,007	9,250,032
Adjustments to reconcile net income to net cash provided by operating activities -			
Depreciation and amortization	1,106,517	785,396	2,266,356
Pension and severance costs, less payments	80,842	99,262	140,661
Deferred income taxes	(568,140)	(922,416)	(1,334,998)
(Gain) loss on sales of marketable securities		(82,857)	65,259
Impairment of securities investments	7,360		7,360
Equity in gain of affiliated companies	(7,755)	(17,893)	(23,623)
Changes in assets and liabilities:			
Increase in deferred revenue	2,033,045	3,201,387	5,036,872
(Increase) decrease in accounts receivable, net of allowances	2,488,094	(719,133)	(446,201)
(Increase) decrease in inventories	219,748	(112,030)	278,751
Increase (decrease) in notes and accounts payable, Trade	(32,030)	896,839	(52,021)
Increase (decrease) in accrued income and other taxes	(856,478)	358,248	193,227
(Increase) decrease in other current assets	(67,865)	16,948	(67,898)
Increase (decrease) in accounts payable, other	(98,894)	279,029	(11,962)
Increase in other current liabilities	52,313	908,479	602,296
(Increase) decrease in other assets	(280,659)	390,684	(324,879)
Other	111,933	117,191	87,072
<b>Net cash provided by operating activities</b>	<b>7,495,793</b>	<b>12,168,141</b>	<b>15,666,304</b>
Cash flows from investing activities:			
Payments for purchases of property and equipment	(483,462)	(226,434)	(715,901)
Software development cost	(356,809)	(402,096)	(788,760)
Payments for purchases of other intangibles	(111,050)	(200,253)	(270,570)
Proceeds from sales of marketable securities	1,700,000	954,474	2,945,331
Payments for purchases of marketable securities and security investments	(7,862,856)	(11,062,351)	(10,248,908)
Payments for time deposits	(173)	(20,068)	(374,601)
<b>Net cash used in investing activities</b>	<b>(7,114,350)</b>	<b>(10,956,728)</b>	<b>(9,453,409)</b>
Cash flows from financing activities:			
Issuance of common stock pursuant to exercise of stock purchase warrants and stock acquisition rights		3,493,706	278,002
Redemption of bonds	(5,000,000)	(6,500,000)	(5,000,000)
Purchase of treasury stock (net of proceeds)	(1,127,586)	(2,357,697)	(2,094,476)
Tax benefit from exercise of non-qualified stock warrants	143,115	115,383	233,277
Tax recognition derived from elimination of reversed warrant related with stock option plan	(228,085)	(249,978)	(228,085)
Dividend paid		(1,814,984)	

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Net cash used by financing activities	(6,212,556)	(7,313,570)	(6,811,282)
Effect of exchange rate changes on cash and cash equivalents	656,248	(154,594)	(512,494)
Net decrease in cash and cash equivalents	(5,174,865)	(6,256,751)	(1,110,881)
Cash and cash equivalents at beginning of period	47,829,821	46,718,940	47,829,821
Cash and cash equivalents at end of period	42,654,956	40,462,189	46,718,940
Supplementary information of cash flow:			
Payment for interest expense	117,289	19,424	151,623
Payment for income taxes	3,935,610	5,754,866	7,102,721

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**NOTES TO INTERIM CONSOLIDATED FINANCIAL INFORMATION**

**1. Accounting Principles, Accounting Procedures and Methods for Presenting Interim Consolidated Financial Statements**

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ), including Accounting Principles Board Opinion ( APB ), Statement of Financial Accounting Standards ( FAS ), Emerging Issues Task Force Consensus ( EITF ) and the American Institute of Certified Public Accountants Statement of Position ( SOP ). The Company listed on the NASDAQ in July 1999, and prepares its consolidated financial statements pursuant to the terminology, forms and preparation methods required in order to issue American Depositary Shares, which are registered with the U.S. Securities and Exchange Commission. The Company maintains their books and records in conformity with accounting principles and practices generally accepted in Japan ( Japan GAAP ), and its foreign subsidiaries in conformity with those in the respective countries of their domicile. The consolidated financial statements presented herein have been prepared in a manner and reflect certain adjustments that are necessary to conform them with U.S. GAAP.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The significant differences between accounting principles, accounting procedures and methods of presentation which are adopted by the Company and its subsidiaries (U.S. GAAP) and those in Japan (Japan GAAP) are as follows. However, the effect on income before income tax caused by the GAAP differences indicated below, are immaterial.

(1) Pension Accounting

The Company and subsidiaries account for the retirement benefit plan in accordance with FAS No. 87 Employers Accounting for Pensions . The transitional difference, when FAS No. 87 is first applied, shall be amortized on a straight-line basis over the average remaining service period. However, in our non-consolidated financial statements, the transitional difference was all charged to income in the first year of application of local pension accounting, in accordance with Japan GAAP.

(2) Disclosure of the loss on disposal of fixed assets

Under Japan GAAP, the loss on disposal of fixed assets is disclosed in unusual profit and loss . We have disclosed this amount in Other incomes (expenses) in our consolidated statement of income.

(3) Common stock issue costs



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Common stock issue costs are directly charged to retained earnings, net of tax, in the accompanying consolidated financial statements. Under Japan GAAP, these costs are charged to income as incurred.

### **2. Summary of significant accounting policies**

#### **Significant accounting policies:**

##### **Basis of consolidation**

The consolidated financial statements include the accounts of the parent company and those of its majority-owned subsidiaries. All intercompany transactions and accounts are eliminated on consolidation.

Investments in affiliated companies (20 to 50 percent-owned companies) in which the ability to exercise significant influence exists are stated at cost plus the equity in undistributed earnings (losses). Net consolidated income includes the company's equity in the current net earnings (losses) of such companies, after elimination of unrealized intercompany profit.

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**Consolidated subsidiaries:**

All subsidiaries which are composed of the following 18 companies are consolidated:

Trend Micro Incorporated (Taiwan)

Trend Micro Inc. (USA)

Trend Micro Korea Inc.

Trend Micro Italy S.r.l.

Trend Micro Deutschland GmbH (Germany)

Trend Micro Australia Pty.Ltd

Trend Micro do Brasil Ltda. (Brazil)

Trend Micro France

Trend Micro Hong Kong Limited (China)

Trend Micro Incorporated Sdn.Bhd. (Malaysia)

Trend Micro (UK) Limited

Trend Micro Latinoamerica S.A.de C.V. (Mexico)

Trend Micro (NZ) Limited (NewZealand)

ipTrend Incorporated (Taiwan)

Trend Micro (China) Incorporated

Trend Micro (EMEA) Limited (Ireland)

Servicentro TMLA,S.A.de C.V. (Mexico)

Trend Micro (Singapore) Private Limited

Trend Micro Incorporated Sdn.Bhd. (Malaysia) was liquidated for the first six month ended June 30, 2004 and ipTrend Incorporated (Taiwan) are in the process of liquidation.

**Affiliated companies:**

Equity method is applied to investments in affiliated companies, which are composed of the following 2 companies.

Soft Trend Capital Corporation (Japan)

Net STAR, Inc. (Japan)

### **Translation of foreign currencies**

All asset and liability accounts of foreign subsidiaries are translated into Japanese yen at year-end rates of exchange and all income and expense accounts are translated at rates of exchange that approximate to those prevailing at the time of the transactions. The resulting translation adjustments are included in accumulated other comprehensive income (loss).

Foreign currency denominated receivables and payables are translated into Japanese yen at year-end rates of exchange and the resulting translation gains or losses are taken into current income.

### **Revenue recognition**

The Company's revenue is derived primarily from product revenue, which includes software product license and post-contract customer support services. Other revenue is composed of hardware revenue, royalty revenue and supplementary service revenue. Royalty revenue is comprised of fees from Application service providers and Internet service providers and supplementary services are comprised of fees from services based on Premium support program and Service level agreement. Product revenue includes the type of limited sales of our products to other companies for inclusion in their products.

The Company licenses its software products under perpetual licenses. The Company sells its products and services via its direct sales force and through domestic and foreign intermediaries.

The Company applies the provisions of SOP 97-2, *Software Revenue Recognition*, as amended by SOP 98-9 *Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions* to all transactions involving the sale of software products and hardware transactions where software is not incidental. For hardware transactions where software is not incidental, the Company does not bifurcate the fee and apply separate accounting guidance to the hardware and software elements.

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Revenue from the Company's software product license and hardware where software is not incidental is recognized when persuasive evidence of an arrangement exists, the product has been delivered, the fee is fixed and determinable, and collection of the resulting receivable, net of allowances for doubtful accounts and sales returns, is reasonably assured. Post-contract customer support services revenue which includes virus pattern updates, unspecified product version updates, telephone and online technical support and free use of our 24-hour service centers and supplementary services revenue are deferred and recognized ratably over the service period. The Company allocates revenue to post-contract customer support services based on the fair value of the post-contract customer support services, which are determined based on separate sales of renewals to customers. Royalty revenue is recognized as earned unless collection of the related receivables is not assured in which case, it is recognized upon receipt of cash.

For all sales, the Company uses either a binding purchase order or signed license agreement as evidence of an arrangement. Sales through our intermediaries are evidenced by a master agreement governing the relationship together with binding purchase orders on a transaction-by-transaction basis.

At the time of the transaction, the Company assesses whether the fee associated with our revenue transactions is fixed and determinable and whether or not collection is reasonably assured. The Company assesses whether the fee is fixed and determinable based on the payment terms associated with the transaction. If a significant portion of a fee is due after our normal payment terms, which are 30 to 90 days from the invoice date, the Company accounts for the fee as not being fixed and determinable. In these cases, the Company recognizes revenue as the fees become due. The Company assesses collection based on a number of factors, including past transaction history with the customer and the credit-worthiness of the customer. The Company does not request collateral from our customers. If the Company determines that collection of a fee is not reasonably assured, the Company defers the fee and recognizes revenue at the time collection becomes reasonably assured, which is generally upon receipt of cash.

The Company recognizes revenue from sales to intermediaries when products have been delivered to the intermediary. The Company primarily sells retail packages through intermediaries. After sale of a retail package, the Company may approve certain returns from intermediaries or end-users; therefore, the Company makes an estimate of returns from intermediaries or end-users based on its historical experience. The provision for estimated returns is recorded as a reduction to revenue at the time of the sale.

## **Cash and cash equivalents**

Cash and cash equivalents include cash on hand, cash on deposit with banks and all highly liquid investments, with original maturities of three months or less, that are readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of changes in value because of changes in interest rates.

## **Marketable securities**

Marketable securities consist of debt and equity securities. Debt and equity securities designated as available-for-sale are carried at fair value with unrealized gains or losses included in accumulated other comprehensive income (loss), net of applicable taxes. Debt securities designated as held-to-maturity are carried at amortized cost. Individual securities classified as either available-for-sale or held-to-maturity are reduced to net realizable value for other than temporary declines in market value. Realized gains and losses, which are determined on the average cost method, are reflected in income.

**Inventories**

Finished products and raw materials are valued at the lower of weighted average cost or net realizable value. Work in process is stated at accumulated production costs.

**Property and equipment**

Property and equipment are stated at cost. Major renewals and improvements are capitalized; minor replacements, maintenance and repairs are charged to current operations. Depreciation of property and equipment is computed on the declining-balance method for the parent company and on the straight-line method for foreign subsidiaries at rates based on estimated useful lives of the assets according to general class, type of construction and use. Estimated useful lives range from 3 to 5 years for office furniture and equipment, and from 4 to 24 for other properties.

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### **Intangible assets**

Intangible assets, which mainly consist of software development costs and purchased software, are amortized on a straight-line basis over the estimated economic lives of the products, generally over twelve-month period for software development costs and a five-year period for purchased software and other intangibles.

### **Impairment of long-lived assets**

The Company evaluates long-lived assets and definite lived intangible assets to be held and used whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Determination of recoverability is based on the sum of expected future cash flows (undiscounted and without interest charges) from the use and eventual disposition of the asset. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized, based on the fair value of the asset.

### **Research and development costs and software development costs**

All costs relating to research and development, to establish the technological feasibility of software products, are expensed as incurred. Under the Company's software development process, technological feasibility is established on completing all substantial testing for the original English language version of the software. Local language versions of software, such as Japanese or Chinese, are produced from the English language version, by adding Japanese language or Chinese language related functions. Production costs for such local language versions of software product masters, incurred subsequent to the availability of original English language version software, are capitalized. Production costs of the local language software product masters, which include direct labor and overhead costs, are amortized to cost of sales using the straight-line method over the current estimated economic lives of the products, generally up to twelve months.

Management considers the Company's capitalized software development costs to be fully recoverable from future product sales. Management estimates are based upon supporting facts and circumstances, and may be significantly impacted based upon subsequent changes in business conditions.

### **Advertising costs**

Advertising costs are expensed as incurred.

### **Stock-based compensation**

The Company accounts for its stock-based incentive awards in accordance with the intrinsic value method as per APB No. 25, *Accounting for Stock Issued to Employees*. The Company complies with the disclosure provisions of FAS No. 123, *Accounting for Stock-Based Compensation*,

as amended by FAS No. 148.

### **Income taxes**

The current provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred assets (including deferred tax assets and liabilities on net unrealized gain or loss on debt and equity securities) of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

### **Net income per share**

Basic net income per share is computed based on the average number of shares of common stock outstanding for the period. Diluted net income per share assumes the dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, or resulted in the issuance of common stock. Net income per share is appropriately adjusted for any stock splits or free distributions of common stock.

### **Free distribution of common stock**

On occasion, the Company made a free distribution of common stock to its shareholders which was accounted for either by a transfer of the applicable par value from additional paid-in capital to the common stock account or with no entry if free shares were distributed from the portion of previously issued shares accounted for as excess of par value in the common stock account in accordance with the Japanese Commercial Code. However, as a result of the amendments to the Japanese Commercial Code in 2001 where the concept of par-value of shares was eliminated effective from October 1, 2001, a free distribution of common stock to its shareholders is accounted for with no accounting entry. Under the Japanese Commercial Code, a stock dividend which is paid out of profits can be effected by an appropriation of retained earnings to the common stock account by resolution of the general shareholders' meeting, followed by a free distribution with respect to the amount as appropriated by resolution of the Board of Directors.

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**Common stock issue costs**

Common stock issue costs are directly charged to retained earnings, net of tax, in the accompanying consolidated financial statements as the Japanese Commercial Code prohibits charging such stock issue costs to capital accounts, which is the prevailing practice in the United States of America.

**Comprehensive income**

Other comprehensive income refers to revenues, expenses, gains and losses that under U.S. GAAP are included in comprehensive income but are excluded from net income as these amounts are recorded directly as adjustments to shareholders' equity. The Company's other comprehensive income primarily comprises unrealized gains or losses on debt and equity securities and foreign currency translation adjustments.

**Market and credit risks**

The anti-virus software market is characterized by rapid technological change and evolving industry standards in computer hardware and software technology. In addition, the markets for the Company's products are highly competitive and rapidly changing. The Company could incur substantial operating losses if it is unable to offer products, which address technological and market place change in the anti-virus software industry.

Other financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash equivalents, marketable securities and accounts receivable. The Company invests primarily in time deposits, money market funds and marketable securities and places its investments with high quality financial institutions. The Company performs ongoing credit evaluations of its customers' financial condition and maintains an allowance for uncollectible accounts receivable, if any, based upon the expected collectibility of accounts receivable.

**3. Reconciliation of the difference between basic and diluted net income per share ( EPS )**

Reconciliation of the differences between basic and diluted EPS for the six month ended June 30, 2003 and 2004 and for the year ended December 31, 2003, is as follows:

<b>For the six month ended June 30, 2003</b>	<b>For the six month ended June 30, 2004</b>	<b>For the year ended December 31, 2003</b>
<hr/>	<hr/>	<hr/>
	<b>Thousands of Yen</b>	



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Net income available to common stock holders	(Yen) 3,307,762	(Yen) 6,969,007	(Yen) 9,250,032
	<b>Shares</b>		
	<hr/>		
Weighted-Average shares	132,098	132,974	131,940
Effect of dilutive securities:			
Stock options		2,419	295
Weighted-Average shares for diluted EPS computation	132,098	135,393	132,235
	<b>Yen</b>		
	<hr/>		
Basic EPS:	25.04	52.41	(Yen) 70.11
Diluted EPS:		51.47	69.95

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**4. Cash and cash equivalents**

Cash and cash equivalents as of June 30, 2003 and 2004 and December 31, 2003 were as follows:

(Thousands of yen)

	<b>June 30,</b>	<b>June 30,</b>	<b>December 31,</b>
	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<u>          </u>	<u>          </u>	<u>          </u>
Cash	40,192,122	37,679,103	44,032,813
Time deposits with original maturities of three months or less	2,462,834	2,783,086	2,686,127
	<u>42,654,956</u>	<u>40,462,189</u>	<u>46,718,940</u>