



Trend Micro Announces Second Quarter Consolidated Results

TOKYO, Japan, July 29, 2003 -- Trend Micro Inc (TSE: 4704; Nasdaq: TMIC), a leader in network antivirus and Internet content security software and services, today reported results in US GAAP for the second quarter 2003, ended June 30, 2003. Trend Micro posted consolidated net sales of 11.4 billion yen, (or US \$95.7 million¹), operating income of 2.9 billion yen (or US \$24.0 million) and net income of 1.6 billion yen (or US \$13.2 million). The figures for the quarter reflect gains of 6% in sales compared with the same period a year ago and 4% sequentially.

Both of enterprise products and consumer products grew year over year, and all regions worldwide experienced growth compared to the same quarter a year ago.

"We are pleased to announce solid results considering the current landscape of overall IT spending," said Steve Chang, Chairman and CEO of Trend Micro. "This quarter, we continued to see revenue growth from large enterprise customers, as well as growth in deferred revenues primarily driven by the U.S. market. We also continue to gain recognition for our Enterprise Protection Strategy (EPS) and remain committed to bringing new products and services to further deliver the value of EPS to our customers."

Consolidated net sales for the third quarter ending September are expected to be 11.5 billion Yen (or US \$96.6 million). Operating income and net income are expected to be 3.1 billion yen (or US \$26.1 million) and 1.75 billion Yen (or US \$14.7 million), respectively.

Second Quarter Business Highlights

- Trend Micro Enterprise Protection Strategy received Network Magazine's 2003 Product of the Year Award in the antivirus category for corporate antivirus software. The company was also honored with e-Pro Magazine's Apex Award for ScanMail for IBM Lotus Notes. Trend Micro ServerProtect for Linux was rated best performing solution in Virus Bulletin's Red Hat Linux Comparative Review.
- Trend Micro earned certification from the National Information Assurance Partnership (NIAP) for InterScan VirusWall 3.5 for NT and InterScan VirusWall 3.6 for Solaris, HP-UX, and Linux. Trend Micro is the only vendor to earn NIAP certification for antivirus products, thereby meeting the rigorous global standards laid down in the new Government Guidelines, which specify that IT products be NIAP-certified for high security installations.
- In Japan, Trend Micro reached a milestone of 2.5 million users of VirusBuster, Trend Micro's consumer antivirus solution in Japan. Other major customer additions during the quarter included a 1.1 million-user deal with the U.S. Army Chief Technology Office. Worldwide, new revenues were primarily comprised of customers from the banking, finance, government and healthcare sectors.

- The company announced that it is expanding its alliance with NetScreen to deliver the industry's first best-of-breed antivirus, firewall, VPN and intrusion prevention appliance designed to help enterprise customers secure remote sites, branch offices and telecommuters.

\$1 US = 119 Japanese Yen

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 SEC.

Supplementary Information

1. Financial Highlights for the first half of FY 2003 (January 1, 2003 through June 30, 2003)

(1) Consolidated Results of Operations

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

	Net Sales	Growth rate	Operating income	Growth rate	Net income before tax	Growth rate
	Millions of yen %		Millions of yen %		Millions of yen %	
The first half of FY 2003	22,310	8.8	5,822	(8.3)	5,877	(8.3)
The first half of FY 2002	20,507	58.5	6,350	530.7	6,406	423.5
FY 2002 (annual)	42,980		13,866		13,098	

	Net income	Growth rate	Net income per share (basic)	Net income per share (diluted)
	Millions of yen %		Yen	Yen
The first half of FY 2003	3,308	(9.5)	25.04	-
The first half of FY 2002	3,654	559.8	27.65	27.53
FY 2002 (annual)	7,714		58.39	58.22

(Note)

- Equity in gain of affiliated companies: 8 million yen (3 million yen in the first half of FY 2002, 11 million yen in FY 2002)
- 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 period.
- Weighted average number of shares outstanding: 132,097,979 shares (132,153,432 shares in the first half of FY 2002, 132,111,467 shares in FY 2002)
- The percentage of net sales, operating income, net income before tax and net income are comparison to the first half of prior fiscal year.

(2) Consolidated Financial Position

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share

As of	Millions of yen	Millions of yen	%	Yen
June 30, 2003	73,158	39,636	54.2	302.46
June 30, 2002	68,791	34,742	50.5	262.37
December 31, 2002	73,838	37,144	50.3	282.07

(Note)

Number of shares outstanding: 131,046,647 shares
(132,419,856 shares as of June 30, 2002, 131,682,975 shares as of December 31, 2002)

(3) Consolidated Cash Flow Position

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Ending balance of cash and cash equivalents
As of	Millions of yen	Millions of yen	Millions of yen	Millions of yen
June 30, 2003	7,496	(7,114)	(6,213)	42,655
June 30, 2002	6,275	(1,416)	1,057	45,991
December 31, 2002	14,743	(3,173)	(4,007)	47,830

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

The number of consolidated subsidiaries 17
The number of unconsolidated subsidiaries accounted by equity method 0
The number of affiliated companies 3

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

The number of additional consolidated subsidiaries 2
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, 2003 through September 30, 2003)

3rd Qtr	Net Sales	Operating income	Net income
	Millions of yen	Millions of yen	Millions of yen
	11,500	3,100	1,750

(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 2003 as well as earnings projection of the succeeding quarter.

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.

3. CONSOLIDATED BALANCE SHEETS

(Thousands of yen)

◇◇

Account	June 30, 2002	December 31, 2002	June 30, 2003
<Assets>			
Current assets:		<><	<><
Cash and cash equivalents	45,990,588	<><	
Time deposits	64,796	<><	42,654,956
Marketable securities	2,220,115	<><	65,895

Notes and accounts receivable, trade	10,740,940	<><>	9,198,296
Allowance for doubtful accounts and sales returns		<><>	9,986,580
Inventories	(1,389,080)	<><>	
Deferred income taxes		<><>	(908,956)
Prepaid expenses and other current assets	371,790	<><>	
Total current assets	3,313,136	47,829,821	143,475
	1,218,177	65,722	4,383,944
	62,530,462	2,747,471	1,097,087
		12,287,078	66,621,277
		(962,037)	
		363,848	
		4,044,672	
		798,243	
		67,174,818	
Investments and other assets:			
Securities investments	1,254,689	690,732	597,564
Investment in and advances to affiliated companies	87,515	96,117	103,872
Software development costs	540,201	936,058	708,208
Other intangibles	393,495	361,028	398,598
Deferred income taxes	1,097,533	1,548,313	1,681,569

Other	940,301	1,086,254	1,130,687
Total investments and other assets	4,313,734	4,718,502	4,620,498
<><>			
Property and equipment:	2,420,444	2,619,820	2,922,056
Office furniture and equipment	1,030,911	1,101,268	1,010,080
Other properties	3,451,355	3,721,088	3,932,136
	(1,504,072)	(1,776,409)	(2,016,352)
Less: Accumulated depreciation	1,947,283	1,944,679	1,915,784
Total property and equipment			
Total assets	68,791,479	73,837,999	73,157,559

(Thousands of yen)

Account	June 30, 2002	December 31, 2002	June 30, 2003
<Liabilities and shareholders' equity>			
Current liabilities:		<><> <><><><> <><> <><>	
Current portion of long-term debt	8,000,000	<><> <><> <><> <><> <><>	6,500,000
Notes payable, trade	388,051	5,000,000	94,611
Accounts payable, trade	918,963	85,035	986,193
Accounts payable, other	1,112,339	1,014,215	1,286,402
Withholding income taxes	171,992	1,201,675	437,663
Accrued expenses	1,873,023	183,663	1,941,800
Accrued income and other taxes	2,131,466	1,807,241	3,232,548

Deferred revenue	11,159,665	4,089,169	15,067,937
Other	466,106	13,484,252	220,188
Total current liabilities	26,221,605	573,068	29,767,342
		27,438,318	
Long-term liabilities:			
Long term debt	6,500,000	6,500,000	-
Deferred revenue	857,572	2,188,460	3,061,910
Accrued pension and severance costs	306,631	356,044	437,021
Other	163,180	210,947	255,113
Total long-term liabilities	7,827,383	9,255,451	3,754,044
Shareholders' equity:			
Common stock	<><>	<><>	
Authorized	<><>		
-June 30,2002 250,000,000 shares (no par value)	<><>		
-December 31,2002 250,000,000 shares (no par value)	<><>	<><>	
-June 30,2003 250,000,000 shares (no par value)		<><>	<><>
Issued	<><>		
-June 30,2002 132,492,510 shares			
-December 31,2002 132,503,417 shares			
-June 30,2003 132,503,417 shares		7,257,060	7,257,060
Additional paid-in capital		13,021,554	12,936,584

Retained earnings		18,986,701	22,294,463
Accumulated other comprehensive income			
Net unrealized gain (loss) on debt and equity securities		(83,877)	66,163
Cumulative translation adjustments	7,240,080	285,079	531,776
	13,036,859	201,202	597,939
	14,920,479		
	(396,267)		
	190,795		
	(205,472)		
Treasury stock, at cost	<><		
-June 30,2002 72,654 shares			
-December 31,2002 820,442 shares	(249,455)	(2,322,287)	
-June 30,2003 1,456,770 shares			(3,449,873)
Total shareholders' equity		37,144,230	39,636,173
	34,742,491		
Total liabilities and shareholders' equity	68,791,479	73,837,999	73,157,559

4. CONSOLIDATED STATEMENTS OF INCOME

(Thousands of yen)

Account	For the six months ended June 30,2002	For the six months ended June 30,2003	Increase (Decrease) %
Net sales	20,507,019	22,309,642	8.8
Cost of sales	1,195,693	1,528,771	

Gross profit	19,311,326	20,780,871	7.6
Operating expenses:	<><	<><	
Selling	7,254,125	8,015,856	
Research and development	1,838,592	1,929,219	<><
Customer support	1,769,002	2,402,122	
General and administrative	2,099,362	2,611,807	
12,961,081	14,959,004		
Operating income	6,350,245	5,821,867	(8.3)
Other incomes (expenses):			
Interest income	185,155	206,035	
Interest expense	(157,560)	(114,829)	
Loss on sales of marketable securities	(58,421)	-	
Impairment of securities investments	-	(7,360)	
Foreign exchange (loss) gain, net	(95,126)	134,469	
Other income (expense), net	181,563	(162,948)	
55,611	55,367		
Income before income taxes and equity in gain of affiliated companies	6,405,856	5,877,234	(8.3)

Income taxes:			
Current	2,969,102	3,145,367	<><>
Deferred	(215,107)	(568,140)	<><>
2,753,995	2,577,227		
Income from consolidated companies	3,651,861	3,300,007	(9.6)
Equity in gain of affiliated companies	2,587	7,755	
Net income	3,654,448	3,307,762	(9.5)
Per share data:	Yen	Yen	
(Net income			
-Basic	27.65	25.04	(9.4)
-Diluted	27.53	-	-

5. CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(Thousands of yen)

Account	For the six months ended June 30,2002	For the six months ended June 30,2003
<Common stock>	<><>	<><>
Balance at beginning of period	6,833,678	7,257,060
Exercise of stock purchase warrants	406,402	-
Balance at end of period	7,240,080	7,257,060

	<><	<><
<Additional paid-in capital>	<><	<><
Balance at beginning of period	<><	<><
Tax benefit from exercise of non-qualified stock warrants	<><	<><
Loss on sales of treasury stock, net of tax		
Exercise of stock purchase warrants	12,144,908	13,021,554
	492,028	(84,970)
	(6,466)	-
	406,389	-
Balance at end of period	13,036,859	12,936,584
<Retained earnings>		
Balance at beginning of period	11,277,576	18,986,701
Net income	3,654,448	3,307,762
Stock issue costs, net of tax	(11,545)	-
Balance at end of period	14,920,479	22,294,463
<Net realized gain (loss) on debt and equity securities>		
Balance at beginning of period	(310,480)	(83,877)
Net change during the period	(85,787)	150,040
Balance at end of period	(396,267)	66,163

		<><
<Cumulative translation adjustments>		
Balance at beginning of period	848,873	285,079
Aggregate translation adjustments for the period	(658,078)	246,697
Balance at end of period	190,795	531,776
<Treasury stock, at cost>		
Balance at beginning of period	(28,529)	(2,322,287)
Purchase of treasury stock	(227,392)	(1,127,586)
Sales of treasury stock	6,466	-
Balance at end of period	(249,455)	(3,449,873)
Total shareholders' equity	34,742,491	39,636,173

6. CONSOLIDATED STATEMENTS OF CASH FLOWS (Thousands of yen)

Account	For the six months ended June 30,2002	For the six months ended June 30,2003
	<><	<><
Cash flows from operating activities:	<><	<><
Net income		

Adjustments to reconcile net income to net cash provided by operating activities -	3,654,448	3,307,762
Depreciation and amortization	950,428	1,106,517
Pension and severance costs, less payments	31,592	80,842
Deferred income taxes	(215,107)	(568,140)
Loss on sales of marketable securities	58,421	-
Impairment of securities investments	-	7,360
Equity in gain of affiliated companies	(2,587)	(7,755)
Changes in assets and liabilities:		
Increase in deferred revenue	2,059,265	2,033,045
Decrease in accounts receivable, net of allowances	1,817,470	2,488,094
(Increase) decrease in inventories	(141,097)	219,748
Increase (decrease) in notes and accounts payable, trade	585	(32,030)
Decrease in accrued income and other taxes	(1,227,563)	(856,478)
Decrease (increase) in other current assets	122,017	(67,865)
Decrease in accounts payable, other	(341,474)	(98,894)
Increase in other current liabilities	151,475	52,313
Increase in other assets	(630,586)	(280,659)
Other	(12,002)	111,933
Net cash provided by operating activities	6,275,285	7,495,793
Cash flows from investing activities:		
Payments for purchases of property and equipment	(466,537)	(483,462)

Software development cost	(263,370)	(356,809)
Payments for purchases of other intangibles	(162,327)	(111,050)
Proceeds from sales of marketable securities	152,316	-
Proceeds from maturities of marketable securities	-	1,700,000
Payments for purchases of marketable securities and security investments	(681,974)	(7,862,856)
Proceeds from / (Payments for) time deposits	5,971	(173)
Net cash used in investing activities	(1,415,921)	(7,114,350)
Cash flows from financing activities:	801,246	
Issuance of common stock pursuant to exercise of stock warrants	492,028	-
Tax benefit from exercise of non-qualified stock warrants	4,000,000	(84,970)
Proceeds from issuance of bonds	(4,008,800)	-
Purchase of treasury bonds	-	-
Redemption of bonds	(220,926)	(5,000,000)
Purchase of treasury stock, net	(6,745)	(1,127,586)
Other		-
Net cash provided / (used) by financing activities	1,056,803	(6,212,556)
Effect of exchange rate changes on cash and cash equivalents	(708,229)	656,248
Net increase (decrease) in cash and cash equivalents	5,207,938	(5,174,865)
Cash and cash equivalents at beginning of period	40,782,650	47,829,821
Cash and cash equivalents at end of period	45,990,588	42,654,956

Supplementary information of cash flow:		
Payment for interest expense	161,755	117,289
Payment for income taxes	3,624,846	3,935,610

About Trend Micro

Trend Micro Incorporated (TSE: 4704), a global cloud security leader, creates a world safe for exchanging digital information with its Internet content security and threat management solutions for businesses and consumers. A pioneer in server security with over 20 years' experience, we deliver top-ranked client, server and cloud-based security that fits our customers' and partners' needs, stops new threats faster, and protects data in physical, virtualized and cloud environments. Powered by the [Trend Micro™ Smart Protection Network™](#) cloud security infrastructure, our industry-leading cloud-computing security technology, products and services stop threats where they emerge, on the Internet, and are supported by 1,000+ threat intelligence experts around the globe.

Additional information about Trend Micro Incorporated and the products and services are available at [Trend Micro.com](#) This Trend Micro news release and other announcements are available at <http://trendmicro.mediaroom.com/> and as part of an RSS feed at www.trendmicro.com/rss Or follow our news on Twitter at [@TrendMicro](#).

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