

Trend Micro Reports Second Quarter Results

Technology and service acquisitions and significant growth in networking products highlight quarter

Tokyo, Japan – August 03, 2005 – 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 2005.

Trend Micro posted consolidated net sales of 17.19 billion Yen (or US \$159.57 million, 107.72 JPY = 1USD), operating income of 5.47 billion Yen (or US \$50.78 million) and net income of 3.93 billion Yen (or US \$36.52 million) for the second quarter 2005. These figures reflect gains of nearly 16% in net sales compared with the same period in the previous year. Operating income was down 13% from the same quarter in the previous year, largely due to additional support costs incurred in Japan in April.

The company continued to enjoy steady growth around the world. Both the United States and the Asia-Pacific regions experienced a 29 percent year-over-year increase in revenue, and sales in the Europe, Middle East and Africa (EMEA) increased 19 percent over the same period. Much of the company's growth was buoyed by strong sales in networking security products. For example, in the second quarter, revenue for network products including Trend Micro Network VirusWall grew 232 percent year-over-year worldwide, with especially strong growth in the United States, EMEA and Japan compared to the previous year. Gateway Suite products also saw strong revenue growth compared to the same quarter in the previous year, highlighted by a 35 percent increase in Europe and a 63 percent increase in the Asia-Pacific region.

While growth remained steady, Trend Micro strengthened its position in the marketplace by announcing two major acquisitions that enhance the company's ability to protect customers from some of the most pressing threats. On May 10, 2005, the company announced its acquisition of InterMute, a leading developer of anti-spyware products. Shortly after the announcement, the company introduced Trend Micro Anti-Spyware 3.0 and Trend Micro Anti-Spyware for Small and Medium Businesses 3.0. On June 14, 2005, Trend Micro announced its acquisition of Kelkea Inc., a leading authority on IP filtering and reputation services. The acquisition enables Trend Micro to accelerate its development of network-level solutions against spam and other related threats.

“The second quarter of this year has included some challenges and some significant triumphs for Trend Micro, but we continue to focus on service quality improvement, and continued growth and expansion,” said Eva Chen, CEO of Trend Micro. “The steady traction of our network-level solutions, partnerships and alliances, and new technology and service acquisitions are indicative of our strength and success as we further enhance our abilities to protect customers from even more complex threats.”

Based on information currently available to the company, consolidated net sales for the third quarter ending September 30, 2005 is expected to be 17.2 billion Yen (or US \$153.6

million, based on an exchange rate of 112JPY = 1USD). Operating income and net income are expected to be 6.2 billion Yen (or US \$55.4 million) and 3.75 billion Yen (or US \$33.5 million), respectively.

Second Quarter Business Highlights

- **New Acquisitions**

Trend Micro acquired InterMute, Inc., a leading developer of anti-spyware products, and quickly announced three new standalone products for the detection and removal of spyware and grayware for businesses and consumers. Trend Micro Anti-spyware products feature CWShredder™, regarded as one of the most effective solutions for eliminating the CoolWebSearch Web browsing hijacker and its many variants – some of which avoid detection and removal through ever-changing methods.

Trend Micro acquired Kelkea Inc., a leading authority on IP filtering and reputation services, and is offering Trend Micro Network Reputation Services to anti-spam customers. Trend Micro plans to further develop technologies to combat phishing attacks, zombies, and botnets; the company will also enhance current anti-spam solutions through the extensive knowledge base of more than 1.5 billion IP addresses.

- **Anti-Spyware Solutions**

Trend Micro introduced several new solutions for combating the growing spyware problem, including a multi-layered solutions strategy for coordinated security at the enterprise gateway, server, and client levels. The company also introduced standalone anti-spyware offerings designed for businesses and consumers.

During the quarter, Trend Micro was the first company in the security industry to achieve Checkmark Spyware certification for spyware detection performance. Two products -- Trend Micro OfficeScan™ and Trend Micro PC-cillin™ Internet Security Suite – received the certification.

- **Products and Innovation**

The following products were introduced in the second quarter 2005:

Trend Micro InterScan™ Web Security Suite 2.5 – gateway security solution designed to block spyware, grayware, phishing attacks, viruses, and other malware entering corporate networks via the Internet gateway.

Trend Micro OfficeScan v7.0 – an advanced, integrated client and server security solution that combines comprehensive threat protection with services and policy enforcement compatibility to help ensure enterprise uptime and productivity.

Trend Micro Anti-Spyware 3.0 and Trend Micro Anti-Spyware for Small and Medium Businesses 3.0 – standalone options for detection and removal of evasive spyware and grayware.

Trend Micro Mobile Security 2.0 – extends multiplatform protection to defend Microsoft Windows Mobile 5.0 operating system from viruses, worms, and other malicious threats.

- **Global Business Highlights**

In May 2005, a U.S. International Trade Commission judge issued a final determination in Trend Micro's favor involving the unfair import proceeding Trend Micro brought against Fortinet. As a result, the judge has recommended that the ITC issue an order prohibiting Fortinet from importing FortiGate products into the United States.

New customers and new business in the Asia-Pacific region included: Guangzhou University of Traditional Chinese Medicine in China and Chung-Hwa Telecom in Taiwan.

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, 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	June 30, 2004		June 30, 2005		December 31, 2004	
	Amount	%	Amount	%	Amount	%
<Assets>						
Current assets:						
Cash and cash equivalents	40,462,189		55,797,854		52,908,357	
Time deposits	460,391		906,397		383,276	
Marketable securities	13,792,770		14,915,254		15,288,575	
Notes and accounts receivable, trade –less allowance for doubtful accounts and sales returns of (Yen)842,681 in the first half of FY2004, (Yen)1,077,276 in the first half of FY2005 and (Yen)864,938 in FY2004, respectively	12,323,100		13,742,453		15,245,213	
Inventories	189,226		280,722		201,243	
Deferred income taxes	5,955,785		6,272,727		6,224,972	
Prepaid expenses and other current assets	1,108,786		1,457,490		1,560,058	
Total current assets	<u>74,292,247</u>	<u>86.1</u>	<u>93,372,897</u>	<u>83.7</u>	<u>91,811,694</u>	<u>86.0</u>
Investments and other assets:						
Securities investments	6,867,926		9,321,151		9,831,913	
Investment in and advances to affiliate companies	138,183		206,944		175,281	
Software development costs	530,841		640,578		438,464	
Other intangibles	307,188		1,260,470		296,368	
Goodwill	□		2,442,109		□	
Deferred income taxes	1,774,102		1,543,222		1,695,771	
Other	652,561		662,846		636,009	
Total investments and other assets	<u>10,270,801</u>	<u>11.9</u>	<u>16,077,320</u>	<u>14.4</u>	<u>13,073,806</u>	<u>12.3</u>
Property and equipment:						
Office furniture and equipment	2,943,219		3,841,551		3,323,526	
Other properties	1,162,394		1,349,320		1,165,173	
	4,105,613		5,190,871		4,488,699	
Less: Accumulated depreciation	(2,389,676)		(3,094,701)		(2,640,288)	
Total property and equipment	<u>1,715,937</u>	<u>2.0</u>	<u>2,096,170</u>	<u>1.9</u>	<u>1,848,411</u>	<u>1.7</u>
Total assets	<u>86,278,985</u>	<u>100.0</u>	<u>111,546,387</u>	<u>100.0</u>	<u>106,733,911</u>	<u>100.0</u>

(Thousands of yen)

Account	June 30, 2004		June 30, 2005		December 31, 2004	
	Amount	%	Amount	%	Amount	%
<Liabilities, minority interest and shareholders' equity>						
Current liabilities:						
Notes payable, trade	63,044		139,895		88,087	
Accounts payable, trade	1,824,187		744,285		1,271,067	
Accounts payable, other	1,987,842		2,970,364		2,699,762	
Withholding income taxes	572,839		839,157		882,693	
Accrued expenses	2,185,496		2,886,400		2,143,694	
Accrued income and other taxes	4,638,402		4,133,554		7,192,085	
Deferred revenue	20,409,178		26,240,519		24,634,662	
Other	796,297		781,518		651,503	
Total current liabilities	<u>32,477,285</u>	<u>37.6</u>	<u>38,735,692</u>	<u>34.7</u>	<u>39,563,553</u>	<u>37.1</u>
Long-term liabilities:						
Deferred revenue	3,187,325		3,425,101		3,268,892	
Accrued pension and severance costs	588,430		767,945		656,041	
Other	160,329		64,108		70,665	
Total long-term liabilities	<u>3,936,084</u>	<u>4.6</u>	<u>4,257,154</u>	<u>3.8</u>	<u>3,995,598</u>	<u>3.7</u>
Minority interest	<u>□</u>	<u>□</u>	<u>4,613</u>	<u>0.0</u>	<u>□</u>	<u>□</u>
Shareholders' equity:						
Common stock						
Authorized						
-June 30,2004 250,000,000 shares						
-June 30,2005 250,000,000 shares						
-December 31,2004 250,000,000 shares (no par value)						
Issued						
-June 30,2004 133,997,891 shares	9,144,983					
-June 30,2005 136,051,155 shares			11,803,201			
-December 31,2004 135,755,872 shares					11,426,977	
Additional paid-in capital	14,756,997		18,035,675		17,359,335	
Retained earnings	33,355,669		45,829,022		42,165,026	
Accumulated other comprehensive income (loss)						
Net unrealized gain (loss) on debt and equity securities	(91,832)		(2,654)		284,348	
Cumulative translation adjustments	(565,491)		230,810		(606,463)	
	<u>(657,323)</u>		<u>228,156</u>		<u>(322,115)</u>	
Treasury stock, at cost						
-June 30,2004 2,504,854 shares	(6,734,710)					
-June 30,2005 2,545,688 shares			(7,347,126)			
-December 31,2004 2,588,439 shares					(7,454,463)	
Total shareholders' equity	<u>49,865,616</u>	<u>57.8</u>	<u>68,548,928</u>	<u>61.5</u>	<u>63,174,760</u>	<u>59.2</u>
Total liabilities, minority interest and shareholders' equity	<u>86,278,985</u>	<u>100.0</u>	<u>111,546,387</u>	<u>100.0</u>	<u>106,733,911</u>	<u>100.0</u>

(2) CONSOLIDATED STATEMENTS OF INCOME

(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	2,278,974		2,891,775		4,858,259	
Customer support	2,717,490		3,190,146		5,723,426	
General and administrative	<u>2,705,635</u>		<u>4,106,616</u>		<u>6,143,985</u>	
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	<u>11,378,076</u>	<u>40.0</u>	<u>12,771,140</u>	<u>37.0</u>	<u>26,077,676</u>	<u>42.0</u>
Other incomes (expenses):						
Interest income	160,957		326,282		451,217	
Interest expense	(44,644)		(2,241)		(87,464)	
Gain (loss) on sales of marketable securities	82,857		20,534		101,199	
Foreign exchange gain (loss), net	(29,075)		197,132		(183,292)	
Other income (expense), net	<u>(21,451)</u>		<u>2,897</u>		<u>(34,350)</u>	
Total other income (expenses)	<u>148,644</u>	<u>0.5</u>	<u>544,604</u>	<u>1.6</u>	<u>247,310</u>	<u>0.4</u>
Net income before tax	<u>11,526,720</u>	<u>40.5</u>	<u>13,315,744</u>	<u>38.6</u>	<u>26,324,986</u>	<u>42.4</u>
Income taxes:						
Current	5,498,022		4,698,548		11,893,659	
Deferred	<u>(922,416)</u>		<u>158,283</u>		<u>(1,390,387)</u>	
	<u>4,575,606</u>	<u>16.1</u>	<u>4,856,831</u>	<u>14.1</u>	<u>10,503,272</u>	<u>16.9</u>
Income before minority interest and equity in earnings of affiliated companies	6,951,114	24.4	8,458,913	24.5	15,821,714	25.5
Minority interest in income of consolidated subsidiaries	□	□	(420)	0.0	□	□
Equity in earnings of affiliated companies	<u>17,893</u>	<u>0.1</u>	<u>31,663</u>	<u>0.1</u>	<u>53,122</u>	<u>0.1</u>
Net income	<u>6,969,007</u>	<u>24.5</u>	<u>8,490,156</u>	<u>24.6</u>	<u>15,874,836</u>	<u>25.6</u>
Per share data:						
Net income	<u>Yen</u>		<u>Yen</u>		<u>Yen</u>	
-Basic	52.41		63.67		120.64	
-Diluted	51.47		62.71		118.59	
Cash dividends	14.00		36.00		14.00	

(3) CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(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
Net income	6,969,007	8,490,156	15,874,836
Other comprehensive income (loss), before tax:			
Unrealized gains (losses) on debt and equity securities:			
Unrealized holding gains (losses) arising during period	(198,675)	(279,612)	514,117
Less reclassification adjustment for (gains) losses included in net income	(67,303)	(186,353)	(143,702)
	(265,978)	(465,965)	370,415
Foreign currency translation adjustments	(64,545)	837,273	(105,517)
Total	(330,523)	371,308	264,898
Income tax expense related to unrealized gains (losses) on debt and equity securities	103,181	178,963	(157,032)
Other comprehensive income (loss), net of tax	(227,342)	550,271	107,866
Comprehensive income	6,741,665	9,040,427	15,982,702

(4) CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(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
<Common stock>			
Balance at beginning of period	7,396,194	11,426,977	7,396,194
Exercise of stock purchase warrants and stock acquisition rights	1,748,789	376,224	4,030,783
Balance at end of period	9,144,983	11,803,201	11,426,977
<Additional paid-in capital>			
Balance at beginning of period	13,165,881	17,359,335	13,165,881
Tax benefit from exercise of non-qualified stock warrants	115,383	300,271	498,905
Tax recognition derived from elimination of reversed warrant related with stock option plan	(249,978)	-	(312,708)
Loss on sales of treasury stock, net of tax	(22,941)	-	(22,941)
Exercise of stock purchase warrants and stock acquisition rights	1,748,652	376,069	4,030,198
Balance at end of period	14,756,997	18,035,675	17,359,335
<Retained earnings>			
Balance at beginning of period	28,236,466	42,165,026	28,236,466
Net income	6,969,007	8,490,156	15,874,836
Stock issue costs, net of tax	(3,735)	(1,829)	(11,977)
Cash dividends	(1,829,260)	(4,794,028)	(1,829,260)
Loss on sales of treasury stock, net of tax	(16,809)	(30,303)	(105,039)
Balance at end of period	33,355,669	45,829,022	42,165,026
<Net unrealized gain (loss) on debt and equity securities>			
Balance at beginning of period	70,965	284,348	70,965
Net change during the period	(162,797)	(287,002)	213,383
Balance at end of period	(91,832)	(2,654)	284,348
<Cumulative translation adjustments>			
Balance at beginning of period	(500,946)	(606,463)	(500,946)
Aggregate translation adjustments for the period	(64,545)	837,273	(105,517)
Balance at end of period	(565,491)	230,810	(606,463)
<Treasury stock, at cost>			
Balance at beginning of period	(4,416,763)	(7,454,463)	(4,416,763)
Purchase of treasury stock	(2,616,694)	(42,631)	(3,759,507)
Sales of treasury stock	298,747	149,968	721,807
Balance at end of period	(6,734,710)	(7,347,126)	(7,454,463)
Total shareholders' equity	49,865,616	68,548,928	63,174,760

(5) CONSOLIDATED STATEMENTS OF CASH FLOWS

(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
Cash flows from operating activities:			
Net income	6,969,007	8,490,156	15,874,836
Adjustments to reconcile net income to net cash provided by operating activities -			
Depreciation and amortization	785,396	942,777	1,590,743
Pension and severance costs, less payments	99,262	91,650	166,649
Deferred income taxes	(922,416)	158,283	(1,390,387)
(Gain) loss on sales of marketable securities	(82,857)	(20,534)	(101,199)
Equity in earnings of affiliated companies	(17,893)	(31,663)	(53,122)
Minority interest	□	420	□
Changes in assets and liabilities:			
Increase (decrease) in deferred revenue	3,201,387	1,424,155	7,293,488
(Increase) decrease in accounts receivable, net of allowances	(719,133)	1,552,014	(3,421,729)
(Increase) decrease in inventories	(112,030)	(53,076)	(124,093)
Increase (decrease) in notes and accounts payable, trade	896,839	(510,190)	379,882
Increase (decrease) in accrued income and other taxes	358,248	(3,219,572)	2,912,481
(Increase) decrease in other current assets	16,948	133,075	(90,479)
Increase (decrease) in accounts payable, other	279,029	250,129	823,199
Increase (decrease) in other current liabilities	908,479	321,916	1,107,855
(Increase) decrease in other assets	390,684	5,754	110,628
Other	117,191	113,694	(178,744)
Net cash provided by operating activities	<u>12,168,141</u>	<u>9,648,988</u>	<u>24,900,008</u>
Cash flows from investing activities:			
Payments for purchases of property and equipment	(226,434)	(507,160)	(801,935)
Software development cost	(402,096)	(475,129)	(645,166)
Payments for purchases of other intangibles	(200,253)	(83,946)	(229,167)
Proceeds from sales of marketable securities	954,474	8,545,586	4,986,012
(Payments for) / Proceeds from marketable securities maturing within three months or less (net)	□	784,865	(2,156,191)
Payments for purchases of marketable securities and security investments	(11,062,351)	(8,241,925)	(17,240,100)
Payment for business acquisition	□	(2,716,702)	□
(Payments for) / Proceeds from time deposits	(20,068)	(523,121)	57,047
Net cash used in investing activities	<u>(10,956,728)</u>	<u>(3,217,532)</u>	<u>(16,029,500)</u>
Cash flows from financing activities:			
Issuance of common stock pursuant to exercise of stock purchase warrants and stock acquisition rights	3,493,706	750,464	8,049,004
Redemption of bonds	(6,500,000)	□	(6,500,000)
Proceeds from/(Purchase of) treasury stock (net)	(2,357,697)	77,034	(3,165,679)
Tax benefit from exercise of non-qualified stock warrants	115,383	300,271	498,905
Tax recognition derived from elimination of reversed warrant related with stock option plan	(249,978)	□	(312,708)
Capital contribution from minority interest	□	4,193	□

Dividend paid	<u>(1,814,984)</u>	<u>(4,766,610)</u>	<u>(1,819,607)</u>
Net cash used in financing activities	<u>(7,313,570)</u>	<u>(3,634,648)</u>	<u>(3,250,085)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(154,594)</u>	<u>92,689</u>	<u>568,994</u>
Net increase (decrease) in cash and cash equivalents	(6,256,751)	2,889,497	6,189,417
Cash and cash equivalents at beginning of period	<u>46,718,940</u>	<u>52,908,357</u>	<u>46,718,940</u>
Cash and cash equivalents at end of period	<u>40,462,189</u>	<u>55,797,854</u>	<u>52,908,357</u>
Supplementary information of cash flow:			
Payment for interest expense	19,424	2,241	114,121
Payment for income taxes	5,754,866	7,350,227	8,990,398

August 3, 2005
Trend Micro Incorporated