

Trend Micro Reports Record Results for 2005

Revenues up 18 percent driven by strong growth in the U.S. market

Tokyo, Japan – February 9, 2006 – Trend Micro Incorporated (TSE: 4704, NASDAQ: TMIC), a leader in network antivirus and Internet content security software and services, today announced earnings results for the fourth quarter and consolidated revenue for fiscal year 2005.

For the fourth quarter, Trend Micro posted a record 20.57 billion Yen (\$175.1 million, 117.43JPY=1USD) in net sales, representing 16 percent growth year over year and 14 percent growth over the third quarter. Operating income for the quarter was 7.94 billion Yen (\$67.6 million) and net income was 5.80 billion Yen (\$49.3 million).

For 2005, Trend Micro posted record consolidated net sales of 73.03 billion Yen (or U.S. \$621.9 million), representing an annual growth rate of 18 percent. The company also reported operating income of 27.57 billion Yen (or U.S. \$234.8 million) and net income of 18.67 billion Yen (or US \$159.0 million). Revenues from products and services sold to enterprise, mid-sized, and small business customers worldwide comprised 78 percent of 2005 revenues; revenue from consumer products comprised the remaining 22 percent.

Trend Micro continued to experience growth worldwide, most notably in North America where sales grew 30 percent annually. In particular, the region experienced 56 percent growth in consumer sales. In the Japan and Asia-Pacific regions, annual sales increased 16 and 25 percent, respectively.

“2005 was a significant year for our company,” said Eva Chen, CEO of Trend Micro. “We did a lot in the last year to build a strong foundation that we believe positions us for the next stage of growth and continued leadership. Our future growth will be fuelled not only by our technological innovation but by continuously understanding our customers and delivering solutions that exceed their expectations.”

Based on information currently available to the company, consolidated net sales for the first quarter ending March 31, 2006, is expected to be 19.5 billion Yen (or U.S. \$165.3 million, based on an exchange rate of 118PY = 1USD). Operating income and net income are expected to be 7.8 billion Yen (or U.S. \$66.1 million) and 4.4 billion Yen (or U.S. \$37.3 million), respectively.

2005 Business Highlights

Awards and Recognition

Corporate

- Trend Micro was listed on the Dow Jones Sustainability Indexes for the second consecutive year.
- For the second year in a row, VARBusiness magazine named Trend Micro Company of the Year and awarded it the Product Innovation Annual Report Card Award.
- In March, Trend Micro Premium Support won the SSPA STAR Award 2005 for Best Practices.
- For the third consecutive year, Trend Micro was acknowledged as the No.1 global brand in Taiwan, according to a study by global brand consultancy Interbrand.

Products

- Trend Micro PC-cillin Internet Security 2005 and OfficeScan achieved the industry's first spyware certification.
- Trend Micro's ScanMail was named 2005 Readers' Choice Award Winner by Windows IT Pro in the Antivirus/Mail Server category of the 2005 Windows IT Pro Readers' Choice Awards.
- In May, PC-cillin won Editor's Choice from Entrepreneur Magazine.
- In January, Trend Micro was voted the "Best Solution" by Tech Data's TechSelect Member.

Products and Innovation

In 2005, Trend Micro introduced the following new products to complement its existing multi-threat security solutions for gateways, servers, desktops, mobile devices, etc.:

- **Anti-Spyware Solutions** – Shortly after acquiring InterMute, Trend Micro, delivered versatile anti-spyware solutions that feature standalone and integrated deployment options for large enterprises, small and medium businesses, and consumers. The solutions provide multi-layered options for delivering anti-spyware protection throughout the network environment – from the gateway to the desktop.
- **Trend Micro Network Reputation Services (Trend Micro RBL+ and Network Anti-Spam Services)** – Resulting from the Kelkea acquisition, these service-based solutions provide a first line of defense that stops spam at its source — before it reaches the network. Real-time spam blocking identifies new sources of spam, including zombies and botnets, as soon as they begin spamming.
- **Communication and Collaboration Solutions** -- Trend Micro launched a group of solutions offering enhanced antivirus, content, and anti-spam protection for email, instant messaging, and collaboration environments. These solutions include Trend Micro ScanMail for Exchange 7.0, Trend Micro ScanMail Lotus Domino 3.0, Trend Micro Instant Messaging Security

for Microsoft Office Live Communication Server, Trend Micro PortalProtect for Microsoft SharePoint, InterScan Messaging Security Suite, and Spam Prevention Solution.

Corporate and Business Highlights

- Trend Micro's strategic alliance partner Cisco announced a number of outbreak prevention solutions, including the Cisco Incident Control System, which the two companies developed jointly.
- Trend Micro announced that leading computer system manufacturer Dell is offering North American customers the choice to pre-install Trend Micro PC-cillin Internet Security on new desktop and notebook systems.
- In August, the U.S. International Trade Commission issued a final ruling in Trend Micro's patent infringement lawsuit against Fortinet, ordering the Sunnyvale, CA-based company to stop advertising, distributing, importing, and selling FortiGate™ products in the United States. The decision validated Trend Micro's patent involving virus scanning at the server and gateway.
* On January 30, 2006, Trend Micro Inc. and Fortinet, Inc. announced that the two companies have reached a settlement in a longstanding patent dispute involving Fortinet's alleged infringement of Trend Micro's U.S. Patent 5,623,600.
- To ensure continued innovation and sharpen its focus on new and emerging threats, Trend Micro announced the appointment of three chief technologists. Raimund Genes as chief technologist for anti-malware; Ed English as chief technologist post for anti-spyware; and Dave Rand as chief technologist of Internet content security.
- New customers in the fourth quarter included: Chunghwa Telecom (Taiwan), Hydro One (Canada), National Library of Medicine (U.S.), North Carolina Farm Bureau Insurance Group (U.S.).

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	December 31, 2004		December 31, 2005	
	Amount	%	Amount	%
<Assets>				
Current assets:				
Cash and cash equivalents	52,908,357		59,612,577	
Time deposits	383,276		1,435,293	
Marketable securities	15,288,575		22,395,365	
Notes and accounts receivable, trade				
–less allowance for doubtful accounts				
(Yen) 292,815 in FY2004 and				
(Yen) 282,257 in FY2005, respectively				
–less sales returns				
(Yen) 572,123 in FY2004 and				
(Yen) 422,453 in FY2005, respectively	15,245,213		19,198,870	
Inventories	201,243		359,897	
Deferred income taxes	6,224,972		6,727,229	
Prepaid expenses and other current assets	1,560,058		1,925,791	
Total current assets	<u>91,811,694</u>	<u>86.0</u>	<u>111,655,022</u>	<u>84.0</u>
Investments and other assets:				
Securities investments	9,831,913		11,159,428	
Investment in and advances to affiliated companies	175,281		321,569	
Software development costs	438,464		1,174,691	
Other intangibles	296,368		1,390,434	
Goodwill	—		2,130,179	
Deferred income taxes	1,695,771		2,033,488	
Other	636,009		671,800	
Total investments and other assets	<u>13,073,806</u>	<u>12.3</u>	<u>18,881,589</u>	<u>14.2</u>
Property and equipment:				
Office furniture and equipment	3,323,526		4,468,891	
Other properties	1,165,173		1,539,195	
	<u>4,488,699</u>		<u>6,008,086</u>	
Less: Accumulated depreciation	(2,640,288)		(3,609,473)	
Total property and equipment	<u>1,848,411</u>	<u>1.7</u>	<u>2,398,613</u>	<u>1.8</u>
Total assets	<u>106,733,911</u>	<u>100.0</u>	<u>132,935,224</u>	<u>100.0</u>

(Thousands of yen)

Account	December 31, 2004		December 31, 2005	
	Amount	%	Amount	%
<Liabilities, minority interest and shareholders' equity>				
Current liabilities:				
Notes payable, trade	88,087		118,572	
Accounts payable, trade	1,271,067		794,450	
Accounts payable, other	2,699,762		3,208,625	
Withholding income taxes	882,693		1,082,302	
Accrued expenses	2,143,694		3,138,674	
Accrued income and other taxes	7,192,085		5,476,791	
Deferred revenue	24,634,662		31,506,315	
Other	651,503		895,088	
Total current liabilities	<u>39,563,553</u>	<u>37.1</u>	<u>46,220,817</u>	<u>34.8</u>
Long-term liabilities:				
Deferred revenue	3,268,892		3,874,936	
Accrued pension and severance costs	656,041		889,774	
Other	70,665		82,056	
Total long-term liabilities	<u>3,995,598</u>	<u>3.7</u>	<u>4,846,766</u>	<u>3.6</u>
Minority interest	<u>—</u>	<u>—</u>	<u>4,531</u>	<u>0.0</u>
Shareholders' equity:				
Common stock				
Authorized				
-December 31,2004 250,000,000 shares (no par value)				
-December 31,2005 250,000,000 shares (no par value)				
Issued				
-December 31,2004 135,755,872 shares	11,426,977			
-December 31,2005 136,603,725 shares			12,484,849	
Additional paid-in capital	17,359,335		18,572,063	
Retained earnings	42,165,026		55,971,955	
Accumulated other comprehensive income				
Net unrealized gain (loss) on debt and equity securities	284,348		657,885	
Cumulative translation adjustments	(606,463)		1,459,600	
	<u>(322,115)</u>		<u>2,117,485</u>	
Treasury stock, at cost				
-December 31,2004 2,588,439 shares	(7,454,463)			
-December 31,2005 2,513,231 shares			(7,283,242)	
Total shareholders' equity	<u>63,174,760</u>	<u>59.2</u>	<u>81,863,110</u>	<u>61.6</u>
Total liabilities, minority interest and shareholders' equity	<u>106,733,911</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 year ended December 31, 2004		For the year ended December 31, 2005		Increase (Decrease)
	Amount	%	Amount	%	%
Net sales	62,049,254	100.0	73,029,901	100.0	17.7
Cost of sales:					
Amortization of capitalized software, and Material	3,236,499		2,598,603		
Maintenance	2,260,934		1,671,320		
Customer Support	5,723,426		6,857,901		
Total Cost of sales	<u>11,220,859</u>	<u>18.1</u>	<u>11,127,824</u>	<u>15.2</u>	(0.8)
Operating Expense:					
Selling	16,009,409		20,944,484		
Research and development	2,597,325		4,395,207		
General and administrative	6,143,985		8,990,611		
Total operating expenses	<u>24,750,719</u>	<u>39.9</u>	<u>34,330,302</u>	<u>47.0</u>	38.7
Operating income	<u>26,077,676</u>	<u>42.0</u>	<u>27,571,775</u>	<u>37.8</u>	5.7
Other incomes (expenses):					
Interest income	451,217		836,910		
Interest expense	(87,464)		(3,709)		
Gain (loss) on sales of marketable securities	101,199		370,326		
Foreign exchange gain (loss), net	(183,292)		327,257		
Other income (expense), net	(34,350)		5,741		
Total other income (expense)	<u>247,310</u>	<u>0.4</u>	<u>1,536,525</u>	<u>2.1</u>	521.3
Net income before tax	<u>26,324,986</u>	<u>42.4</u>	<u>29,108,300</u>	<u>39.9</u>	10.6
Income taxes:					
Current	11,893,659		11,863,127		
Deferred	(1,390,387)		(1,358,568)		
	<u>10,503,272</u>	<u>16.9</u>	<u>10,504,559</u>	<u>14.4</u>	0.0
Income before minority interest and equity in earnings of affiliated companies	<u>15,821,714</u>	<u>25.5</u>	<u>18,603,741</u>	<u>25.5</u>	17.6
Minority interest in income of consolidated subsidiaries	—	—	(338)	0.0	—
Equity in earnings (losses) of affiliated companies	<u>53,122</u>	<u>0.1</u>	<u>66,551</u>	<u>0.1</u>	25.3
Net income	<u>15,874,836</u>	<u>25.6</u>	<u>18,669,954</u>	<u>25.6</u>	17.6
Per share data:					
Net income	<u>Yen</u>		<u>Yen</u>		
-Basic	120.64		139.85		
-Diluted	118.59		137.83		

(3) CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Thousands of yen)

Account	For the year ended December 31, 2004	For the year ended December 31, 2005
Net income	15,874,836	18,669,954
Other comprehensive income (loss), before tax:		
Unrealized gains (losses) on debt and equity securities:		
Unrealized holding gains (loss) arising during period	514,117	1,375,136
Less reclassification adjustment for (gains) losses included in net income	(143,702)	(704,199)
	370,415	670,937
Foreign currency translation adjustments	(105,517)	2,066,063
Total	264,898	2,737,000
Income tax expense related to unrealized gains (losses) on debt and equity securities	(157,032)	(297,400)
Other comprehensive income (loss), net of tax	107,866	2,439,600
Comprehensive income	15,982,702	21,109,554

(4) CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Thousands of yen)

Account	For the year ended December 31,2004	For the year ended December 31,2005
<Common stock>		
Balance at beginning of period	7,396,194	11,426,977
Exercise of stock purchase warrants and stock acquisition rights	4,030,783	1,057,872
Balance at end of period	11,426,977	12,484,849
<Additional paid-in capital>		
Balance at beginning of period	13,165,881	17,359,335
Tax benefit from exercise of non-qualified stock warrants	498,905	155,323
Tax recognition derived from elimination of reversed warrant related with stock option plan	(312,708)	-
Loss on sales of treasury stock, net of tax	(22,941)	-
Exercise of stock purchase warrants and stock acquisition rights	4,030,198	1,057,405
Balance at end of period	17,359,335	18,572,063
<Retained earnings>		
Balance at beginning of period	28,236,466	42,165,026
Net income	15,874,836	18,669,954
Stock issue costs, net of tax	(11,977)	(3,519)
Cash dividends	(1,829,260)	(4,794,028)
Loss on sales of treasury stock, net of tax	(105,039)	(65,478)
Balance at end of period	42,165,026	55,971,955
<Net realized gain (loss) on debt and equity securities>		
Balance at beginning of period	70,965	284,348
Net change during the period	213,383	373,537
Balance at end of period	284,348	657,885
<Cumulative translation adjustments>		
Balance at beginning of period	(500,946)	(606,463)
Aggregate translation adjustments for the period	(105,517)	2,066,063
Balance at end of period	(606,463)	1,459,600
<Treasury stock, at cost>		
Balance at beginning of period	(4,416,763)	(7,454,463)
Purchase of treasury stock	(3,759,507)	(142,062)
Sales of treasury stock	721,807	313,283
Balance at end of period	(7,454,463)	(7,283,242)
Total shareholders' equity	63,174,760	81,863,110

(5) CONSOLIDATED STATEMENTS OF CASH FLOWS

(Thousands of yen)

Account	For the year ended December 31, 2004	For the year ended December 31, 2005
Cash flows from operating activities:		
Net income	15,874,836	18,669,954
Adjustments to reconcile net income to net cash provided by operating activities -		
Depreciation and amortization	1,590,743	1,878,050
Pension and severance costs, less payments	166,649	207,109
Deferred income taxes	(1,390,387)	(1,358,568)
(Gain) loss on sales of marketable securities	(101,199)	(370,326)
Equity in earnings of affiliated companies	(53,122)	(66,551)
(Gain) loss on sale and disposal of fixed assets	—	11,585
Minority interest	—	338
Changes in assets and liabilities:		
Increase (decrease) in deferred revenue	7,293,488	6,209,680
(Increase) decrease in accounts receivable, net of allowances	(3,421,729)	(3,567,924)
(Increase) decrease in inventories	(124,093)	(124,971)
Increase (decrease) in notes and accounts payable, trade	379,882	(526,321)
Increase (decrease) in accrued income and other taxes	2,912,481	(1,826,959)
(Increase) decrease in other current assets	(90,479)	(34,426)
Increase (decrease) in accounts payable, other	823,199	381,414
Increase (decrease) in other current liabilities	1,107,855	1,336,703
(Increase) decrease in other assets	110,628	(207,984)
Other	(178,744)	34,809
Net cash provided by operating activities	<u>24,900,008</u>	<u>20,645,612</u>
Cash flows from investing activities:		
Payments for purchases of property and equipment	(801,935)	(1,153,193)
Software development cost	(645,166)	(1,446,248)
Payments for purchases of other intangibles	(229,167)	(216,107)
Proceeds from sales of marketable securities	4,986,012	22,079,575
(Payment for)/Proceeds from marketable securities maturing within three months or less (net)	(2,156,191)	(189,708)
Payments for purchases of marketable securities and security investments	(17,240,100)	(28,043,534)
Payments for business acquisition	—	(2,716,702)
(Payments for)/Proceeds from time deposits	57,047	(1,052,017)
Net cash used in investing activities	<u>(16,029,500)</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	8,049,004	2,111,758
Redemption of bonds	(6,500,000)	—
Proceeds from/(Purchase of) treasury stock (net)	(3,165,679)	105,743
Tax benefit from exercise of non-qualified stock warrants	498,905	155,322
Tax recognition derived from elimination of reversed warrant related with stock option plan	(312,708)	—
Capital contribution from minority interest	—	4,193
Dividends paid	(1,819,607)	(4,782,764)
Net cash used in financing activities	<u>(3,250,085)</u>	<u>(2,405,748)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>568,994</u>	<u>1,202,290</u>
Net increase (decrease) in cash and cash equivalents	6,189,417	6,704,220
Cash and cash equivalents at beginning of period	<u>46,718,940</u>	<u>52,908,357</u>
Cash and cash equivalents at end of period	<u><u>52,908,357</u></u>	<u><u>59,612,577</u></u>

Supplementary information of cash flow:		
Payment for interest expense	114,121	3,709
Payment for income taxes	8,990,398	13,109,985