

Trend Micro Reports Q4 Earnings; Posts Record Consolidated Revenues and Earnings for 2003

2003 Revenues Hit 48.09 billion Yen (US\$454 million); Fourth Quarter sales and net income up 14% and 58% respectively

Tokyo, Japan – February 4, 2004 – Trend Micro, Inc. (TSE: 4704, NASDAQ: TMIC), a leader in network antivirus and Internet content security software and services, today announced earnings results for the fourth quarter 2003, and consolidated annual earnings results for the year ended December 31, 2003 (both U.S. GAAP).

Trend Micro posted consolidated net sales of 13.39 billion Yen (or US \$126 million, based on an exchange rate of 106 JPY=1USD) and operating income of 5.25 billion Yen (or US \$50 million) for the fourth quarter of 2003. These figures reflect increases of 14% in net sales and 18% in operating income compared with the same period a year ago. Net income increased 58% in the fourth quarter compared to the same period a year ago. Growth for the quarter came mainly from Europe at 24%, Asia-Pacific at 20% and North America at 16%.

Net sales for 2003 surpassed previous years at 48.09 billion Yen (or US \$454 million), reflecting an increase of 12% from 2002. Operating income was 15.2 billion Yen (or US \$143 million), up 9% from 2002. Net income was 9.3 billion Yen (or US \$87.3 million), up 20% from 2002. The company plans to pay cash dividends of 1.8 billion Yen, or 14 Yen per share, for 2003. All regions worldwide experienced growth in 2003 and enterprise products and solutions comprised almost 80% of total revenues for the year.

“In 2003 we delivered several new products and services, forged key alliances, and won many key endorsements making Enterprise Protection Strategy and outbreak prevention a reality for our customers,” said Steve Chang, CEO and co-founder of Trend Micro, Inc. “2004 will continue to be a year of growth for Trend Micro as we build on our expertise of threat knowledge and deliver new technologies that help customers more efficiently fend off threats to their networks.”

Based on information currently available to the company, consolidated net sales for the first quarter ending March 31, 2004 is expected to be 12.2 billion yen (or US \$115 million). Operating income and net income are expected to be 3.6 billion yen (or US \$34 million) and 2.1 billion yen (or US \$20 million), respectively.

Fourth Quarter Business Highlights

- During the fourth quarter, Trend Micro NeatSuite™ was awarded “Editor’s Choice” for 2003 by *Network Computing Magazine*; PC-cillin™ Internet Security 2004 desktop product was named CNET’s “Editor’s Choice”; and Spam Prevention Service was voted among “Products You Love” by readers of *Microsoft Certified Professionals Magazine*.
- Trend Micro was also honored with the Porter Prize for 2003 for achievements in the implementation of unique strategies based on innovations in products, processes, and management methodologies. Trend Micro Japan’s consumer support center was also awarded the Helpdesk Institute Team Excellence Award 2003.

- TrendLabs™ headquarters in the Philippines achieved COPC-2000 Standards certification from the international Customer Operations Performance Center organization, making Trend Micro the first antivirus software company to achieve this certification. The TrendLabs facility in Lake Forest, California, received Support Center Practices certification in recognition of world-class support and focus on customer satisfaction. Additionally, ScanMail™ for Microsoft Exchange 2000/2003 was the first Microsoft Exchange antivirus product to be certified on Microsoft Windows 2003 Standard Edition, Enterprise Edition, and Data Center Edition, running on Exchange 2003.
- During this period, Trend Micro introduced several new products, including: Trend Micro GateLock™ 3000 and GateLock 5000 Remote Appliances, in a partnership with NetScreen Technologies, Inc.; PC-cillin Internet Security 2004; and several specialized products designed for the small and medium business customer (released in North America). In November 2003, Trend Micro announced its collaborative efforts with Cisco Network Admission Control Program to increase security within the enterprise.
- Notable customers won during this quarter include: Brasil Telecom, Brazil's largest telecommunications provider; Bitel, Mexico's largest retail bank; Kohl's Department Stores, one of the fastest growing retailers in the United States; and EMI Music, the world's leading music publisher, headquartered in the U.K. New business has also been established with Honeywell, the U.S.-based diversified technology and manufacturing leader.
- In their December 2003 report "Local Vendors Gain in Regional Antivirus Markets" Gartner Dataquest called Trend Micro "most global" (as measured by license revenue earned outside a company's home country.)

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:

- 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

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 and managed service providers. For additional information and evaluation copies of all Trend Micro products, visit our Web site, www.trendmicro.com

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Supplementary Information
1. Consolidated Balance Sheets

(Thousands of yen)

Account	December 31, 2002	December 31, 2003
<Assets>		
Current assets:		
Cash and cash equivalents	47,829,821	46,718,940
Time deposits	65,722	440,323
Marketable securities	2,747,471	10,253,029
Notes and accounts receivable, trade	12,287,078	12,705,191
Allowance for doubtful accounts and sales returns	(962,037)	(1,023,734)
Inventories	363,848	77,950
Deferred income taxes	4,044,672	4,896,909
Prepaid expenses and other current assets	798,243	1,397,821
Total current assets	<u>67,174,818</u>	<u>75,466,429</u>
Investments and other assets:		
Securities investments	690,732	624,778
Investment in and advances to affiliated companies	96,117	119,591
Software development costs	936,058	505,616
Other intangibles	361,028	311,756
Deferred income taxes	1,548,313	1,804,238
Other	1,086,254	734,533
Total investments and other assets	<u>4,718,502</u>	<u>4,100,512</u>
Property and equipment:		
Office furniture and equipment	2,619,820	2,823,506
Other properties	1,101,268	1,038,524
	<u>3,721,088</u>	<u>3,862,030</u>
Less: Accumulated depreciation	(1,776,409)	(2,157,884)
Total property and equipment	<u>1,944,679</u>	<u>1,704,146</u>
Total assets	<u>73,837,999</u>	<u>81,271,087</u>

(Thousands of yen)

Account	December 31, 2002	December 31, 2003
<Liabilities and shareholders' equity>		
Current liabilities:		
Current portion of long-term debt	5,000,000	6,500,000
Notes payable, trade	85,035	96,204
Accounts payable, trade	1,014,215	899,508
Accounts payable, other	1,201,675	1,326,244
Withholding income taxes	183,663	490,315
Accrued expenses	1,807,241	1,984,175
Accrued income and other taxes	4,089,169	4,280,797
Deferred revenue	13,484,252	17,486,298
Other	573,068	557,050
Total current liabilities	<u>27,438,318</u>	<u>33,620,591</u>
Long-term liabilities:		
Long term debt	6,500,000	-
Deferred revenue	2,188,460	3,017,105
Accrued pension and severance costs	356,044	487,409
Other	210,947	194,185
Total long-term liabilities	<u>9,255,451</u>	<u>3,698,699</u>
Shareholders' equity:		
Common stock		
Authorized		
-December 31,2002 250,000,000 shares (no par value)		
-December 31,2003 250,000,000 shares (no par value)		
Issued		
-December 31,2002 132,503,417 shares	7,257,060	
-December 31,2003 132,620,100 shares		7,396,194
Additional paid-in capital	13,021,554	13,165,881
Retained earnings	18,986,701	28,236,466
Accumulated other comprehensive income		
Net unrealized gain (loss) on debt and equity securities	(83,877)	70,965
Cumulative translation adjustments	285,079	(500,946)
	<u>201,202</u>	<u>(429,981)</u>
Treasury stock, at cost		
-December 31,2002 820,442 shares	(2,322,287)	
-December 31,2003 1,958,647 shares		(4,416,763)
Total shareholders' equity	<u>37,144,230</u>	<u>43,951,797</u>
Total liabilities and shareholders' equity	<u>73,837,999</u>	<u>81,271,087</u>

2. Consolidated Statements of Income

(Thousands of yen)

Account	For the year ended December 31,2002	For the year ended December 31,2003	Increase (Decrease) %
Net sales	42,979,637	48,088,347	11.9
Cost of sales	2,353,862	3,168,467	
Gross profit	40,625,775	44,919,880	10.6
Operating expenses:			
Selling	15,051,702	15,360,532	
Research and development	3,505,565	3,919,024	
Customer support	3,857,957	4,830,660	
General and administrative	4,344,433	5,656,168	
	26,759,657	29,766,384	
Operating income	13,866,118	15,153,496	9.3
Other incomes (expenses):			
Interest income	410,245	412,635	
Interest expense	(277,328)	(173,830)	
Loss on sales of marketable securities	(259,293)	(65,259)	
Impairment loss of securities investments	(804,661)	(7,360)	
Foreign exchange gain, net	52,424	120,650	
Other income (expense), net	110,778	(111,345)	
	(767,835)	175,491	
Income before income taxes and equity in gain of affiliated companies	13,098,283	15,328,987	17.0
Income taxes:			
Current	6,938,456	7,437,576	
Deferred	(1,542,750)	(1,334,998)	
	5,395,706	6,102,578	
Income from consolidated companies	7,702,577	9,226,409	19.8
Equity in gain of affiliated companies	11,189	23,623	
Net income	7,713,766	9,250,032	19.9
Per share data:			
Net income	<u>Yen</u>	<u>Yen</u>	
-Basic	58.39	70.11	20.1
-Diluted	58.22	69.95	20.1

3. Comprehensive Income

(Thousands of yen)

Account	For the year ended December 31, 2002	For the year ended December 31,2003
Net income	7,713,766	9,250,032
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on debt and equity securities:		
Unrealized holding gains (loss) arising during period	(191,661)	135,323
Less reclassification adjustment for losses(gains) included in net income	507,954	132,701
	<u>316,293</u>	<u>268,024</u>
Foreign currency translation adjustments	<u>(563,794)</u>	<u>(786,025)</u>
Other comprehensive income, before tax	(247,501)	(518,001)
Income tax expense related to items of other comprehensive income	<u>(89,690)</u>	<u>(113,182)</u>
Other comprehensive income, net of tax	<u>(337,191)</u>	<u>(631,183)</u>
Comprehensive income	<u><u>7,376,575</u></u>	<u><u>8,618,849</u></u>

4. Consolidated Statement of Shareholders' Equity

(Thousands of yen)

Account	For the year ended December 31,2002	For the year ended December 31,2003
<Common stock>		
Balance at beginning of period	6,833,678	7,257,060
Exercise of stock purchase warrants and stock acquisition rights	<u>423,382</u>	<u>139,134</u>
Balance at end of period	<u>7,257,060</u>	<u>7,396,194</u>
<Additional paid-in capital>		
Balance at beginning of period	12,144,908	13,021,554
Tax benefit from exercise of non-qualified stock warrants	459,743	5,192
Loss on sales of treasury stock, net of tax	(6,466)	-
Exercise of stock purchase warrants and stock acquisition rights	<u>423,369</u>	<u>139,135</u>
Balance at end of period	<u>13,021,554</u>	<u>13,165,881</u>
<Retained earnings>		
Balance at beginning of period	11,277,576	18,986,701
Net income	7,713,766	9,250,032
Stock issue costs, net of tax	<u>(4,641)</u>	<u>(267)</u>
Balance at end of period	<u>18,986,701</u>	<u>28,236,466</u>
<Net realized gain (loss) on debt and equity securities>		
Balance at beginning of period	(310,480)	(83,877)
Net change during the period	<u>226,603</u>	<u>154,842</u>
Balance at end of period	<u>(83,877)</u>	<u>70,965</u>
<Cumulative translation adjustments>		
Balance at beginning of period	848,873	285,079
Aggregate translation adjustments for the period	<u>(563,794)</u>	<u>(786,025)</u>
Balance at end of period	<u>285,079</u>	<u>(500,946)</u>
<Treasury stock, at cost>		
Balance at beginning of period	(28,529)	(2,322,287)
Purchase of treasury stock	(2,300,224)	(2,094,476)
Sales of treasury stock	<u>6,466</u>	<u>-</u>
Balance at end of period	<u>(2,322,287)</u>	<u>(4,416,763)</u>
Total shareholders' equity	<u><u>37,144,230</u></u>	<u><u>43,951,797</u></u>

5. Consolidated Statements of Cash Flows

(Thousands of yen)

Account	For the year ended December 31,2002	For the year ended December 31,2003
Cash flows from operating activities:		
Net income	7,713,766	9,250,032
Adjustments to reconcile net income to net cash provided by operating activities -		
Depreciation and amortization	1,910,246	2,266,356
Pension and severance costs, less payments	82,007	140,661
Deferred income taxes	(1,542,750)	(1,334,998)
Loss on sales of marketable securities	259,293	65,259
Impairment of securities investments	804,661	7,360
Equity in gain of affiliated companies	(11,189)	(23,623)
Changes in assets and liabilities:		
Increase in deferred revenue	5,608,143	5,036,872
Increase in accounts receivable, net of allowances	(118,016)	(446,201)
(Increase) decrease in inventories	(137,030)	278,751
Decrease in notes and accounts payable, trade	(201,989)	(52,021)
Increase in accrued income and other taxes	730,629	193,227
Decrease (increase) in other current assets	141,170	(67,898)
Decrease in accounts payable, other	(171,645)	(11,962)
Increase in other current liabilities	96,567	602,296
Increase in other assets	(361,945)	(324,879)
Other	(58,822)	87,072
Net cash provided by operating activities	<u>14,743,096</u>	<u>15,666,304</u>
Cash flows from investing activities:		
Payments for purchases of property and equipment	(811,632)	(715,901)
Software development cost	(1,025,516)	(793,361)
Payments for purchases of other intangibles	(306,573)	(265,969)
Proceeds from sales of marketable securities	292,607	2,945,331
Payments for purchases of marketable securities and security investments	(1,326,512)	(10,248,908)
Proceeds from / (Payments for) time deposits	5,046	(374,601)
Net cash used in investing activities	<u>(3,172,580)</u>	<u>(9,453,409)</u>
Cash flows from financing activities:		
Issuance of common stock pursuant to exercise of stock warrants	842,110	278,002
Tax benefit from exercise of non-qualified stock warrants	459,743	5,192
Proceeds from issuance of bonds	4,000,000	-
Purchase of treasury bonds	(4,008,800)	-
Redemption of bonds	(3,000,000)	(5,000,000)
Purchase of treasury stock, net	(2,293,758)	(2,094,476)
Other	(6,744)	-
Net cash used by financing activities	<u>(4,007,449)</u>	<u>(6,811,282)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(515,896)</u>	<u>(512,494)</u>
Net increase (decrease) in cash and cash equivalents	7,047,171	(1,110,881)
Cash and cash equivalents at beginning of period	40,782,650	47,829,821
Cash and cash equivalents at end of period	<u>47,829,821</u>	<u>46,718,940</u>
Supplementary information of cash flow:		
Payment for interest expense	307,999	151,623
Payment for income taxes	5,835,904	7,102,721

For Additional Information

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