

## **Trend Micro Reports Second Quarter Results**

*All regions achieve double-digit growth; sales in small and medium business sector highlight quarter*

**Tokyo, Japan – August 10, 2006** – 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 second quarter 2006.

Trend Micro posted consolidated net sales of 20.08 billion Yen (or US \$174.98 million, 114.75 JPY = 1USD), operating income of 5.37 billion Yen (or US \$46.81 million) and net income of 3.04 billion Yen (or US \$26.52 million) for the second quarter 2006. These figures reflect an increase of 17% in net sales compared with the same period in the previous year. Operating income was down 2% from the same quarter in the previous year.

Following the revision of its deferred revenues, the company still continued to see steady growth around the world, with each of its regions achieving double-digit revenue growth during the second quarter of 2006. North American operations experienced 18 percent revenue growth year-on-year; Europe, Middle East and Africa (EMEA) experienced 15 percent growth; Japan 14 percent, and the Asia-Pacific region a 13 percent year-over-year increase in revenue. Continued, solid growth in the company's small and medium business solutions and consumer business helped boost worldwide revenue with 22 and 21 percent year-on-year increases respectively.

“In the second quarter of 2006, we continue to benefit from solid growth in strategic markets such as North America. We are also very pleased with the growth we have sustained in areas such as the small and medium-sized business sector.” said Eva Chen, CEO of Trend Micro. “We believe the commitment we have to protecting our customers' digital assets from malicious attacks through security solutions designed to fit the specific needs of the different types of customers we serve, will help enable long-term enduring growth.”

Based on information currently available to the company, consolidated net sales for the third quarter ending September 30, 2006 is expected to be 20.50 billion Yen (or US \$178.26 million, based on an exchange rate of 115 JPY = 1USD). Operating income and net income are expected to be 6.00 billion Yen (or US \$52.17 million) and 3.30 billion Yen (or US \$28.70 million), respectively.

### **Second Quarter Business Highlights**

#### *Products and Innovation*

Trend Micro introduced the following products in the second quarter 2006: Email Security Services – Trend Micro launched a managed email service for Small and Medium-sized businesses in May 2006, available initially in North America and Australia. This service protects a small and medium business network and infrastructure by stopping threats before they reach the customer's gateway.

Trend Micro PC-cillin Internet Security for Microsoft Vista Beta Customers - offers Windows Vista customers advanced features, beyond standard antivirus and firewall protection, helping to safeguard PCs from new emerging threats like phishing attacks, network viruses, spam, Wi-Fi intrusions and spyware programs.

#### *Corporate and Business Highlights*

By the end of the second quarter, Trend Micro HouseCall, the malware scanning service recorded the 100-millionth malware infection of 2006. The web-based solution is designed to scan a PC for a wide range of Internet security threats including viruses, worms, Trojans, and spyware

In April, Trend Micro announced an extension to its agreement with Microsoft Corporation, to provide antivirus scanning to MSN Hotmail customers.

Dave Rand, CTO for Trend Micro Internet Content Security, addressed the Messaging Anti-Abuse Working Group General Meeting in June, where he presented validation that botnets are now the primary source of spam.

The creation of 100 new jobs was announced at the Trend Micro Operations Centre in Cork, Ireland. The central office provides a shared service and serves as the support centre for customers throughout Europe, Middle East and Africa.

New customers and new business in the second quarter included:

Sogique in Canada, Okuma in North America, Koscom and Hanjin Shipping in Korea, Beijing Mobile, Guangdong Telecom, The People's Bank of China and Sinopec (China Petroleum & Chemical Corporation) in China.

#### **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 antivirus software industry
- Changes in customer needs for antivirus software
- Existing products and new product introductions by our competitors and the pricing of those products
- Declining prices for 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, Inc.**

Trend Micro Incorporated is a pioneer in secure content and threat management. Founded in 1988, Trend Micro provides individuals and organizations of all sizes with award-winning security software, hardware and services. With headquarters in Tokyo and operations in more than 30 countries, Trend Micro solutions are sold through corporate and value-added resellers and service providers worldwide. For additional information and evaluation copies of Trend Micro products and services, visit our Web site at [www.trendmicro.com](http://www.trendmicro.com).

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## Supplementary Information

### (1) CONSOLIDATED BALANCE SHEETS

(Thousands of yen)

Account	June 30, 2005		June 30, 2006		December 31, 2005	
	Amount	%	Amount	%	Amount	%
<Assets>						
Current assets:						
Cash and cash equivalents	55,797,854		71,118,356		59,612,577	
Time deposits	906,397		1,038,871		1,435,293	
Marketable securities	14,915,254		22,566,765		22,395,365	
Notes and accounts receivable, trade						
–less allowance for doubtful accounts of						
–June 30, 2005 (Yen) 381,428						
–June 30, 2006 (Yen) 383,294						
and December 31, 2005 (Yen) 282,257						
–less sales returns allowance of						
–June 30, 2005 (Yen) 695,848						
–June 30, 2006 (Yen) 517,796						
and December 31, 2005 (Yen) 422,453 in						
FY2005	13,742,453		15,827,083		19,198,870	
Inventories	280,722		496,261		359,897	
Deferred income taxes	6,272,727		7,985,215		6,727,229	
Prepaid expenses and other current assets	1,457,490		2,603,035		1,925,791	
Total current assets	<u>93,372,897</u>	<u>83.7</u>	<u>121,635,586</u>	<u>83.5</u>	<u>111,655,022</u>	<u>84.0</u>
Investments and other assets:						
Investment Securities	9,321,151		12,469,433		11,159,428	
Investments in and advances to affiliate companies	206,944		297,511		321,569	
Software development costs, net	640,578		1,012,239		1,174,691	
Other intangibles, net	1,260,470		1,781,019		1,390,434	
Goodwill	2,442,109		2,079,121		2,130,179	
Deferred income taxes	1,543,222		2,883,907		2,033,488	
Other	662,846		751,433		671,800	
Total investments and other assets	<u>16,077,320</u>	<u>14.4</u>	<u>21,274,663</u>	<u>14.6</u>	<u>18,881,589</u>	<u>14.2</u>
Property and equipment:						
Office furniture and equipment	3,841,551		4,981,586		4,468,891	
Other properties	1,349,320		1,830,459		1,539,195	
	<u>5,190,871</u>		<u>6,812,045</u>		<u>6,008,086</u>	
Less: Accumulated depreciation	(3,094,701)		(4,065,622)		(3,609,473)	
Property and equipment, net	<u>2,096,170</u>	<u>1.9</u>	<u>2,746,423</u>	<u>1.9</u>	<u>2,398,613</u>	<u>1.8</u>
Total assets	<u><u>111,546,387</u></u>	<u><u>100.0</u></u>	<u><u>145,656,672</u></u>	<u><u>100.0</u></u>	<u><u>132,935,224</u></u>	<u><u>100.0</u></u>

(Thousands of yen)

Account	June 30, 2005		June 30, 2006		December 31, 2005	
	Amount	%	Amount	%	Amount	%
<Liabilities, minority interest and shareholders' equity>						
Current liabilities:						
Notes payable, trade	139,895		105,159		118,572	
Accounts payable, trade	744,285		856,727		794,450	
Accounts payable, other	2,970,364		3,476,117		3,208,625	
Income taxes withheld	839,157		1,402,864		1,082,302	
Accrued expenses	2,886,400		3,340,038		3,138,674	
Accrued income and other taxes	4,133,554		8,768,137		5,476,791	
Deferred revenue	26,240,519		34,425,100		31,506,315	
Other	781,518		530,104		895,088	
Total current liabilities	<u>38,735,692</u>	<u>34.7</u>	<u>52,904,246</u>	<u>36.3</u>	<u>46,220,817</u>	<u>34.8</u>
Long-term liabilities:						
Deferred revenue, less current portion	3,425,101		5,281,248		3,874,936	
Accrued pension and severance costs	767,945		930,540		889,774	
Other	64,108		70,095		82,056	
Total long-term liabilities	<u>4,257,154</u>	<u>3.8</u>	<u>6,281,883</u>	<u>4.3</u>	<u>4,846,766</u>	<u>3.6</u>
Minority interest	<u>4,613</u>	<u>0.0</u>	<u>5,572</u>	<u>0.0</u>	<u>4,531</u>	<u>0.0</u>
Shareholders' equity:						
Common stock						
Authorized						
-June 30,2005 250,000,000 shares						
-June 30,2006 250,000,000 shares						
-December 31,2005 250,000,000 shares (no par value)						
Issued						
-June 30,2005 136,051,155 shares	11,803,201					
-June 30,2006 137,179,504 shares			13,294,144			
-December 31,2005 136,603,725 shares					12,484,849	
Additional paid-in capital	18,035,675		21,928,873		18,572,063	
Retained earnings	45,829,022		56,424,662		55,971,955	
Accumulated other comprehensive income (loss)						
Net unrealized gain (loss) on debt and equity securities	(2,654)		827,108		657,885	
Cumulative foreign currency translation adjustments	230,810		1,431,551		1,459,600	
	<u>228,156</u>		<u>2,258,659</u>		<u>2,117,485</u>	
Treasury stock, at cost						
-June 30,2005 2,545,688 shares	(7,347,126)					
-June 30,2006 2,536,949 shares			(7,441,367)			
-December 31,2005 2,513,231 shares					(7,283,242)	
Total shareholders' equity	<u>68,548,928</u>	<u>61.5</u>	<u>86,464,971</u>	<u>59.4</u>	<u>81,863,110</u>	<u>61.6</u>
Total liabilities, minority interest and shareholders' equity	<u>111,546,387</u>	<u>100.0</u>	<u>145,656,672</u>	<u>100.0</u>	<u>132,935,224</u>	<u>100.0</u>

## (2) CONSOLIDATED STATEMENTS OF INCOME

(Thousands of yen)

Account	For the six months ended June 30,2005		For the six months ended June 30,2006		For the year ended December 31,2005	
	Amount	%	Amount	%	Amount	%
Net sales	34,489,740	100.0	40,673,427	100.0	73,029,901	100.0
Cost of sales:						
Amortization of capitalized software and materials	1,191,244		1,796,469		2,598,603	
Maintenance	694,846		1,699,983		1,671,320	
Customer support	3,190,146		4,009,038		6,857,901	
Total cost of sales	<u>5,076,236</u>	<u>14.7</u>	<u>7,505,490</u>	<u>18.5</u>	<u>11,127,824</u>	<u>15.2</u>
Operating expenses:						
Selling	10,338,819		13,150,894		20,944,484	
Research and development	2,196,929		2,373,496		4,395,207	
General and administrative	4,106,616		3,926,186		8,990,611	
Total operating expenses	<u>16,642,364</u>	<u>48.3</u>	<u>19,450,576</u>	<u>47.8</u>	<u>34,330,302</u>	<u>47.0</u>
Operating income	<u>12,771,140</u>	<u>37.0</u>	<u>13,717,361</u>	<u>33.7</u>	<u>27,571,775</u>	<u>37.8</u>
Other income (expenses):						
Interest income	326,282		707,821		836,910	
Interest expense	(2,241)		(7,826)		(3,709)	
Gain (loss) on sales of marketable securities	20,534		73,829		370,326	
Foreign exchange gain (loss), net	197,132		(127,425)		327,257	
Other income (expense), net	2,897		(135,134)		5,741	
Total other income (expenses)	<u>544,604</u>	<u>1.6</u>	<u>511,265</u>	<u>1.3</u>	<u>1,536,525</u>	<u>2.1</u>
Net income before income taxes	<u>13,315,744</u>	<u>38.6</u>	<u>14,228,626</u>	<u>35.0</u>	<u>29,108,300</u>	<u>39.9</u>
Income taxes:						
Current	4,698,548		8,361,670		11,863,127	
Deferred	158,283		(2,119,648)		(1,358,568)	
	<u>4,856,831</u>	<u>14.1</u>	<u>6,242,022</u>	<u>15.3</u>	<u>10,504,559</u>	<u>14.4</u>
Income before minority interest and equity in earnings of affiliated companies	8,458,913	24.5	7,986,604	19.7	18,603,741	25.5
Minority interest in income of consolidated subsidiaries	(420)	0.0	(574)	0.0	(338)	0.0
Equity in earnings of affiliated companies	31,663	0.1	10,942	0.0	66,551	0.1
Net income	<u>8,490,156</u>	<u>24.6</u>	<u>7,996,972</u>	<u>19.7</u>	<u>18,669,954</u>	<u>25.6</u>
Per share data:						
Net income	<u>Yen</u>		<u>Yen</u>		<u>Yen</u>	
-Basic	63.67		59.54		139.85	
-Diluted	62.71		59.26		137.83	

**(3) CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

(Thousands of yen)

Account	For the six months ended June 30,2005	For the six months ended June 30,2006	For the year ended December 31, 2005
Net income	8,490,156	7,996,972	18,669,954
Other comprehensive income (loss), before tax:			
Unrealized gains (losses) on available-for-sale securities:			
Unrealized holding gains (losses) arising during period	(279,612)	465,352	1,375,136
Less reclassification adjustment for (gains) losses included in net income	(186,353)	(168,404)	(704,199)
	(465,965)	296,948	670,937
Foreign currency translation adjustments	837,273	(28,049)	2,066,063
Total	371,308	268,899	2,737,000
Income tax (expense) benefit related to unrealized gains (losses) on available-for-sale securities	178,963	(127,725)	(297,400)
Other comprehensive income, net of tax	550,271	141,174	2,439,600
Comprehensive income	9,040,427	8,138,146	21,109,554

#### (4) CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(Thousands of yen)

Account	For the six months ended June 30,2005	For the six months ended June 30,2006	For the year ended December 31, 2005
<Common stock>			
Balance at beginning of period	11,426,977	12,484,849	11,426,977
Exercise of stock purchase warrants and stock acquisition rights	376,224	809,295	1,057,872
Balance at end of period	11,803,201	13,294,144	12,484,849
<Additional paid-in capital>			
Balance at beginning of period	17,359,335	18,572,063	17,359,335
Tax benefit from exercise of non-qualified stock warrants	300,271	125,689	155,323
Tax expense derived from gain on elimination of stock purchase warrants related to stock option plan	-	(59,091)	-
Stock option compensation expense	-	2,481,126	-
Exercise of stock purchase warrants and stock acquisition rights	376,069	809,086	1,057,405
Balance at end of period	18,035,675	21,928,873	18,572,063
<Retained earnings>			
Balance at beginning of period	42,165,026	55,971,955	42,165,026
Net income	8,490,156	7,996,972	18,669,954
Stock issue costs, net of tax	(1,829)	(3,178)	(3,519)
Cash dividends	(4,794,028)	(7,509,068)	(4,794,028)
Loss on sales of treasury stock, net of tax	(30,303)	(32,019)	(65,478)
Balance at end of period	45,829,022	56,424,662	55,971,955
<Net unrealized gain (loss) on available-for-sale securities>			
Balance at beginning of period	284,348	657,885	284,348
Net change during the period	(287,002)	169,223	373,537
Balance at end of period	(2,654)	827,108	657,885
<Cumulative foreign currency translation adjustments>			
Balance at beginning of period	(606,463)	1,459,600	(606,463)
Aggregate foreign currency translation adjustments for the period	837,273	(28,049)	2,066,063
Balance at end of period	230,810	1,431,551	1,459,600
<Treasury stock, at cost>			
Balance at beginning of period	(7,454,463)	(7,283,242)	(7,454,463)
Purchases of treasury stock	(42,631)	(305,817)	(142,062)
Sales of treasury stock	149,968	147,692	313,283
Balance at end of period	(7,347,126)	(7,441,367)	(7,283,242)
Total shareholders' equity	68,548,928	86,464,971	81,863,110

**(5) CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Thousands of yen)

Account	For the six months ended June 30,2005	For the six months ended June 30,2006	For the year ended December 31, 2005
Cash flows from operating activities:			
Net income	8,490,156	7,996,972	18,669,954
Adjustments to reconcile net income to net cash provided by operating activities -			
Depreciation and amortization	942,777	1,551,957	1,878,050
Pension and severance costs, less payments	91,650	45,400	207,109
Deferred income taxes	158,283	(2,119,648)	(1,358,568)
(Gain) loss on sales of marketable securities	(20,534)	(73,829)	(370,326)
Equity in earnings of affiliated companies	(31,663)	(10,942)	(66,551)
(Gain) loss on sale and disposal of fixed assets	□	3,362	11,585
Stock option compensation expense	□	2,478,850	□
Dividends received from affiliate company	□	28,000	□
Minority interest	420	574	338
Changes in assets and liabilities:			
Increase (decrease) in deferred revenue	1,424,155	4,174,075	6,209,680
(Increase) decrease in accounts receivable, net of allowances	1,552,014	3,505,934	(3,567,924)
(Increase) decrease in inventories	(53,076)	(137,610)	(124,971)
Increase (decrease) in notes and accounts payable, trade	(510,190)	33,513	(526,321)
Increase (decrease) in accrued income and other taxes	(3,219,572)	3,221,541	(1,826,959)
(Increase) decrease in other current assets	133,075	(75,518)	(34,426)
Increase (decrease) in accounts payable, other	250,129	143,381	381,414
Increase (decrease) in other current liabilities	321,916	98,858	1,336,703
(Increase) decrease in other assets	5,754	(599,325)	(207,984)
Other	113,694	(287,900)	34,809
Net cash provided by operating activities	<u>9,648,988</u>	<u>19,977,645</u>	<u>20,645,612</u>
Cash flows from investing activities:			
Payments for purchases of property and equipment, net	(507,160)	(883,241)	(1,153,193)
Software development cost	(475,129)	(598,687)	(1,446,248)
Payments for purchases of other intangibles	(83,946)	(677,992)	(216,107)
Proceeds from sales and maturities of marketable securities	8,545,586	8,974,014	22,079,575
(Payments for) proceeds from marketable securities maturing within three months, net	784,865	426,035	(189,708)
Payments for purchases of marketable securities and investment securities	(8,241,925)	(10,730,312)	(28,043,534)
Payments for acquisition of business	(2,716,702)	□	(2,716,702)
(Payments for) proceeds from time deposits, net	(523,121)	396,422	(1,052,017)
Net cash used in investing activities	<u>(3,217,532)</u>	<u>(3,093,761)</u>	<u>(12,737,934)</u>
Cash flows from financing activities:			
Issuance of common stock pursuant to exercise of stock purchase warrants and stock acquisition rights	750,464	1,615,203	2,111,758
Proceeds from sales of treasury stock	119,665	115,672	247,805
Payments for purchase of treasury stock	(42,631)	(305,816)	(142,062)
Tax benefit from exercise of non-qualified stock warrants	300,271	125,689	155,322
Tax expense derived from gain on elimination stock purchase warrants related to stock option plan	□	(59,091)	□
Capital contributions from minority shareholders	4,193	□	4,193
Dividends paid	(4,766,610)	(7,489,966)	(4,782,764)
Net cash used in financing activities	<u>(3,634,648)</u>	<u>(5,998,309)</u>	<u>(2,405,748)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>92,689</u>	<u>620,204</u>	<u>1,202,290</u>
Net increase in cash and cash equivalents	2,889,497	11,505,779	6,704,220
Cash and cash equivalents at beginning of period	52,908,357	59,612,577	52,908,357
Cash and cash equivalents at end of period	<u>55,797,854</u>	<u>71,118,356</u>	<u>59,612,577</u>

Supplementary information of cash flows:			
Payments for interest	2,241	7,995	3,709
Payments for income taxes	7,350,227	3,603,882	13,109,985