



Trend Micro Announces Second Quarter Consolidated Results

TOKYO, Japan, June 29, 2006 -- Trend Micro Inc (TSE: 4704; Nasdaq: TMIC), a leader in network antivirus and Internet content security software and services, today is restating its Consolidated / Non-consolidated Financial Statements for the first half of the fiscal year ending December 31, 2005, which were previously announced on August 3, 2005.

1. Reasons for Restatement

After the discussion with SEC on U.S. GAAP, some costs, which were historically disclosed as part of the operating expenses are included in cost of sales.

This change does not affect net sales, operating income, net income before tax and net income.

2. Restatement

Refer to the following.

Restatement of Consolidated / Non-consolidated Financial Statements for the first half of the fiscal year ending December 31, 2005

Amendments (Revised figures are underlined.)

CONSOLIDATED STATEMENTS OF INCOME NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Original

(Thousands of yen)						
Account	For the six months ended June 30,2004		For the six months ended June 30,2005		For the year ended December 31,2004	
	Amount	%	Amount	%	Amount	%
Net sales	28,464,157	100.0	34,489,740	100.0	62,049,254	100.0
Cost of sales	<u>1,926,769</u>		<u>1,191,244</u>		<u>3,236,499</u>	
Gross profit	<u>26,537,388</u>	<u>93.2</u>	<u>33,298,496</u>	<u>96.5</u>	<u>58,812,755</u>	<u>94.8</u>
Operating expenses:						
Selling	7,457,213		10,338,819		16,009,409	
Research and development and maintenance	<u>2,278,974</u>		<u>2,891,775</u>		<u>4,858,259</u>	
Customer support	<u>2,717,490</u>		<u>3,190,146</u>		<u>5,723,426</u>	
General and administrative	2,705,635		4,106,616		6,143,985	
Total operating expenses	<u>15,159,312</u>	<u>53.2</u>	<u>20,527,356</u>	<u>59.5</u>	<u>32,735,079</u>	<u>52.8</u>
Operating income	11,378,076	40.0	12,771,140	37.0	26,077,676	42.0

Amended

(Thousands of yen)						
Account	For the six months ended June 30,2004		For the six months ended June 30,2005		For the year ended December 31,2004	
	Amount	%	Amount	%	Amount	%
Net sales	28,464,157	100.0	34,489,740	100.0	62,049,254	100.0
Cost of sales						
Amortization of capitalized software, and Materials	1,926,769		1,191,244		3,236,499	
Maintenance	1,051,260		694,846		2,260,934	
Customer support	2,717,490		3,190,146		5,723,426	
	5,695,519	20.0	5,076,236	14.7	11,220,859	18.1
Operating expenses:						
Selling	7,457,213		10,338,819		16,009,409	
Research and development	1,227,714		2,196,929		2,597,325	
General and administrative	2,705,635		4,106,616		6,143,985	
Total operating expenses	11,390,562	40.0	16,642,364	48.3	24,750,719	39.9
Operating income	11,378,076	40.0	12,771,140	37.0	26,077,676	42.0

Summary of significant accounting policies

Restatements

Amended

Maintenance costs, which were historically disclosed as part of the "Research and development and maintenance" line item within operating expenses in the semi-annual consolidated statements of income, are included in cost of sales and figures for the six months ended June 30, 2004 and 2005 have been restated to reflect such amendment. In addition, customer support expenses, which were disclosed as a part of operating expenses, are also included in cost of sales and figures for the six months ended June 30, 2004 and 2005 have been restated to reflect such amendment.

Pro forma stock-based compensation expense has been revised to reflect the corrections in the amortization period, expected life assumptions and volatilities used to determine stock-based compensation expense. This correction impacts the pro forma net income and pro forma net income per share previously disclosed in the footnotes to the consolidated financial statements for the six months ended June 30, 2004 and 2005. As a result, the pro forma net income for the six months ended June 30, 2004 decreased by (Yen) 515,201 thousand and for the six months ended June 30, 2005 increased by (Yen) 104,189 thousand, compared to the amounts previously presented. The pro forma basic net income per share for the six months ended June 30, 2004 decreased by (Yen) 3.88 and for the six months ended June 30, 2005 increased by (Yen) 0.78, compared to the

amounts previously presented. The pro forma diluted net income per share for the six months ended June 30, 2004 decreased by (Yen) 3.80 and for the six months ended June 30, 2005 increased by (Yen) 0.76, compared to the amounts previously presented.

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" and related interpretations. The Company complies with the disclosure provisions of FAS No. 123, "Accounting for Stock-Based Compensation", as amended by FAS No. 148.

In October 1995, SFAS 123 established a fair value based method of accounting for employee stock based compensation. If compensation cost for the stock options with warrants, and the stock options with Stock acquisition rights been determined based on the fair value at the grant dates, as prescribed by SFAS 123, the Company's pro forma net income and net income per share would have been as follows:

Original

Thousands of Yen, except per share data			
	For the six months ended June 30, 2004	For the six months ended June 30, 2005	For the year ended December 31, 2004
Net income:			
As reported	6,969,007	8,490,156	15,874,836
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1,058,726)	(1,758,066)	(2,640,021)
Pro forma net income	5,910,281	6,732,090	13,234,815
Net income per share:			
As reported—			
Basic	(Yen)52.41	(Yen)63.67	(Yen)120.64
Diluted	51.47	62.71	118.59
Pro forma net income—			
Basic	(Yen)44.45	(Yen)50.49	(Yen)100.58
Diluted	43.65	49.73	98.87

The fair values of the stock options with Stock acquisition rights were estimated on the date of grant using the Black - Scholes option pricing model with the following assumptions used for grants during the first six months ended June 30, 2004 and they ear ended December 31, 2004; expected life of 3.04 years, volatility of 59.20% and dividend yield of 0.32% for first half of 2004; expected life of 3.04-3.08 years, volatility of 52.41-59.20% and dividend yield of 0.28-0.32% f or 2004; and risk-free interest rates of 0.32% for options

granted during the first half of 2004, and risk-free interest rates of ranging from 0.27% to 0.32% for options granted during the year ended December 31, 2004. The fair value per share of options granted above during first half of 2004 and fiscal 2004 were (Yen)1,682 and (Yen)1,682 to 1,788, respectively. There was no additional issuance of Stock acquisition rights as stock options during the first six months ended June 30, 2005.

<Amended>

Thousands of Yen, except per share data			
	For the six months ended June 30,2004	For the six months ended June 30,2005	For the year ended December 31,2004
Net income:			
As reported	6,969,007	8,490,156	15,874,836
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1,573,927)	(1,653,877)	(3,319,609)
Pro forma net income	<u>5,395,080</u>	<u>6,836,279</u>	<u>12,555,227</u>
Net income per share:			
As reported—			
Basic	(Yen)52.41	(Yen)63.67	(Yen)120.64
Diluted	51.47	62.71	118.59
Pro forma net income—			
Basic	(Yen) <u>40.57</u>	(Yen) <u>51.27</u>	(Yen) <u>95.41</u>
Diluted	<u>39.85</u>	<u>50.49</u>	<u>93.79</u>

The fair values of the stock options with Stock acquisition rights were estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for grants during the first six months ended June 30, 2004 and the year ended December 31, 2004; expected life of 3.04 years, volatility of 59.20% and dividend yield of 0.32% for first half of 2004; expected life of 3.04-3.08 years, volatility of 52.41-59.20% and dividend yield of 0.28-0.32% for 2004; and risk-free interest rates of 0.32% for options granted during the first half of 2004, and risk-free interest rates of ranging from 0.27% to 0.32% for options granted during the year ended December 31, 2004. The fair value per share of options granted above during first half of 2004 and fiscal 2004 were (Yen)1,682 and (Yen)1,682 to 1,788, respectively. There was no additional issuance of Stock acquisition rights as stock options during the first six months ended June 30, 2005.

Research and development and maintenance costs, and software development costs

<Original>

Research and development and maintenance costs in operating expenses are comprised of research and development costs and maintenance costs.

Research and development costs incurred up to the point where all substantial testing for the original English version product is complete, are charged to income. Such research and development costs charged to income were (Yen)1,227,714 thousand and (Yen)2,196,929 thousand (\$19,792 thousands) for the six months ended June 30, 2004 and 2005, respectively.

Maintenance costs are fees, which relate to product version updates to enable product to cope with newly prevailing computer viruses and bug fixing. The maintenance costs were (Yen)1,051,260 thousand and (Yen)694,846 thousand (\$6,260 thousand) for the six months ended June 30, 2004 and 2005, respectively.

Amended

Research and development costs incurred up to the point where all substantial testing for the original English version product is complete, are charged to income as operating expense. Such research and development costs charged to income were (Yen)1,227,714 thousand and (Yen)2,196,929 thousand (\$19,792 thousands) for the six months ended June 30, 2004 and 2005, respectively.

Maintenance costs are fees, which relate to product version updates to enable product to cope with newly prevailing computer viruses and bug fixing, are recorded as cost of sales. The maintenance costs were (Yen)1,051,260 thousand and (Yen)694,846 thousand (\$6,260 thousand) for the six months ended June 30, 2004 and 2005, respectively.

(Following footnote below is newly added after "Status of manufacturing and actual sales")

Customer support costs

<Amended>

Customer support costs are primarily payroll, related expenses and outsourced customer service fees, which relate to activities such as maintenance of customer's database, education promotions to customers, investigation for appropriate customer support methodologies, responses to customer's questions and sales promotions to customers via telephone. Customer support costs in cost of sales were (Yen) 2,717,490 thousand and (Yen) 3,190,146 thousand (\$28,740 thousand) for the six months ended June 30, 2004 and 2005, respectively.

Non-consolidated semi-annual income statements

<Original>

(Thousands of yen)

Period	For the first half of the previous fiscal year		For the first half of the current fiscal year		Condensed income statement for the previous fiscal year	
Account	From January 1, 2004 to June 30, 2004		From January 1, 2005 to June 30, 2005		From January 1, 2004 to December 31, 2004	
	Amount	%	Amount	%	Amount	%
Net sales	18,409,928	100.0	22,421,912	100.0	39,771,157	100.0
Cost of sales *6	<u>1,009,709</u>	<u>5.5</u>	<u>632,448</u>	<u>2.8</u>	<u>1,937,717</u>	<u>4.9</u>
Gross profit	<u>17,400,219</u>	<u>94.5</u>	<u>21,789,464</u>	<u>97.2</u>	<u>37,833,439</u>	<u>95.1</u>
Selling, general and administrative expenses *1,6	<u>8,427,204</u>	<u>45.8</u>	<u>11,430,241</u>	<u>51.0</u>	<u>18,506,382</u>	<u>46.5</u>
Operating income	8,973,014	48.7	10,359,222	46.2	19,327,056	48.6

<Amended>

(Thousands of yen)

Period	For the first half of the previous fiscal year		For the first half of the current fiscal year		Condensed income statement for the previous fiscal year	
Account	From January 1, 2004 to June 30, 2004		From January 1, 2005 to June 30, 2005		From January 1, 2004 to December 31, 2004	
	Amount	%	Amount	%	Amount	%
Net sales	18,409,928	100.0	22,421,912	100.0	39,771,157	100.0
Cost of sales *6	<u>3,415,490</u>	<u>18.6</u>	<u>2,777,909</u>	<u>12.4</u>	<u>7,143,023</u>	<u>18.0</u>
Gross profit	<u>14,994,438</u>	<u>81.4</u>	<u>19,644,003</u>	<u>87.6</u>	<u>32,628,133</u>	<u>82.0</u>
Selling, general and administrative expenses *1,6	<u>6,021,424</u>	<u>32.7</u>	<u>9,284,780</u>	<u>41.4</u>	<u>13,301,077</u>	<u>33.4</u>
Operating income	8,973,014	48.7	10,359,222	46.2	19,327,056	48.6

Note to Non-consolidated semi-annual income statement

<Original>

(Thousands of yen)

For the first half of the previous fiscal year		For the first half of the current fiscal year		For the previous fiscal year	
From January 1, 2004 to June 30, 2004		From January 1, 2005 to June 30, 2005		From January 1, 2004 to December 31, 2004	
*1 Major components of selling, general and administrative expenses are as follows		*1 Major components of selling, general and administrative expenses are as follows		*1 Major components of selling, general and administrative expenses are as follows	
Sales promotions and Advertising	<u>1,594,464</u>	Sales promotions and Advertising	<u>2,870,044</u>	Sales promotions and Advertising	<u>3,625,288</u>

Salaries and bonuses	<u>1,321,643</u>	Salaries and bonuses	<u>1,400,219</u>	Salaries and bonuses	<u>2,791,862</u>
Retirement benefit costs	<u>90,934</u>	Retirement benefit costs	<u>70,085</u>	Retirement benefit costs	<u>182,812</u>
Depreciation expense	<u>56,981</u>	Depreciation expense	<u>53,732</u>	Depreciation expense	<u>121,073</u>
Outside service fee	<u>1,115,274</u>	Outside service fee	<u>1,215,907</u>	Outside service fee	<u>2,440,765</u>
Research and development costs	<u>1,229,277</u>	Research and development costs	<u>1,997,928</u>	Research and development costs	<u>2,600,209</u>
Software maintenance fee	<u>1,051,144</u>	Software maintenance fee	<u>694,049</u>	Software maintenance fee	<u>2,260,626</u>
Intercompany charge	<u>625,841</u>	Intercompany charge	<u>1,319,009</u>	Intercompany charge	<u>1,554,453</u>

<Amended>

(Thousands of yen)

For the first half of the previous fiscal year		For the first half of the current fiscal year		For the previous fiscal year	
From January 1, 2004 to June 30, 2004		From January 1, 2005 to June 30, 2005		From January 1, 2004 to December 31, 2004	
*1 Major components of selling, general and administrative expenses are as follows		*1 Major components of selling, general and administrative expenses are as follows		*1 Major components of selling, general and administrative expenses are as follows	
Sales promotions and Advertising	<u>1,586,871</u>	Sales promotions and Advertising	<u>2,869,619</u>	Sales promotions and Advertising	<u>3,616,126</u>
Salaries and bonuses	<u>1,056,742</u>	Salaries and bonuses	<u>1,172,729</u>	Salaries and bonuses	<u>2,237,924</u>
Retirement benefit costs	<u>72,048</u>	Retirement benefit costs	<u>54,909</u>	Retirement benefit costs	<u>144,831</u>
Depreciation expense	<u>47,281</u>	Depreciation expense	<u>44,497</u>	Depreciation expense	<u>100,542</u>
Outside service fee	<u>449,578</u>	Outside service fee	<u>467,452</u>	Outside service fee	<u>1,005,875</u>
Research and development costs	<u>1,229,277</u>	Research and development costs	<u>1,997,928</u>	Research and development costs	<u>2,600,209</u>
Intercompany charge	<u>625,841</u>	Intercompany charge	<u>1,319,009</u>	Intercompany charge	<u>1,554,453</u>

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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