

Edgar Filing: TREND MICRO INC - Form 6-K

TREND MICRO INC  
Form 6-K  
August 08, 2001

FORM 6-K

U.S. SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Report of Foreign Private Issuer  
Pursuant to Rule 13a-16 or 15d-16 of  
the Securities Exchange Act of 1934

Commission File Number: 333-10486

For the Month of August 2001

Trend Micro Incorporated  
(Translation of registrant's name into English)

Odakyu Southern Tower, 10th Floor, 2-1, Yoyogi 2-chome,  
Sibuya-ku, Tokyo 151-8583, Japan  
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F    X                      Form 40-F  
              -----                      -----

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes                                      No    X  
              -----                      -----

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-

-----

Information furnished on this form:

Table of Contents

- 1. Trend Micro Report of Half-Year Results (Consolidated) For Fiscal Year Ending December 31, 2001.

# Edgar Filing: TREND MICRO INC - Form 6-K

## SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Trend Micro Incorporated

Date: August 7, 2001

By: /s/ Chang Ming-Jang

-----  
Chang Ming-Jang  
Representative Director;  
President, Chief Executive  
Officer and Chairman of the  
Board

August 3, 2001

Report of First Half Results (Consolidated)  
For Fiscal Year Ending December 31, 2001

|          |  |                                   |
|----------|--|-----------------------------------|
| Company: | Trend Micro Incorporated                                     | Tokyo Stock Exchange 1st Section  |
| Code:    | 4704   | Location : Tokyo                  |
| Address: | Odakyu Southern Tower, 10F 2-2-1                             | Yoyogi Shibuya-ku Tokyo, 151-8583 |
| Contact: | Title                      Director, Chief Financial Officer |                                   |
|          | Name                        Mahendra Negi                    | (Phone: 81-3-5334-3600)           |

Date of the board of directors meeting  
authorizing the first-half results:                      August 3, 2001

US accounting standard is not adopted for preparing the consolidated financial statements for the first half of current fiscal year.

1. Financial Highlights for the first half of FY 2001 (January 1, 2001 through June 30, 2001)

(1) Consolidated Results of Operations

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

|                         | Sales           | Growth rate | Operating income | Growth rate |   |
|-------------------------|-----------------|-------------|------------------|-------------|---|
|                         | Millions of yen | %           | Millions of yen  | %           | M |
| The first half of FY 01 | 12,939          | 34.8        | 2,898            | (3.9)       |   |

Edgar Filing: TREND MICRO INC - Form 6-K

|                         |        |      |       |      |
|-------------------------|--------|------|-------|------|
| The first half of FY 00 | 9,600  | 70.5 | 3,016 | 66.3 |
| FY 00 (annual)          | 21,834 |      | 7,443 |      |

|                        | Net<br>Income   | Growth<br>rate | Net income<br>per share |
|------------------------|-----------------|----------------|-------------------------|
|                        | Millions of yen | %              | yen                     |
| The first half of FY01 | (1,376)         | -              | (10.48)                 |
| The first half of FY00 | 2,474           | 160.7          | 38.06                   |
| FY 00 (annual)         | 4,722           |                | 72.44                   |

(Note)

- Equity in loss of affiliated companies: - 104 million yen (- 23 million yen in the first half of FY 2000)
- The average number of stock: 131,339,944 stocks (65,005,579 stocks in the first half of FY 2000)
- Change in accounting principle: Yes
- The percentage of sales, operating income, ordinary income and net income are comparisons to the same period of the previous year.

(2) Consolidated Financial Position

|                   | Total assets    | Shareholders' equity | Shareholders' equity<br>ratio |
|-------------------|-----------------|----------------------|-------------------------------|
| As of             | Millions of yen | Millions of yen      |                               |
| June 30, 2001     | 53,413          | 26,914               | 50.4                          |
| June 30, 2000     | 37,675          | 21,439               | 56.9                          |
| December 31, 2000 | 43,802          | 26,236               | 59.9                          |

(Note)

Number of the stocks issued (consolidated): 131,681,887 stocks in the first half of current fiscal year

(65,172,669 stocks in the first half of FY 2000, 65,560,421 stocks in the first half of FY 2000)

(3) Consolidated Cash Flow Position

| Operating Cash Flow | Investing Cash Flow | Financing Cash Flow |
|---------------------|---------------------|---------------------|
|---------------------|---------------------|---------------------|

Edgar Filing: TREND MICRO INC - Form 6-K

| As of             | Millions of yen | Millions of yen | Millions of yen |
|-------------------|-----------------|-----------------|-----------------|
| June 30, 2001     | 4,650           | (1,363)         | 6,503           |
| June 30, 2000     | -               | -               | -               |
| December 31, 2000 | 7,776           | (4,141)         | 4,804           |

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

The number of consolidated subsidiaries ..... 18  
The number of unconsolidated subsidiaries ..... -  
The number of affiliated companies ..... 4

(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 ..... -  
The number of additional consolidated affiliated companies ... 1  
The number of excluded consolidated affiliated companies ..... -

2 Earning projections for the current fiscal year (January 1, 2001 through December 31, 2001)

|  | Sales           | Ordinary income |
|--|-----------------|-----------------|
|  | Millions of yen | Millions of yen |
| For the year ending<br>December 31, 2001 | 29,000          | 8,200           |

(Note)

1. Projected consolidated net income per share for the current fiscal year : 13.69 yen

Supplementary information on the results (January 1, 2001 through June 30, 2001)

The Company's sales revenues are mainly derived from licensing of its products, upgrading of its products and patterns files and post-contract support including customer support. Until the end of FY 2000, the Company and Trend Micro Incorporated (Taiwan) had recognized sales revenues from customer support (which was included in post-contract support) at the beginning of the relevant support period. Effective from FY 2001, the method of the revenue recognition has been changed and sales revenues from customer support are deferred through Deferred revenue under Current liabilities and Non-current liabilities over the relevant support period.

For convenience of comparison, the results for the year ending June 30, 2001, are presented in two ways. Results based on the accounting policies applied from the first half of consolidated fiscal year, assumed results based on the accounting policies applied until the previous consolidated fiscal year and its differential are stated in the table below.

(Millions of yen except for per share information)

Edgar Filing: TREND MICRO INC - Form 6-K

|                                      | Result of the first<br>half of consolidated<br>FY 2001 | Assumed result of the first<br>half of consolidated FY 2001<br>(based on Accounting policies<br>applied until previous<br>fiscal year) |
|--------------------------------------|--|--|
| Sales                                | 12,939   | 13,432   |
| Ordinary income                      | 3,004  | 3,496  |
| Net income (loss)                    | (1,376)  | 679  |
| Net income (loss)<br>per share (Yen) | (10.48)  | 5.17   |

[Information on net income per share and shareholders' equity per share]

For periodic comparison of net income per share and shareholders' equity per share, restated per share information reflecting the effect of stock split on March 31, 2001 is as follows:

|                         | Net income (loss)<br>per share (Yen) | Shareholders' equity<br>per share (Yen) |
|-------------------------|--------------------------------------|---|
| The first half of FY 01 | (10.48)                              | 204.39                                  |
| The first half of FY 00 | 19.03                                | 164.47                                  |
| FY 00 (annual)          | 36.22                                | 200.10                                  |

Attachment to the Report

1. Condition of corporate group

(1) Overview of corporate group

Trend Micro Group consists of Trend Micro Inc., its 18 subsidiaries which develop and sell anti-virus products and offer other related services (ipTrend Incorporated offers Internet infrastructure-related products/services) and 4 affiliated companies. NTT Data Security Corporation, which offers total net-work security service, Soft Trend Capital Corporation, which manages capital funds to be invested into Internet-related ventures in Japan, JCN Co.,Ltd, which develops and offers the security system against unlawful access, and NetSTAR Inc. which develops and offers the products of URL filtering are affiliates accounted by equity method. The business related to anti-virus is described below:

The products related to anti-virus:

- PC client products
- LAN server products
- Internet server products
- Other products

Trend Micro Inc. develops and sells the products. Some parts of the research and development activities are entrusted to Trend Micro Incorporated (Taiwan), Trend

## Edgar Filing: TREND MICRO INC - Form 6-K

Micro Inc. (U.S.A.) and Trend Micro Deutschland GmbH (Germany) and Trend Micro (UK) Limited (UK). Trend Micro Incorporated (Taiwan) operates manufacturing and sales of the products too, part of which are purchased by Trend Micro Inc (Japan), Trend Micro Inc. (U.S.A.), Trend Korea Inc. (Korea), Trend Micro Deutschland GmbH (Germany), Trend Micro South Europe Srl (Italy), Trend Micro Australia Pty. Ltd. (Australia), Trend Micro do Brasil Ltda. (Brazil), Trend Micro France (France), Trend Micro Hong Kong Limited (Hong Kong), Trend Micro Incorporated Sdn. Bhd. (Malaysia), Trend Micro (UK) Limited (UK), Trend Micro Latinoamerica S.A.de C.V (Mexico), ipTrend Incorporated (Tokyo Chuo-ku) and ipTrend Incorporated (Taiwan).

In addition, Trend Micro Inc. owns software copyrights and receives from its overseas subsidiaries royalties based on the respective sales of products to such subsidiaries.

[FLOW CHART]

### 2. Management Policy and Business Results

#### Trend Micro Group's Basic Management Policy

-----

Since its founding, Trend Micro has provided "peace of mind" to all users of computer networks and the Internet by offering anti-virus and Internet content security solutions. Upholding the slogan "Your Internet VirusWall," we have become a reliable partner to both corporate users and individual customers, working to block computer viruses, SPAM (unwanted e-mail) and malicious codes (harmful programs created in such programs as JAVA and Active X), as well as to protect users from offensive URLs. We continue to contribute to the development of the networked society in Japan and globally by offering network security solutions and devices. We believe that our ongoing efforts to protect users' computer systems and expand our global client base will lead to an increase in shareholders' value.

#### Basic Policy on the Distribution of Profits

-----

Although Trend Micro has steadily increased its profits in the past few years, we believe that the Internet security market has only begun its full-fledged expansion and that our market share has not stabilized in relation to our U.S. competitors. Our larger rivals may well concentrate their management resources to further enlarge their market share. Since our business areas are more concentrated on anti-virus solutions than other competitors with diversified Internet security solutions, we also face the possibility of larger profit fluctuations in the short term.

In this business environment the most critical management challenges are to strengthen our financial structure and management foundation and aggressively develop new business operations in order to maintain our competitiveness in the market. Our priority, therefore, is to accumulate reserves, which means withholding dividends for the time being. These reserves will be continuously invested in research and development, an area that needs to be further strengthened.

#### Medium and Long-Term Management Strategy

-----

Corporate IT investment has plateaued with the slowdown in the U.S. and European economies. Chilled by this decrease in IT investment, the business climate surrounding Trend Micro is not bright. However, we expect network security solutions, including anti-virus measures, to continue gaining in

## Edgar Filing: TREND MICRO INC - Form 6-K

importance, as more and more corporate users become dependent on using networks, and their systems' problems consequently subject them to huge losses, both in financial terms and opportunity costs. Thus the network security market is expected to grow steadily in the medium-to-long term. To take advantage of this opportunity, we are focusing on maintaining our competitive edge against major U.S. rival companies and expanding our global market share. Utilizing our global resources and networks spanning the United States, Europe and Taiwan, we will continue to strengthen our sales channels, improve brand awareness and corporate image and accelerate the development of products that meet customer needs.

The IT industry is evolving rapidly in conjunction with its constantly changing technology. The next generation of Internet-related technologies, including broadband, mobile communications and open platforms such as Linux, will likely bring about dramatic changes in the network environment. We must seize the opportunities afforded by this high-paced technological evolution, in advance of our major U.S. competitors, while strengthening our management structure and further increasing our operational efficiency.

### Summary of Consolidated Financial Results for the First Half of FY2001

---

The six-month period under review saw a slowdown in demand within the IT industry, primarily the result of declining corporate IT spending in Japan, Europe and the United States. The corporate spending cuts also put the damper on demand for network security solutions, which have been positioned as a high priority in IT investment. Although the business environment has been harsh and we expect some ups and downs in the short term, we believe the network security market will enjoy steady growth over the medium and long term, as corporations continue to increase IT investment in advanced networks and the renewal of core business systems.

The demand for sophisticated, specialized security solutions has risen as corporations combat the disturbing spread of computer viruses and unauthorized access tools programmed by hackers. Last year malicious viruses, including MTX, HYBRIS and MAGISTR, reportedly infected many systems, while such harmful programs as Worm and Trojan Horse were also deployed to wreak damage. At the same time, we have begun seeing more cases in which hackers have gained access to systems by using computerviruses. As the line begins to blur between antidotes to viruses and protection against unauthorized access, demand is growing for more comprehensive security measures.

During the first half of FY2001, Trend Micro significantly increased contracts for its Virus Buster Corporate Edition (Office Scan), winning not only large companies but also medium and small companies. Sales of InterScan, our anti-virus software for Internet servers, rose steadily, in response to the more frequent virus infections spread via e-mail.

As a highly specialized anti-virus solutions provider, we have pioneered post-contract support services, called "Premium Support," introducing them before our major competitors in the industry. This service is in response to the trend among large corporate users to select a vendor based not only on the performance of its anti-virus software but also on the quality of support the vendor offers during the license period to swiftly alert customers to new viruses. In our outsourced Internet service operations, we were able to team up with additional ISPs (internet service providers) to expand our client base for anti-virus solutions, despite the inhospitable business environment for ISPs and the entire telecommunications industry.

We made a crucial strategic move in reorganizing our security appliance server operations, which had been handled by our subsidiary ipTrend Incorporated. This unit faced fundamental problems in building a solid client base of small- and

## Edgar Filing: TREND MICRO INC - Form 6-K

medium-sized companies for its Linux- and Unix-based security appliance servers, as these smaller companies have been hit the hardest by Japan's economic slump. IpTrend's Linux and Unix hardware-related technology has played an important role in the development of our next-generation anti-virus product for consumers, Gatelock, and continues to be a crucial part of our group. However, the company's ipStax security appliance server business for small- and medium-sized companies urgently needed a restructuring review. We decided to dissolve ipTrend and integrate its operations into Trend Micro, while strategically reorganizing its operations and utilizing its technology in our anti-virus products. This integration and reorganization resulted in our writing off the entire goodwill of 2,000 million yen as a one-time amortization charge during the first half of FY2001. This goodwill had been recognized as a portion of the purchase price when we acquired ipTrend (formerly Nippon Unisoft).

Starting with the first quarter of FY2001, Trend Micro (Japan) and Trend Micro Incorporated (Taiwan) changed their accounting method for revenues from post-contract support services. Sales revenues for these services had been booked at the beginning of the support period; the new method defers the recognition of sales revenues from support services and recognizes as revenue over the support period. This new accounting treatment will reflect these transactions more accurately, and has been applied to all our financial filings with the Securities and Exchange Commission (SEC), including our Form 20-F filing, which was submitted on June 29, 2001. The conversion to deferred revenue recognition resulted in an extraordinary loss of 3,009 million yen for our half-year results.

During the first half of FY2001, Trend Micro posted consolidated sales of 12,939 million yen, an increase of 34.8 percent over the same period last year. Consolidated ordinary income increased 1.1 percent to 3,004 million yen, while net loss resulted 1,376 million yen. Sales in all geographical areas grew steadily during the first half of FY2001. Sales in Japan posted an increase of 66.1 percent to 7,540 million yen, while operating income from these sales rose to 4,725 million yen, up 92.7 percent from the comparable period in FY2000. U.S. sales increased 37.3 percent to 4,899 million yen, with operating income totaling 302 million yen, a 76.9 percent decrease. In Europe, sales increased 49.6 percent to 2,804 million yen, and operating loss resulted 46 million yen. Taiwan sales increased 61.2 percent to 1,963 million yen, with operating losses of 28 million yen. Other areas posted combined sales of 789 million yen, a 48.1 percent increase, and operating income of 17 million yen, down 85.6 percent.

### Prospects for FY2001

-----

We expect the economies of Japan, Europe and the United States to continue their sluggish performance in 2001, further restraining corporate spending on IT. While the near-term business environment is expected to be bleak, we believe corporate investment in network security solutions will continue to expand over the medium and long term. The earnings estimates for FY2001 that follow are based on a steady upward demand for network security despite the harsh economic environment.

Consolidated sales: 29,000 million yen(+ 32.8 %)  
Consolidated ordinary income: 8,200 million yen(+ 12.0 %)  
Consolidated net income: 1,800 million (- 61.9 %)  
Earnings projections are calculated based on estimated major currency exchange rates of \$1 = 115 yen and 1 EUR = 105 yen.

### 3 Consolidated Semi-annual Financial Statements

-----

(1) Consolidated semi-annual balance sheets



Edgar Filing: TREND MICRO INC - Form 6-K

| Account   | Period At the end of the first half of<br>the current fiscal year<br>(As of June 30, 2001) |                 | At the end of the first half<br>of the current fiscal year<br>(As of June 30, 2000) |                 |
|---|--|-----------------|---|-----------------|
|   | Amount   | Percentage<br>% | Amount  | Percentage<br>% |
| I (Assets)  |  |                 |   |                 |
| Current assets                                    |  |                 |   |                 |
| 1. Cash and bank deposits                         | 34,618,745   |                 | 20,901,829  |                 |
| 2. Notes and accounts<br>receivable, trade        | 7,667,480  |                 | 7,232,046   |                 |
| 3. Marketable securities *2                       | -  |                 | 2,324,285   |                 |
| 4. Inventories                                    | 206,945  |                 | 101,777   |                 |
| 5. Deferred tax assets                            | 2,798,031  |                 | 811,973   |                 |
| 6. Others   | 994,108  |                 | 1,761,403   |                 |
| 7. Allowance for doubtful<br>accounts             | (205,200)  |                 | (108,744)   |                 |
|   | -----  |                 | -----   |                 |
| Total current assets                              | 46,080,110   | 86.3            | 33,024,571  | 87              |
| II Non current assets                             |  |                 |   |                 |
| 1. Property and equipment *1                      |  |                 |   |                 |
| (1) Building *3                                   | 372,291  |                 | 218,464   |                 |
| (2) Furniture and equipment                       | 1,132,468  |                 | 745,714   |                 |
| (3) Others  | 13,890   |                 | 34,908  |                 |
|   | -----  |                 | -----   |                 |
| Total property<br>and equipment                   | 1,518,650  | 2.8             | 999,086   | 2               |
| 2. Intangibles                                    |  |                 |   |                 |
| (1) Software *3                                   | 415,635  |                 | 148,762   |                 |
| (2) Software in progress                          | 493,220  |                 | 26,420  |                 |
| (3) Consolidated goodwill                         | -  |                 | 1,345,528   |                 |
| (4) Others  | 70,671   |                 | 111,868   |                 |
|   | -----  |                 | -----   |                 |
| Total intangibles                                 | 979,528  | 1.8             | 1,632,579   | 4               |
| 3. Investments and other<br>non-current assets    |  |                 |   |                 |
| (1) Investments in<br>securities *2               | 2,943,721  |                 | 266,622   |                 |
| (2) Investments in capital<br>funds               | 928,119  |                 | 960,806   |                 |
| (3) Deferred tax assets                           | 167,531  |                 | 298,756   |                 |
| (4) Others  | 810,338  |                 | 493,445   |                 |
|   | -----  |                 | -----   |                 |
| (5) Allowance for bad debt                        | (14,617)   |                 | -   |                 |
|   | -----  |                 | -----   |                 |
| Total investments and other<br>non-current assets | 4,835,092  | 9.1             | 2,019,631   | 5               |
|   | -----  |                 | -----   |                 |
| Total non-current assets                          | 7,333,271  | 13.7            | 4,651,296   | 12              |
|   | -----  |                 | -----   |                 |
| Total assets                                      | 53,413,382   | 100.0           | 37,675,868  | 100             |
|   | =====  |                 | =====   |                 |





Edgar Filing: TREND MICRO INC - Form 6-K

|     |  |    |             |        |  |           |       |
|-----|--|----|-------------|--------|--|-----------|-------|
| I   | Sales  |    | 12,939,355  | 100.0  |  | 9,600,341 | 100.0 |
| II  | Cost of sales                                |    | 732,229     | 5.7    |  | 603,879   | 6.3   |
|     |  |    | -----       |        |  | -----     |       |
|     | Gross profit                                 |    | 12,207,125  | 94.3   |  | 8,996,462 | 93.7  |
| III | Selling, general and administrative expenses | *1 | 9,308,645   | 71.9   |  | 5,979,797 | 62.3  |
|     |  |    | -----       |        |  | -----     |       |
|     | Operating income                             |    | 2,898,479   | 22.4   |  | 3,016,664 | 31.4  |
| IV  | Non-operating income                         | *2 | 529,037     | 4.1    |  | 185,318   | 2.0   |
| V   | Non-operating expenses                       | *3 | 423,369     | 3.3    |  | 229,762   | 2.4   |
|     |  |    | -----       |        |  | -----     |       |
|     | Ordinary income                              |    | 3,004,147   | 23.2   |  | 2,972,220 | 31.0  |
| VI  | Unusual gains                                | *4 | -           | -      |  | 1,033,129 | 10.7  |
| VII | Unusual losses                               | *5 | 5,128,883   | 39.6   |  | 3,429     | 0.0   |
|     |  |    | -----       |        |  | -----     |       |
|     | Income or (losses) before taxes              |    | (2,124,735) | (16.4) |  | 4,001,920 | 41.7  |
|     | Corporate, inhabitant and enterprise tax     |    | 474,050     | 3.7    |  | 1,686,077 | 17.6  |
|     | Income tax-deferred                          |    | (1,222,199) | (9.5)  |  | (221,428) | (2.3) |
|     | Minority interests in subsidiaries           |    | -           | -      |  | 62,627    | 0.6   |
|     |  |    | -----       |        |  | -----     |       |
|     | Net income or (losses)                       |    | (1,376,587) | (10.6) |  | 2,474,644 | 25.8  |
|     |  |    | =====       |        |  | =====     |       |

(3) Consolidated semi-annual statement of retained earnings

| Account | Period  | For the first half of the current fiscal year |           | For the first half of the previous fiscal year |           |
|---------|---|---|-----------|--|-----------|
|         |   | (From January 1, 2001 to June 30, 2001)       |           | (From January 1, 2000 to June 30, 2000)        |           |
|         |   | Amounts                                       |           | Amounts  |           |
| I       | Beginning balance of consolidated retained earnings |   | 9,557,084 |  | 4,834,265 |
| II      | Increase in consolidated retained earnings          |   | -         |  | -         |
| III     | Decrease in consolidated retained earnings          |   |           |  |           |
|         | 1. Dividends  |   | -         |  | -         |

Edgar Filing: TREND MICRO INC - Form 6-K

|    |  |             |           |
|----|--|-------------|-----------|
| IV | Net income or<br>(losses)                              | (1,376,587) | 2,474,644 |
| V  | Ending balance of<br>consolidated<br>retained earnings | 8,180,496   | 7,308,909 |

9

(4) Consolidated semi-annual cash flow statements  
Consolidate Cash Flow Statements

| Account               | Period   | (From January<br>2001<br>To June 30, |
|-----------------------|--|--------------------------------------|
| I Operating Cash Flow |  |                                      |
| 1 .                   | Earnings (losses) before tax                       | (2,                                  |
| 2.                    | Depreciation                                       |                                      |
| 3.                    | Amortization for Consolidation goodwill            | 2                                    |
| 4.                    | Investment loss due to equity method accounting    |                                      |
| 5.                    | Increase (Decrease) in allowance for bad debt      |                                      |
| 6.                    | Decrease in accrued severance indemnities          |                                      |
| 7.                    | Increase in allowance for retirement benefits      |                                      |
| 8.                    | (Decrease) Increase in allowance for sales returns | (                                    |
| 9.                    | Interest Income                                    | (                                    |
| 10.                   | Interest Cost                                      |                                      |
| 11.                   | Bond-issuing expense                               |                                      |
| 12.                   | Gain on sales of marketable securities             |                                      |
| 13.                   | Evaluation loss on marketable securities           |                                      |

Edgar Filing: TREND MICRO INC - Form 6-K

|                         |  |     |
|-------------------------|--|-----|
| 14.                     | Unusual gain from settlement of lawsuit                                |     |
| 15.                     | Decrease (Increase) in accounts receivables                            | 1   |
| 16.                     | Decrease (Increase) in inventories                                     |     |
| 17.                     | (Decrease) Increase in account payables                                | (   |
| 18.                     | Increase in deferred revenue   | 4   |
| 19.                     | (Increase) Decrease in others current assets                           | (   |
| 20.                     | Others   |     |
|                         | Sub-total  | 6   |
| 21.                     | Receipts of interest   |     |
| 22.                     | Payments for interest  | (   |
| 23.                     | Receipts of lawsuit settlement   |     |
| 24.                     | Payments for corporate taxes   | (1, |
|                         | Operating Cash Flow  | 4   |
| II Investing Cash Flow  |  |     |
| 1.                      | Payments for time-deposit  |     |
| 2.                      | Proceeds from sales of marketable securities                           |     |
| 3.                      | Proceeds from matured bond   |     |
| 4.                      | Payments for acquired tangible and intangible fixed assets             | (1, |
| 5.                      | Payments for investment in securities                                  | (2, |
| 6.                      | Proceeds from sale of investment in securities                         | 2   |
| 7.                      | Payments for investment in subsidiaries affected to consolidation      |     |
| 8.                      | Payments for additional acquisition of consolidated subsidiary's stock |     |
| 9.                      | Others   |     |
|                         | Investing Cash Flow  | (1, |
| III Financing Cash Flow |  |     |
| 1.                      | Payments for short-term borrowings                                     |     |
| 2.                      | Payments for long-term borrowings                                      |     |
| 3.                      | Proceeds from bond with detachable warrants                            | 6   |
| 4.                      | Payments for bond-issuing expense                                      |     |

Edgar Filing: TREND MICRO INC - Form 6-K

|                     |   |       |
|---------------------|---|-------|
| 5.                  | Payments for bonds maturing                                       |       |
| 6.                  | Proceeds from marketable securities issuing                       |       |
| 7.                  |   |       |
| 8.                  | Proceeds (Payments) for treasury stocks, net                      |       |
| 9.                  | Others  |       |
| Financing Cash Flow |   | 6     |
| -----               |   |       |
| IV                  | Translation difference with Cash                                  |       |
| -----               |   |       |
| V                   | Increase (Decrease) in Cash and Cash Equivalents                  | 10    |
| -----               |   |       |
| VI                  | Beginning balance of Cash and Cash Equivalents                    | 24    |
| -----               |   |       |
| VII                 | Ending balance of Cash and Cash Equivalents (as of June 30, 2001) | 34    |
|                     |   | ===== |

10

Significant accounting policies and practices for preparing consolidated semi-annual financial statements.

|                           |   |
|---------------------------|---|
| 1. Basis of consolidation | <p>(1) For the first half of the current fiscal year</p> <p>All subsidiaries are consolidated.<br/>The subsidiaries are the following 18 companies:</p> <p>Trend Micro Incorporated (Taiwan)<br/>Trend Micro Inc. (USA)<br/>Trend Korea Inc. (Korea)<br/>Trend Micro South Europe Srl (Italy)<br/>Trend Micro Deutschland GmbH (Germany)<br/>Trend Micro Australia Pty. Ltd. (Australia)<br/>Trend Micro do Brasil Ltda. (Brazil)<br/>Trend Micro France (France)<br/>Trend Micro Hong Kong Limited (Hong Kong)<br/>Trend Micro Incorporated Sdn.Bhd. (Malaysia)<br/>Trend Micro (UK) Limited (United Kingdom)<br/>Trend Micro Latinoamerica S.A. de C.V. (Mexico)<br/>Wells Antivirus Research Laboratory, Inc. (USA)<br/>Trend Micro (NZ) Limited (New Zealand)<br/>ipTrend Incorporated (Tokyo, Shibuya-ku)<br/>ipTrend Incorporated (Tokyo, Chuo-ku)<br/>ipTrend Incorporated (Taiwan)<br/>Trend Micro (Shanghai) Inc. (China)</p> <p>Trend Micro Incorporated Sdn.Bhd. (Malaysia) and ipTrend Incorporated (Tokyo, Shibuya-ku) are on the process of the liquidation.<br/>Antivirus Research Laboratory, Inc. (U.S.A.)</p> |
|---------------------------|---|

Edgar Filing: TREND MICRO INC - Form 6-K

(2) For the first half of the previous fiscal

All subsidiaries are consolidated.  
The subsidiaries are the following 15 comp

Trend Micro Incorporated (Taiwan)  
Trend Micro Inc. (USA)  
Trend Korea Inc.(Korea)  
Trend Micro South Europe Srl (Italy)  
Trend Micro Deutschland GmbH(Germany)  
Trend Micro Australia Pty. Ltd.(Australia)  
Trend Micro do Brasil Ltda. (Brazil)  
Trend Micro France (France)  
Trend Micro Hong Kong Limited (Hong Kong)  
Trend Micro Incorporated Sdn.Bhd. (Malaysi  
Trend Micro (UK) Limited (United Kingdom)  
Trend Micro Latinoamerica S.A. de C.V. (Me  
Wells Antivirus Research Laboratory, Inc.(U  
IpTrend Incorporated  
Nihon Unisoft Incorporated (Japan)

---

2. Basis of applying equity method

(1) For the first half of the current fiscal  
applied to investment in affiliated compa  
The affiliated companies are the followin  
NTT Data Security Corporation (Japan)  
Soft Trend Capital Corporation (Japan)  
JCN Co., Ltd. (Japan)  
NetSTAR.Inc. (Japan)  
There is no unconsolidated subsidiary and  
method is not applied.

(2) For the first half of the previous fiscal  
applied to investment in affiliated compa  
The affiliated companies are the followin  
NTT Data Security Corporation (Japan)  
Soft Trend Capital Corporation (Japan)  
JCN Co., Ltd. (Japan)  
There is no unconsolidated subsidiary and  
method is not applied.

---

3. Fiscal year of consolidated subsidiaries

All financial statements included in a se  
statements are prepared as of the same da

---

12

---

4. Accounting policies and practices  
(1)Valuation of significant assets

(1) Securities:  
Other securities:

Other securities with fair market value:  
The securities are stated at the market va  
the end of the period (valuated difference



directly, not to reflect to net earnings a  
the weighted average method.

Other securities without a market value:

The securities are stated at the weighted

(Additional information)

Effective January 1, 2001, the company began  
financial instruments" ((Argument of establish  
for Financial Instruments") Business Account  
22, 1999)) for the financial instruments. C  
accounting principle are resulted in increa  
thousand yen and in decrease of losses befo

In addition, the other securities, which we  
securities" until previous fiscal year, an  
securities" effective January 1, 2001. The  
in increase of other securities in "Investm  
thousand yen and "Deferred tax liabilities"  
recognised. As a result, 274,119 thousand y  
securities" is recognised under Shareholder  
293,456 thousand yen disclosed on the conso  
the translation of security in foreign curr

Finally, the company evaluated Other securi  
the beginning of fiscal year. The company c  
securities included in Current assets to In

This change in classification resulted in d  
under Current assets by 1,872,475 thousand  
in securities by 1,872,475 thousand yen.

(2) The transaction of derivatives

The market value method

(Additional information)

For the financial instruments, "Accounting  
((Argument of establishment for Accounting  
Instruments") Business Accounting Deliberat  
applied from the first half of current cons

This change has resulted in increase of "Or  
yen and "Income or losses before tax"

13

---

(3) Inventories

Finished goods.Raw materials.Supplies

Finished goods, raw materials and supplies  
the weighted average cost.

In Trend Micro Incorporated (Taiwan) and T  
(U.S.A), such inventories are stated at th  
determined by the first-in-first-out metho

Work in process

Edgar Filing: TREND MICRO INC - Form 6-K

Work in process is stated at the cost being production and development cost for indivi

(2) Depreciation and amortization method for fixed assets

(1) Property and equipment

Parent company and domestic consolidated su  
Depreciation is computed by declining-bala

Foreign consolidated subsidiaries -  
Depreciation is computed by a straight-lin

(2) Intangibles

Parent company and domestic consolidated su  
[Software for sale]  
Straight-line method over the  
estimated useful lives. (mainly, for 12 mo

[Software for internal use]  
Straight-line method over the  
estimated useful lives (5 years).

[Other intangibles]  
Straight-line method

\*Foreign consolidated subsidiaries  
Straight-line method over the estimated e  
useful lives.

(3) Long-term prepaid expense  
Amortization is computed by a straight-l

(3) Accounting for significant deferred assets

Issuing costs of stocks and bonds are charged t

14

(4) Accounting policies for significant provisions

(1) Allowance for doubtful accounts

As contingency against losses from d  
receivable, the allowance for doubtful  
amount is determined using a percent  
doubtful account loss against total of d  
takes into consideration the possibili  
liabilities.

(Additional information)  
For the financial instruments, from th  
consolidated fiscal year, pursuant to  
financial instruments" (Arugument of es  
Standard for Financial Instruments  
Deliberation Council, January 22,1999)  
accounting of Allowance for doubtful  
determined at a percentage based on own  
loss against total of debts instead o

percentage). The adoption had no significant effect on the consolidated financial statements.  
 (2) Allowance for sales return

In order to reserve future losses from sales returns subsequent to the fiscal year-end, allowance for sales return is provided based on the past experience of sales returns.

(3) Allowance for retirement benefits

In order to reserve future losses from retirement benefits, allowance for retirement benefits is provided based on retirement benefit liabilities and pension plan obligations at the end of the period under reviewing. The difference between the new accounting principle (119,077 thousand yen) and expense under Unusual losses.

(Additional information)  
 From the current consolidated financial statements, the revised "Accounting Standards for Retirement Benefits" ("Argument of establishment for Accounting Standards for Retirement Benefits Obligation") Business Accounting Council, June 16, 1998), allowance for retirement benefits resulted in increase of retirement benefits expense of 119,077 thousand yen, in decrease of Ordinary income of 119,077 thousand yen and in increase of losses before tax of 119,077 thousand yen. Amount of Accrued severance pay is not recognized until previous fiscal year-end. This information is disclosed in Allowance for retirement benefits.

The effect on segment information is not significant (Additional information).

(5) Translation of major foreign-currency assets and liabilities into Yen.

Foreign-currency financial receivables and liabilities are translated into yen at the spot rate effective at the end of the period. Exchange differential is treated as a profit/loss. Foreign-currency liabilities held by overseas subsidiaries are translated into yen at the spot rate effective at the end of the period. Receivables from overseas subsidiaries are translated into yen at the spot rate effective at the end of the period. Exchange differential is included in "translation adjustment" under Shareholders' equity.

(Additional information)  
 From the first half of current consolidated financial statements, the revised accounting standards for foreign currency translation of Accounting Standards for Foreign Currency Translation, Business Accounting Deliberation Council on October 1, 1998, had no significant effects on profits and losses.

(6) Accounting for leased assets

Finance leases without transfer of ownership of assets are accounted for in the same manner as applied for operating leases.

(7) Other important matters for

(1) Consumption tax

## Edgar Filing: TREND MICRO INC - Form 6-K

preparing consolidated  
semi-annual financial statements

Transactions subject to consumption tax are  
net of the related consumption tax.

- (2) Accounting treatment for stock warrants and  
directors and certain employees under the C

The total compensation cost under the stock  
by taking into account the difference betwe  
price of the parent company shares at the m  
first date on which both the number of shar  
employee is entitled to receive and the exe  
normally the grant date of warrants or sto  
exercise price of the warrant or option and  
over the exercisable period.

---

16

- 
- (3) Change in revenue recognition method for Po  
Service (PCS)

Basically, The product license agreement, w  
subsidiaries contract with the end-user, st  
support and upgrading of products and its p

Until previous consolidated fiscal year, wh  
and Trend Micro Incorporated (Taiwan) appli  
agreement including a portion of PCS revenu  
license is delivered to user. Effective cur  
revenue recognition method for portion of P  
of PCS revenue is recognized separately fro  
as Deferred revenues under Current liabilit  
based on contracted period. Deferred revenu  
contracted period evenly.

As per the tendency of the parent company a  
(Taiwan) that the ratio of site license pro  
is getting larger than as before compare wi  
private user), the ratio of a portion of PC  
result of the above, the companies adopt ne  
PCS, in order to recognize proper periodic  
the other hand, there is no change for the  
USA and Europe, the policy has been applied  
for those subsidiaries.

According to the above change, PCS revenue  
should be deferred by the parent company an  
beginning of the current fiscal year applie  
stated as Losses on prior year adjustment u  
half of current consolidated period. Effect  
decrease of Sales, Operating income and Ord  
yen and in increase of losses before taxes

The effect on segment information is descri

---

5. Definition of cash and cash equivalent

Cash in hands, cash on demand and short-ter

Edgar Filing: TREND MICRO INC - Form 6-K

in the consolidated cash flow statement  
for the first half of current fiscal year

Statement for first half of fiscal year) wh  
than 90 days after acquisition and highly l

17

Notes

(Consolidated semi-annual balance sheets)

| At the end of the first half of the<br>current fiscal year<br>(As of June 30, 2001) | At the end of the first half of the<br>previous fiscal year<br>(As of June 30, 2000) | At the                        |
|---|--|-------------------------------|
| * 1 Accumulated depreciation of<br>property and equipment<br>999,549                | * 1 Accumulated depreciation of<br>property and equipment<br>667,127                 | * 1 Acco<br>pr                |
| * 2 Major intercompany assets<br>Investments in securities<br>109,623               | -----  | * 2 Maj<br>In                 |
| * 3 Additional information<br>[Pledged assets]                                      |  | * 3 Add<br>[Pledged asse      |
| Software 21,410   | -----  | Software<br>Buildings         |
| [Liability applied to the above]  |  | Total                         |
| Current portion of<br>Long-term debt 57,200   |  | [Liability ap                 |
| Long-term<br>Borrowing 71,300   |  | Current porti<br>Long-term de |
| Total 128,500   |  | Long-term<br>Borrowing        |
|   |  | Total                         |

18

Consolidated semi-annual income statements

| For the first half of the current fiscal<br>year<br>( From January 1, 2001 )<br>To June 30, 2001 | For the first half of the previous<br>fiscal year<br>( From January 1, 2000 )<br>To June 30, 2000 | For th<br>Fr<br>To |
|--|---|--------------------|
|--|---|--------------------|

Edgar Filing: TREND MICRO INC - Form 6-K

\* 1. Major components of selling, general and administrative expenses are as follows.

|                                       |           |
|---------------------------------------|-----------|
| Advertising and sales promotions      | 1,141,450 |
| Salaries and bonuses                  | 2,539,854 |
| Depreciation expense                  | 198,818   |
| Research and Development costs        | 1,246,142 |
| Amortization of consolidated goodwill | 252,763   |
| Software maintenance fee              | 325,115   |
| Out-side service fee                  | 789,749   |

\* 1. Major components of selling, general and administrative expenses are as follows.

|                                       |           |
|---------------------------------------|-----------|
| Advertising and sales promotions      | 1,068,154 |
| Salaries and bonuses                  | 1,710,926 |
| Depreciation expense                  | 107,132   |
| Research and Development costs        | 850,857   |
| Amortization of consolidated goodwill | 95,796    |

\* 1. Major general expenses

|                                       |
|---------------------------------------|
| Advertising promotions                |
| Salaries and bonuses                  |
| Service charges                       |
| Depreciation                          |
| Research and development              |
| Amortization of consolidated goodwill |
| Software maintenance                  |

\* 2. Major components of non-operating income

|                       |         |
|-----------------------|---------|
| Interest income       | 202,266 |
| Foreign exchange gain | 307,532 |

\* 2. Major components of non-operating income

|  |        |
|--|--------|
| Interest income                        | 76,560 |
| Foreign exchange gain                  | 30,218 |
| Gain on sales of marketable securities | 65,376 |

\* 2. Major non-operating income

|  |
|--|
| Interest income                        |
| Foreign exchange gain                  |
| Gain on sales of marketable securities |

\* 3. Major components of non-operating expense

|  |         |
|--|---------|
| Interest expense                       | 135,172 |
| Bond issue costs                       | 34,180  |
| Equity in loss of affiliated companies | 104,849 |
| Loss on disposal of products           | 49,328  |

\* 3. Major components of non-operating expense

|  |        |
|--|--------|
| Interest expense                       | 85,520 |
| Bond issue costs                       | 44,295 |
| Loss on sales of treasury stocks       | 22,270 |
| Loss on sales of marketable securities | 30,081 |
| Equity in loss of affiliated companies | 23,516 |

\* 3. Major non-operating expense

|   |
|---|
| Interest expense                            |
| Loss on evaluation of marketable securities |
| Equity in loss of affiliated companies      |

\* 4. Major components of unusual gains

|                              |           |
|------------------------------|-----------|
| Gain from lawsuit settlement | 1,030,785 |
|------------------------------|-----------|

\* 4. Major unusual gains

|                              |
|------------------------------|
| Gain from lawsuit settlement |
|------------------------------|

\* 5. Major components of unusual losses

|   |           |
|---|-----------|
| Amortization of Consolidated goodwill (the component of Unusual losses) | 2,000,795 |
| Loss on prior year Adjustment (due to change in revenue recognition)    | 3,009,009 |
| Retirement benefit expense  | 119,077   |

\* 5. Major components of unusual losses

|                                  |       |
|----------------------------------|-------|
| Loss on disposal of fixed assets | 2,739 |
|----------------------------------|-------|

\* 5. Major unusual losses

|                              |
|------------------------------|
| Loss on sale of fixed assets |
|------------------------------|

(Consolidated cash flow statement)

For the first half of the current fiscal year

For the previous fiscal year

Edgar Filing: TREND MICRO INC - Form 6-K

( From January 1, 2001 ) ( From January 1, )  
 To June 30, 2001 To December 31,

|   |            |  |
|---|------------|--|
| 1. The ending balance of cash and cash equivalents and accounts in the consolidated balance sheet |            | 1. The ending balance of cash and accounts in the consolidated |
| Cash and deposits   | 34,618,745 | Cash and deposits  |
| Time deposit matured over 3 months (excluded from Cash and deposit)                               | (65,511)   | Marketable securities  |
| <hr/>   |            | <hr/>  |
| Cash and Cash equivalents   | 34,553,234 | Cash and Cash equivalents                                      |

2. The breakdown of assets and liabilities of consolidated subsidiaries which were acquired through acquisition of its stock through acquisition cost and some other adjustments during acquisition process are as follows:  
 Nihon Unisoft Incorporated (Tokyo Corporation)  
 (As of December 31, 2001)

|   |             |
|---|-------------|
| Current assets  | 24,553,234  |
| Non-current assets                                      | 1,000,000   |
| Consolidated  | 25,553,234  |
| reconciliation accounts                                 | (1,000,000) |
| Current liabilities                                     | (1,000,000) |
| Non-current liabilities                                 | (1,000,000) |
| Minority interest                                       | (1,000,000) |
| Acquisition cost for Nihon Unisoft Incorporated         | (1,000,000) |
| Cash and cash equivalents of Nihon Unisoft Incorporated | (1,000,000) |
| Net: Actual payment for acquisition                     | (1,000,000) |

(\* ) Present corporate name is ipTre

4. Segment Information

1. Industry segment information

The company and its subsidiaries operate principally in two industry segments: "Security software business" and "Internet infrastructure-related products/service business". However, industry segment information is not currently disclosed since more than 90% of sales and operating income in all segments are from the "security software business" in accordance with Ordinance on Consolidated Financial Statements.

2. Geographic segment information

Edgar Filing: TREND MICRO INC - Form 6-K

|                                   | For the first-half of the current fiscal year ( |               |           |           |         | From January |
|-----------------------------------|---|---------------|-----------|-----------|---------|--------------|
|                                   |   |               |           |           |         | To June 30,  |
|                                   | Japan   | North America | Taiwan    | Europe    | Others  | To           |
| I Sales and operating profit/loss |   |               |           |           |         |              |
| Sales                             |   |               |           |           |         |              |
| (1) Sales to third parties        | 4,487,537                                       | 4,017,815     | 883,543   | 2,796,599 | 753,858 | 12,939,252   |
| (2) Intersegment sales            | 3,053,423                                       | 881,345       | 1,080,149 | 8,105     | 35,295  | 5,068,317    |
| Total                             | 7,540,960                                       | 4,899,160     | 1,963,693 | 2,804,705 | 789,153 | 18,007,569   |
| Operating expenses                | 2,815,535                                       | 4,596,694     | 1,991,885 | 2,851,499 | 771,900 | 13,073,513   |
| Operating income (loss)           | 4,725,425                                       | 302,466       | (28,192)  | (46,794)  | 17,253  | 4,938,051    |

|                                     | For the first-half of the previous fiscal year ( |               |           |           |         | From January |
|-------------------------------------|--|---------------|-----------|-----------|---------|--------------|
|                                     |  |               |           |           |         | To June 30,  |
|                                     | Japan  | North America | Taiwan    | Europe    | Others  | To           |
| I Sales and operating profit (loss) |  |               |           |           |         |              |
| Sales                               |  |               |           |           |         |              |
| (1) Sales to third parties          | 3,655,611  | 2,778,166     | 832,227   | 1,870,516 | 463,819 | 9,600,339    |
| (2) Intersegment sales              | 885,727  | 789,235       | 386,007   | 4,397     | 68,903  | 2,114,272    |
| Total                               | 4,541,339  | 3,567,402     | 1,218,235 | 1,874,913 | 532,722 | 11,714,611   |
| Operating expenses                  | 2,089,276  | 2,259,756     | 867,277   | 1,122,346 | 413,281 | 6,751,932    |
| Operating income (loss)             | 2,452,062  | 1,307,645     | 350,957   | 752,567   | 119,441 | 4,962,679    |



Edgar Filing: TREND MICRO INC - Form 6-K

|                                      | For the previous fiscal year |               |           |           |           | (    | From January |
|--------------------------------------|------------------------------|---------------|-----------|-----------|-----------|------|--------------|
|                                      | Japan                        | North America | Taiwan    | Europe    | Others    | To   | To December  |
| I. Sales and operating profit (loss) |                              |               |           |           |           |      |              |
| Sales                                |                              |               |           |           |           |      |              |
| (1) Sales to third parties           | 8,447,154                    | 6,258,300     | 1,869,024 | 4,126,420 | 1,133,898 | 21,8 |              |
| (2) Intersegment sales               | 2,031,350                    | 1,602,229     | 957,303   | 135,633   | 144,804   | 4,8  |              |
| Total                                | 10,478,504                   | 7,860,529     | 2,826,327 | 4,262,053 | 1,278,702 | 26,7 |              |
| Operating expenses                   | 4,207,010                    | 5,264,325     | 1,987,241 | 2,739,898 | 912,699   | 15,1 |              |
| Operating income (loss)              | 6,271,493                    | 2,596,204     | 839,086   | 1,522,155 | 366,003   | 11,5 |              |

21

(Notes)

- Classification of countries and regions is based on geographical proximity.
- Classification of countries and regions into each geographic segment.
 

|               |   |   |
|---------------|---|---|
| North America | : | U.S.A.  |
| Europe        | : | Italy, Germany, France, UK  |
| Others        | : | Korea, Australia, Brazil, Hong Kong, Malaysia, Mexico, New Zealand. |
- Unallocable operating expenses for the current semi-annual period in the operating expense (JPY 2,565 millions) is included in "Eliminations or Corporate". Major components are expenses for the administrative department in parent company and research and development costs for our products.
- Unallocable operating expenses for the previous semi-annual period in the operating expense (JPY 2,080 millions) is included in "Eliminations or Corporate". Major components are expenses for the administrative department in parent company and research and development costs for our products.
- Unallocable operating expenses for the previous annual period in the operating expense (JPY 4,429 millions) is included in "Eliminations or Corporate". Major components are expenses for the administrative department in parent company and research and development costs for our products.

## Edgar Filing: TREND MICRO INC - Form 6-K

6. Unallocable operating expenses are included in "Elimination or Corporate" due to the difficulty in recognizing their contribution to each segments profit and loss.
7. As described in Significant accounting policies and practices for preparing consolidated financial statements, Deferred revenue is recognized by Trend Micro Incorporated (Japan) and Trend Micro Incorporated (Taiwan). It resulted in decrease of Sales to third parties and Operating income by JPY545,816 thousand in Japan and in increase of Sales to third parties and Operating income by JPY53,155 thousand in Taiwan.
8. As described in Significant accounting policies and practices for preparing consolidated financial statements, Allowance for retirement benefit is reserved by Trend Micro Incorporated (Japan) and Trend Micro Incorporated (Taiwan). It resulted in increase of Operating expense and decrease of Operating income by JPY11,529 thousand in Japan and in increase of Operating expense and decrease of Operating income by JPY6,808 thousand in Taiwan.

### (3) Overseas sales

|   | For the first-half of the<br>current fiscal year  |           | ( From January 1, 20<br>To June 30, 2001   |      |
|---|---|-----------|--|------|
|   | North<br>America                                  | Taiwan    | Europe                                     | Othe |
| I.Overseas sales  | 4,017,815   | 663,751   | 2,796,599                                  | 9    |
| II.Consolidated sales                                     |   |           |  |      |
| III.Ratio of overseas sales<br>against consolidated sales | 31.1%   | 5.1%      | 21.6%                                      |      |
|   | For the first-half of the<br>previous fiscal year |           | ( From January 1, 20<br>To June 30, 2000   |      |
|   | North<br>America                                  | Taiwan    | Europe                                     | Othe |
| I. Overseas sales   | 2,778,166   | 654,515   | 1,870,516                                  |      |
| II.Consolidated sales                                     |   |           |  |      |
| III.Ratio of overseas sales<br>against consolidated sales | 28.9 %  | 6.8 %     | 19.5 %                                     |      |
|   | For the previous fiscal year                      |           | ( From January 1, 20<br>To December 31, 20 |      |
|   | North<br>America                                  | Taiwan    | Europe                                     | Othe |
| I. Overseas sales   | 6,258,300   | 1,503,037 | 4,126,420                                  | 1,   |
| II.Consolidated sales                                     |   |           |  |      |
| III.Ratio of overseas sales<br>against consolidated sales | 28.7 %  | 6.9 %     | 18.9 %                                     |      |

- (Note)
1. Overseas sales are sales to countries/regions other than Japan by Trend Micro Inc. and its consolidated subsidiaries.
  2. Classification of countries/region is based on geographical proximity.
  3. Classification
 

|               |   |   |
|---------------|---|---|
| North America | : | USA   |
| Europe        | : | Italy, Germany, France, UK  |
| Others        | : | Korea, Australia, Brazil, Hong Kong, Malaysia, Mexico and New Zealand |
  5. Lease transactions                      None
- 

6. Fair Market Value of Marketable Securities

-----

\* Regarding "Marketable securities with market value" classified at the first half of previous fiscal year and Investments in subsidiaries and affiliates" for the first half of current fiscal year, they are described in the notes of the Non-consolidated financial statements for the first half of current year.

- (1) Other securities with fair market value

| Classification                 | For the first-half of the current fiscal year |                                     |
|--------------------------------|---|-------------------------------------|
| Other securities               | Acquisition cost                              | Recorded amount on Consolidated B/S |
| 1. Equity securities           | 332,475                                       | 737,206                             |
| 2. Debt securities             |   |                                     |
| Government bond/Municipal bond | -   | -                                   |
| Corporate bond                 | 1,700,000                                     | 1,768,510                           |
| Others                         | -   | -                                   |
| 3. Others                      | 9,995   | 9,781                               |
| Total                          | 2,042,471                                     | 2,515,498                           |

- (2) Major securities market value non-applicable

| Classification   | As of June 30, 2001                 |
|------------------|-------------------------------------|
| Other securities | Recorded amount on consolidated B/S |

Edgar Filing: TREND MICRO INC - Form 6-K

|       |   |         |
|-------|---|---------|
| 1.    | Unlisted securities<br>(excluding OTC transaction securities) | 428,223 |
| 2.    | Others  | -       |
| Total |   | 428,223 |

24

Market value of the marketable securities

| Current/Non-current                         | FY 2000 (As of December 31,2000) |                   |    |
|---|----------------------------------|-------------------|----|
|   | Recorded amount on B/S           | Fair market value | Ap |
| Securities classified as current assets     |                                  |                   |    |
| Equity securities                           | 172,475                          | 172,475           |    |
| Debt securities                             | 1,700,000                        | 1,711,050         |    |
| Others                                      | -                                | -                 |    |
| Sub-total                                   | 1,872,475                        | 1,883,525         |    |
| Securities classified as non-current assets |                                  |                   |    |
| Equity securities                           | -                                | -                 |    |
| Debt securities                             | -                                | -                 |    |
| Others                                      | -                                | -                 |    |
| Sub-total                                   | -                                | -                 |    |
| Total                                       | 1,872,475                        | 1,883,525         |    |

(Note) 1.Calculation method of fair (market) value.

For the fist-half of current fiscal year

- I. Securities traded in the overseas over-the-counter market  
Based on price quotations in NASDAQ.
- II. Debt securities whose fair value are determinable  
Based on the standard indication price announced by Japan Securities Association.

2.The amount of securities included in the balance sheets but excluded from the above table.

(Thousands of yen)

FY 2000

(As of December 31, 2000)

-----  
Securities classified as current assets:

Mutual fund that is not affected by  
market volatility including medium-term JGB  
fund and MMF  
[MMF included in above]

-----  
Securities classified as non-current assets:

Non-listed equity securities excluding equity  
securities traded in the over-the-counter market  
[Investments in subsidiaries and affiliates  
included above]

[including the investment in affiliates  
thousand yen )

-----  
257. Contract or Notional amount, FMV and Valuation gain (loss) of Derivatives  
-----

## Basic policies for derivative transactions

A corporate policy of Trend Micro Group does not engage in derivative transactions. However, the interest cap trading and the interest rate swap had been made by ipTrend Incorporated (Tokyo, Chuo-ku), during fiscal year 2000, before the company's acquisition. These transactions had been made to avoid risks for interest rate fluctuation. The borrowing applied to the hedge was paid completely, when ipTrend Incorporated became a consolidated subsidiary. Although, these transactions are not in completion as of June 30, 2001, the company expects them to be settled with high degree of certainty. Trend Micro Group has no intention of changing. The contractor for the interest cap trading and the interest rate swap is the financial institution, which is trustworthy institution. No expectation is required for future losses because of any defaults.

## Fair market value of the derivative transaction

Contract or notional amount, fair market value and appraisal gain (loss)  
-----

| Transaction type                      | FY 2001 (As of June 30, 2001)              |                   |                       |
|---------------------------------------|--|-------------------|-----------------------|
|                                       | Contract or notional amount<br>Over 1 year | Fair market value | Appraisal gain (loss) |
| Other than market transactions        |  |                   |                       |
| Interest rate cap                     |  |                   |                       |
| Buy                                   | 100,000                                    | 100,000           | 111                   |
| [Option premium]                      | [3,200]                                    | [3,200]           |                       |
| Interest rate swap                    |  |                   |                       |
| Receive / floating and Pay /<br>fixed | 200,000                                    | 200,000           | (10,680)              |
| Total                                 | 300,000                                    | 300,000           | (10,569)              |

## Edgar Filing: TREND MICRO INC - Form 6-K

Note: The amount of option premium is stated in [ ] and the fair market value of it and Appraisal gain (loss) are stated on the above.

| Contract or notional amount, fair market value and appraisal gain (loss) |  |                   |       | (1)     |
|--|--|-------------------|-------|---------|
| Transaction type   | FY 2000 (As of December 31, 2000)          |                   |       |         |
|  | Contract or notional amount<br>Over 1 year | Fair market value | Appra |         |
| Other than market transactions   |  |                   |       |         |
| Interest rate cap  |  |                   |       |         |
| Buy  | 100,000                                    | 100,000           |       | 731     |
| [Option premium]   | [3,200]                                    | [2,275]           |       |         |
| Interest rate swap   |  |                   |       |         |
| Receive / floating and Pay/fixed   | 200,000                                    | 200,000           |       | (7,482) |
| Total  | 300,000                                    | 300,000           |       | (6,751) |

Note: Calculation method of fair (market) value  
Fair market value is determined based on the price, which is provided by the contractor of the financial institute.

26

(Significant subsequent events)

Members of the Trend Micro, Inc. board meeting on August 3, 2001 decided to transfer the business of the consolidated subsidiary ipTrend Inc (Chuo-ku, Tokyo) (100% Trend Micro controlling share) to Trend Micro and to IPSQUARE Inc (no human or capital relation to Trend Micro); the board also decided to commence dissolution and liquidation procedures of ipTrend (Chuo-ku). As for ipTrend (Taiwan), a 99.9%-owned subsidiary of ipTrend (Chuo-ku) and a consolidated subsidiary of Trend Micro, all the business will be transferred to Trend Micro (Taiwan) (99.9% Trend Micro controlling share) and will be liquidated.

- 1 Corporate profile of ipTrend Inc. (Chuo-ku, Tokyo)  
Address: 2-13-9 Ningyo-cho, Nihonbashi, Chuo-ku, Tokyo, Japan  
Representative: Mahendra Negi  
Business description: Providing Internet platform-related products and services  
Capital: 218 million yen  
Acquisition value of the shares: 2.8 billion yen
- 2 Business, properties, and liabilities to be transferred
  - 2.1 IPSQUARE Inc.  
Real-time OS Project and equipment, works in progress, and sales deposits involved in the project
  - 2.2 Trend Micro, Inc.  
All business and properties other than those mentioned above and the same amount of liabilities (Trend Micro will take over all the liabilities from third persons.)
- 3 Transfer price  
Transfer price will be calculated by the fair market value on the day of

Edgar Filing: TREND MICRO INC - Form 6-K

- transfer.
- 4 Business transferring schedules  
 Business transfer contracted on August 3, 2001  
 Business transfer to be implemented by August 31, 2001
- 5 Dissolution date: September 3, 2001
- 6 Completion date for liquidation: December 2001
- 7 Reasons for dissolution and liquidation:  
 To restructure the operations of ipTrend and improve efficiency of the group because the market of appliance servers for small and medium-sized businesses has not expanded fast enough.
- 8 Influence on Trend Micro in terms of consolidated business results
- 8.1 The consolidated adjustment account incurred by acquisition of ipTrend's stock has been added up to intangible fixed assets and extinguished evenly for five years. With the decision of dissolution and liquidation, the unamortized balance of two billion yen will be extinguished across the board, and added up as an extraordinary loss during Trend Micro's interim consolidated fiscal period.
- 8.2 It is expected that the influence on consolidated business results of Trend Micro by partial transfer of business of ipTrend (Chuo-ku) to IPSQUARE should be minor.

27

August 3, 2001

Report of First-Half Results (Non-consolidated)  
 For Fiscal Year Ending December 31, 2001

Company: Trend Micro Incorporated Tokyo Stock Exchange 1st Section  
 Code: 4704 Location : Tokyo  
 Address: Odakyu Southern Tower, 10F 2-2-1 Yoyogi Shibuya-ku Tokyo, 151-8583 Japan

Contact: Title Director, Chief Financial Officer  
 Name Mahendra Negi (Phone: 81-3-5334-3600)

Date of the board of directors meeting  
 authorizing the first-half results: August 3, 2001

Adoption of semi-annual dividend system: Yes

Starting date of semi-annual dividend payment: No semi-annual dividends were authorized for semi-annual period.

1. Financial Highlights for the first half of FY 2001 (January 1, 2001 through June 30, 2001)

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

|                         | Sales           | Growth rate | Operating income | Growth rate |
|-------------------------|-----------------|-------------|------------------|-------------|
|                         | Millions of yen | %           | Millions of yen  | %           |
| The first half of FY 01 | 7,066           | 78.9        | 2,699            | 454.2       |
| The first half of FY 00 | 3,950           | 30.4        | 487              | ( 60.0 )    |

Edgar Filing: TREND MICRO INC - Form 6-K

FY 00 (annual) 9,426 2,734

|                         | Net income      | Growth rate | Net income per share |
|-------------------------|-----------------|-------------|----------------------|
|                         | Millions of yen | %           | Yen                  |
| The first half of FY 01 | ( 2,166)        | -           | ( 16.49)             |
| The first half of FY 00 | 982             | 45.0        | 15.12                |
| FY 00 (annual)          | 2,038           |             | 31.26                |

(Note)

1. Weighted average number of shares (for the first half of FY 01) 131,339,944 shares  
 shares (for the first half of FY 00) 65,005,579 shares  
 outstanding: 65,194,481 shares (for FY 00)
2. Change in accounting policies: Yes
3. The percentage of sales, operating income, ordinary income and net income are comparisons to the first half of prior fiscal year.

(2) Dividends

|                         | Semi-annual dividends per share (Yen) | Annual dividends per Share (Yen) |
|-------------------------|---------------------------------------|----------------------------------|
| The first half of FY 01 | 0                                     | -                                |
| The first half of FY 00 | 0                                     | -                                |

28

FY 00 (annual) - 0

(3) Financial Position

|                   | Total assets    | Shareholders' equity | Shareholders' equity ratio |
|-------------------|-----------------|----------------------|----------------------------|
| As of             | Millions of yen | Millions of yen      |                            |
| June 30, 2001     | 41,809          | 18,803               | 45.0                       |
| June 30, 2000     | 31,226          | 17,310               | 55.4                       |
| December 31, 2000 | 33,493          | 19,655               | 58.7                       |

(Note)

1. Shares issued and outstanding at the end of period: 131,681,887 shares as of June 30, 2001



Edgar Filing: TREND MICRO INC - Form 6-K

65,172,669 shares as of June 30, 2000

65,560,421 shares as of December 31,

2 Earning projections for the current fiscal year (January 1, 2001 through December 31, 2001)

|  | Sales           | Ordinary income |
|--|-----------------|-----------------|
|  | Millions of yen | Millions of yen |
| For the year ending<br>December 31, 2001 | 14,000          | 3,000           |

(Note) 1. Projected consolidated net income per share for the current fiscal year : JPY (15.21)

Supplementary information on the results (January 1, 2001 through June30, 2001)

The Company's sales revenues are mainly derived from licensing of its products, upgrading of its products and patterns files and post-contract support including customer support. Until the end of FY 2000, the Company had recognized sales revenues from customer support (which was included in post-contract support) at the beginning of the relevant support period. Effective from FY 2001, the method of the revenue recognition has been changed and sales revenues from customer support are deferred through Deferred revenue under Current liabilities and Non-current liabilities over the relevant support period.

For convenience of comparison, the result for the year ending June 30, 2001, are presented in two ways. Result based on the accounting policies applied from the first half of fiscal year, assumed result based on the accounting policies applied until the previous fiscal year and its differential are stated in the below.

|                                | (Millions of yen except for per share information) |   |                        |
|--------------------------------|--|---|------------------------|
|                                | Result of the first half<br>of FY 2001             | Assumed result of the<br>first half of FY 2001<br>(based on Accounting<br>policies applied until<br>previous fiscal year) | Increase<br>(decrease) |
| Sales                          | 7,066  | 7,612   | 546                    |
| Ordinary income                | 2,779  | 3,325   | 546                    |
| Net income (loss)              | ( 2,166 )  | ( 226 )   | 1,940                  |
| Net income (loss)<br>per share | ( 16.49 )  | ( 1.73 )  | 14.76                  |

[Information on net income per share and shareholders' equity per share]

For periodic comparison of net income per share and shareholders' equity per share, restated per share information reflecting the effect of stock split on March 31,2001 is as follows:

Edgar Filing: TREND MICRO INC - Form 6-K

|                         | Net income (loss)<br>per share<br>(Yen) | Shareholders' equity<br>per share<br>(Yen) | Weighted average number<br>of shares outstanding |
|-------------------------|---|--|--|
| The first half of FY 01 | (16.49)                                 | 142.80                                     | 131,339,944                                      |
|                         | 29                                      |  |  |
| The first half of FY 00 | 7.56                                    | 132.79                                     | 130,011,158                                      |
| FY 00 (annual)          | 15.63                                   | 149.90                                     | 130,388,962                                      |

1. Non-consolidated Semi-annual Financial Statements

(1) Non-consolidated semi-annual balance sheets

| Period | Account                                | At the end of the<br>first half of the<br>current fiscal year<br>(As of June 30, 2001) |            | At the end of the<br>first half of the<br>previous fiscal year<br>(As of June 30, 2000) |            |
|--------|--|--|------------|---|------------|
|        |  | Amount   | Percentage | Amount  | Percentage |
|        |  |  | %          |   |            |
|        | (Assets)                               |  |            |   |            |
| I      | Current assets                         |  |            |   |            |
|        | 1. Cash and bank deposits              | *2   | 23,950,538 | 17,512,240  |            |
|        | 2. Notes receivable, trade             |  | -          | 1,058   |            |
|        | 3. Accounts receivable,<br>trade       | *2   | 4,726,066  | 3,213,461   |            |
|        | 4. Marketable securities               | *2*7   | -          | 2,242,848   |            |
|        | 5. Treasury stock                      | *3   | 4,523      | 22,421  |            |
|        | 6. Inventories                         |  | 32,792     | 33,781  |            |
|        | 7. Intercompany loan<br>receivables    | *2   | 1,349,980  | 387,982   |            |
|        | 8. Other accounts<br>receivable        |  | 873,047    | 1,573,185   |            |
|        | 9. Deferred tax assets                 |  | 1,764,611  | 159,194   |            |
|        | 10. Other current assets               |  | 228,682    | 155,037   |            |
|        | 11. Allowance for doubtful<br>accounts |  | ( 473,275) | ( 98,739)   |            |
|        | Total current assets                   |  | 32,456,969 | 25,202,472  | 80.        |
| II     | Non-current assets                     |  |            |   |            |
|        | 1. Property and equipment              | *1   | 266,152    | 238,882   | 0.         |
|        | 2. Intangibles                         |  |            |   |            |
|        | (1) Software copyright                 |  | 46,070     | 184,280   |            |

Edgar Filing: TREND MICRO INC - Form 6-K

|     |  |      |            |       |            |      |
|-----|--|------|------------|-------|------------|------|
| (2) | Software                                       |      | 148,955    |       | 173,151    |      |
| (3) | Software in progress                           |      | 493,220    |       | 30,631     |      |
| (4) | Others   |      | 52,361     |       | 72,120     |      |
|     | Total intangibles                              |      | 740,608    | 1.8   | 460,183    | 1.   |
| 3.  | Investments and other non-current assets       |      |            |       |            |      |
| (1) | Investments in securities                      | *2*7 | 2,824,316  |       | -          |      |
| (2) | Investments in subsidiaries and affiliates     | *2   | 3,894,043  |       | 3,873,840  |      |
| (3) | Deferred tax assets                            |      | 39,176     |       | 79,274     |      |
| (4) | Others   | *2   | 1,603,680  |       | 1,386,620  |      |
| (5) | Allowance for bad debts                        |      | ( 15,477)  |       | ( 14,960)  |      |
|     | Total investments and other non-current assets |      | 8,345,739  | 20.0  | 5,324,775  | 17.  |
|     | Total non-current assets                       |      | 9,352,500  | 22.4  | 6,023,842  | 19.  |
|     | Total assets                                   |      | 41,809,470 | 100.0 | 31,226,314 | 100. |

30

| Account                  | Period                            | At the end of the first half of the current fiscal year<br>(As of June 30, 2001) |            | At the end of the first half of the previous fiscal year<br>(As of June 30, 2000) |            |
|--------------------------|-----------------------------------|--|------------|---|------------|
|                          |                                   | Amount   | Percentage | Amount  | Percentage |
| (Liabilities)            |                                   |  |            |   |            |
| I Current liabilities    |                                   |  |            |   |            |
| 1.                       | Accounts payable, trade           | 24,801   |            | 33,993  |            |
| 2.                       | Accounts payable, other           | *2 1,569,093   |            | 797,135   |            |
| 3.                       | Accrued corporate taxes and other | 3,756  |            | 489,000   |            |
| 4.                       | Allowance for sales returns       | 179,739  |            | 128,940   |            |
| 5.                       | Stock warrants                    | 1,917,943  |            | 1,508,667   |            |
| 6.                       | Deferred revenue                  | 3,011,041  |            | -   |            |
| 7.                       | Other current liabilities         | *4 367,416   |            | 215,165   |            |
|                          | Total current liabilities         | 7,073,791  | 16.9       | 3,172,902   | 10.        |
| II Long-term liabilities |                                   |  |            |   |            |
| 1.                       | Bond payable                      | 15,400,000   |            | 10,700,000  |            |
| 2.                       | Deferred revenue                  | 335,737  |            | -   |            |
| 3.                       | Accrued severance indemnities     | -  |            | 43,155  |            |
| 4.                       | Allowance for retirement benefits | 196,423  |            | -   |            |

Edgar Filing: TREND MICRO INC - Form 6-K

|     |  |    |            |       |            |      |
|-----|--|----|------------|-------|------------|------|
|     | Total long-term liabilities                                  |    | 15,932,160 | 38.1  | 10,743,155 | 34.  |
|     |  |    | -----      |       | -----      |      |
|     | Total liabilities  |    | 23,005,952 | 55.0  | 13,916,057 | 44.  |
|     | (Shareholders' equity)                                       |    |            |       |            |      |
| I   | Common stock   | *5 | 6,799,373  | 16.3  | 5,618,852  | 18.  |
| II  | Advance received for newly issued stock                      | *6 | -          | -     | 1,340      | 0.   |
| III | Additional paid-in capital                                   |    | 8,517,103  | 20.4  | 7,385,576  | 23.  |
| IV  | Legal reserve  |    | 20,833     | 0.0   | 20,833     | 0.   |
| V   | Retained earnings  |    |            |       |            |      |
|     | 1. Unappropriated retained earnings at the end of the period |    | 3,172,626  |       | 4,283,653  |      |
|     |  |    | -----      |       | -----      |      |
|     | Total retained earnings                                      |    | 3,172,626  | 7.6   | 4,283,653  | 13.  |
|     |  |    | -----      |       | -----      |      |
| VI  | Valuation difference on other securities                     |    | 293,580    | 0.7   | -          |      |
|     |  |    | -----      |       | -----      |      |
|     | Total shareholders' equity                                   |    | 18,803,517 | 45.0  | 17,310,256 | 55.  |
|     |  |    | -----      |       | -----      |      |
|     | Total liabilities and shareholders' equity                   |    | 41,809,470 | 100.0 | 31,226,314 | 100. |
|     |  |    | =====      |       | =====      |      |

31

(2) Non-consolidated semi-annual income statements

| Account | Period  | For the first half of the current fiscal year<br>(From January 1, 2001)<br>To June 30, 2001 |            | For the first half of the previous fiscal year<br>(From January 1, 2000)<br>To June 30, 2000 |            |
|---------|---|---|------------|--|------------|
|         |   | Amount  | Percentage | Amount   | Percentage |
|         |   |   |            |  |            |
|         |   |   |            |  | %          |
| I       | Sales   | 7,066,538   | 100.0      | 3,950,190  | 100.       |
| II      | Cost of sales   | 320,302   | 4.5        | 332,167  | 8.         |
|         | Allowance for sales returns                             | -   | -          | 36,737   | 0.         |
|         |   | -----   |            | -----  |            |
|         | Gross profit  | 6,746,235   | 95.5       | 3,581,286  | 90.        |
| III     | Selling, general and administrative expenses            | 4,046,471   | 57.3       | 3,093,378  | 78.        |
|         |   | -----   |            | -----  |            |
|         | Operating income  | 2,699,764   | 38.2       | 487,907  | 12.        |
| IV      | Non-operating income                                    | 298,684   | 4.2        | 139,369  | 3.         |
| V       | Non-operating expense                                   | 219,152   | 3.1        | 156,415  | 4.         |
|         |   | -----   |            | -----  |            |
|         | Ordinary income   | 2,779,296   | 39.3       | 470,861  | 11.        |
| VI      | Unusual gains   | -   | -          | 1,030,785  | 26.        |
| VII     | Unusual losses  | 6,376,441   | 90.2       | 2,195  | 0.         |
|         |   | -----   |            | -----  |            |
|         | Income (loss) before taxes<br>Corporate, inhabitant and | ( 3,597,145)  | ( 50.9)    | 1,499,451  | 38.        |



Edgar Filing: TREND MICRO INC - Form 6-K

(2) Inventories  
 Finished goods . Raw materials . Supplies  
 Moving average cost method

---

2. Depreciation and amortization method for fixed assets (1) Property and equipment  
 Declining-balance method

(2) Intangibles  
 [Software for mass sale]  
 Straight-line method over the estimated useful life (12 months).

---

33

[Software for internal use]  
 Straight-line method over the estimated useful life

[Other intangibles]  
 Straight-line method

(3) Long-term prepaid expense  
 Amortization is computed by a straight-line method

---

3. Accounting for deferred assets Issuing costs of stocks and bonds are charged to expense

---

4. Accounting policies for provisions (1) Allowance for doubtful accounts

As contingency against losses from default on the allowance for doubtful accounts is provided by using a percentage based on own actual do- of debts and an amount, which takes into recovering specific liabilities.

(Additional information)  
 For the financial instruments, from the c- "Accounting Standards for financial instr- establishment for Accounting Standard for Accounting Deliberation Council, January of Allowance for doubtful accounts is cha- is recognized at a percentage based on th- statutory prescribed percentage). The ado-

(2) Allowance for sales return

In order to reserve future losses from sa- year end, allowance for sales return is p- experience in the sales return.

(3) Allowance for retirement benefits

In order to reserve future losses arising allowance for retirement benefits is prov- liabilities at the end of the period unde- changing accounting standard 106,581 thou- expense under Unusual losses.

(Additional information)

From the current fiscal year, pursuant to Retirement Benefits Obligation" ("Argume Standard for Retirement Benefits Obligati Deliberation Council, June 16, 1998), all resulted in an increase of retirement ben yen, a decrease of Ordinary income by 11, losses before taxes by 118,111 thousand yen indemnities, which was recognised until p and disclosed in Allowance for retirement

34

5. Translation of major foreign-currency assets and liabilities into Yen.

Foreign-currency financial receivables and translated into yen at the spot rate effective period. Exchange differential is treated

(Additional information)

From the first half of current fiscal year accounting standards for foreign currency Accounting Standards for Foreign Currency Business Accounting Deliberation Council had no significant effects on profits and

6. Accounting for leased assets

Finance leases without transfer of ownership accounted for in the same manner as appli

35

7. Other important matters for preparing semi-annual financial statements

(1) Consumption tax

Transactions subject to consumption tax and related consumption tax.

(2) Accounting for stock warrants that was granted to employees.

The Company has adopted incentive plans where company's shares are granted to directors and company issues bonds with detachable warrants on all of the warrants. Compensation costs are recorded as warrant securities at the point of grant and the compensation scheme which grants warrants. Warrant portion of the bonds is recorded and then transferred to "additional paid-

(3) Change of policy and method of revenue recognition for Customer Support Service (PCS)

Basically, The product license agreement, the end-user, states the article for PCS products and its pattern files).

Till previous fiscal year, whole revenue product license agreement including a portion recognized when the license is delivered current fiscal year, the revenue recognition changed as follows. Portion of PCS revenue whole revenue and it is deferred as Deferred liabilities and Non-current liabilities but revenue is finally recognized for the current

As per the tendency of the company that total revenue (to corporation user) is getting package products revenue (to private user) revenue is increased. As the result of the revenue recognition policy on PCS, in order profits and losses accurately.

According to the above change, PCS revenue should be deferred by the company as of the year applied to the prior year's revenues adjustment under Unusual losses at the first resulted in a decrease of Operating income thousand yen and in increase of losses be yen.

Changes in presentation

Allowance for sales return indicated independently until the previous fiscal year is deducted from from the first half of current fiscal year. Allowance for sales return cause sales revenue to increase yen in this period.

Notes

(Non-consolidated semi-annual balance sheets)

|  | At the end of the first half<br>of the current fiscal year<br>(As of June 30, 2001) | At the end of the first half<br>of the previous fiscal year<br>(As of June 30, 2000) | At the end<br>(As            |
|--|---|--|------------------------------|
| * 1 Accumulated depreciation of<br>property and equipment<br>JPY 231,119 |   | * 1 Accumulated depreciation of<br>property and equipment<br>JPY 155,696             | * 1 Ac<br>propert            |
|  |   | * 2 Major assets and liabilities<br>denominated in foreign currencies                | * 2 Major ass<br>denominated |



Edgar Filing: TREND MICRO INC - Form 6-K

|       |  |                     |  |
|-------|--|---------------------|--|
|       | are as follows.                          |                     | are as follows.                          |
|       | Accounts in foreign currency in JPY      |                     | Accounts in                              |
|       | Cash and bank                            |                     | Cash and ba                              |
|       | deposits US\$                            | 4,837 510,310       | US\$                                     |
|       | Accounts receivable,                     |                     | Accounts re                              |
|       | trade US\$                               | 6,523 688,253       | trade US\$                               |
|       | Marketable securities                    |                     | Marketable                               |
|       | US\$                                     | 4,255 442,817       | US\$                                     |
|       | Intercompany                             |                     | Intercompany                             |
|       | loan receivables                         |                     | loan recei                               |
|       | US\$                                     | 3,063 323,532       | US                                       |
|       | AU\$                                     | 140 8,869           | GB                                       |
|       | GBP                                      | 106 16,998          | Investments                              |
|       | Investments in                           |                     | US                                       |
|       | subsidiaries                             |                     | Investments                              |
|       | and affiliates US\$                      | 1,276 146,429       | subsidiaries                             |
|       | NT\$                                     | \$353,999 1,434,300 | and affiliat                             |
|       | GBP                                      | 110 20,611          | NT                                       |
|       | Others (Investments                      |                     | GB                                       |
|       | and other assets)                        | 501 51,925          | Other (Inves                             |
|       | Accounts                                 |                     | and other as                             |
|       | payable, other                           |                     | Accounts                                 |
|       | US\$                                     | 3,511 370,355       | payable, ot                              |
|       | GBP                                      | 11 1,859            | NT                                       |
|       | DM                                       | 632 32,459          | DM                                       |
|       |  |                     | GB                                       |
| ----- |  |                     |  |
| * 3   | Number of treasury stocks                | * 3                 | Number of treasury stocks                |
|       | 916 shares                               |                     | 1,374 shares                             |
| ----- |  |                     |  |
| * 4   | Presentation of                          | * 4                 | Presentation of                          |
|       | consumption tax                          |                     | consumption tax                          |
|       | Net of consumption tax paid and          |                     | Net of consumption tax paid and          |
|       | consumption tax received are included in |                     | consumption tax received are included in |
|       | other current liabilities.               |                     | other current liabilities.               |
| ----- |  |                     |  |
| * 5   | Description of increases in              | * 5                 | Description of increases in              |
|       | the number of shares issued              |                     | the number of shares issued              |
|       | Exercise of stock warrants detached from |                     | Exercise of stock warrants detached from |
|       | bonds                                    |                     | from bonds                               |
|       | -Number of shares issued                 |                     | -Number of shares issued                 |
|       | 442,239 shares                           |                     | 329,769 shares                           |
|       | -Issue price per share                   |                     | -Issue price per share                   |
|       | JPY -                                    |                     | JPY -                                    |
|       | -Increase in common stock                |                     | -Increase in common stock                |
|       | JPY 445,635                              |                     | JPY 204,192                              |
|       | Stock split                              |                     |  |
|       | -Number of shares issued                 |                     |  |
|       | 65,679,227 shares                        |                     |  |
|       | -Issue price per share                   |                     |  |
|       | JPY -                                    |                     |  |
|       | -Increase in common stock                |                     |  |
|       | JPY 170,900                              |                     |  |
| ----- |  |                     |  |

Edgar Filing: TREND MICRO INC - Form 6-K

\* 6 Advance received for newly issued stocks are the paid-in capital proceeds from exercise of stock warrants. On July 3, 2000, 1,356 stocks were newly issued. JPY 670 thousands were appropriated to common stock and JPY 669 thousands were appropriated to additional paid-in capital.

\* 7 Additional information  
 JPY 417,600 thousands of stocks and JPY 1,800,000 thousands of bonds, which had been recorded as "Investments in securities" in non-current assets, were reclassified to "Marketable securities" in current assets in the first-half of current fiscal year.

38

(Non-consolidated semi-annual income statement)

| For the first half of the current fiscal year<br>(From January 1, 2001<br>To June 30, 2001) | For the first half of the previous fiscal year<br>(From January 1, 2000<br>To June 30, 2000) | For t<br>(F<br>T                    |
|---|--|-------------------------------------|
| * 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 gen                             |
| Advertising and sales promotions 208,144  | Advertising and sales promotions 339,247   | Advertising                         |
| Salaries and bonuses 830,865  | Salaries and bonuses 698,684   | Salaries an                         |
| Allowance for retirement benefit 28,351   | Pension and severance costs 12,966   | Pension and                         |
| Depreciation expense 30,575   | Depreciation expense 25,623  | Allowance f                         |
| Service charge 489,562  | Service charge 276,447   | Depreciatio                         |
| Research and development costs 1,038,519  | Research and development costs 880,251   | Service cha                         |
| Software maintenance fee 302,088  | Amortization of software copyright 69,105  | Research an<br>costs<br>Software ma |
| * 2 Major components of non-operating income  | * 2 Major components of non-operating income   | * 2                                 |
| Interest on securities 36,218   | Interest on securities 27,331  | Interest on                         |

Edgar Filing: TREND MICRO INC - Form 6-K

|  |           |   |           |             |
|--|-----------|---|-----------|-------------|
| Interest income  | 22,010    | Interest income                               | 15,312    | Interest in |
| Foreign exchange gain  | 227,396   | Foreign exchange gain                         | 24,044    | Foreign exc |
|  |           | Gain on sales of securities                   | 65,376    | Gain on sal |
| -----  |           |   |           |             |
| * 3 Major components of non-operating expense                        |           | * 3 Major components of non-operating expense |           | * 3         |
| Bond interests   | 131,755   | Bond interests                                | 77,946    | Loss from   |
| Bond issue cost  | 34,180    | Bond issue cost                               | 44,295    | securities  |
| Warrants fees  | 34,012    | Loss on sale of treasury stock                | 22,270    | Bonds inter |
|  |           |   |           | Bond issue  |
|  |           |   |           | Loss from s |
|  |           |   |           | treasury st |
| -----  |           |   |           |             |
|  |           | * 4 Major component of unusual gain           |           | * 4         |
|  |           | Gain from lawsuit settlement                  | 1,030,785 | Gain from 1 |
| -----  |           |   |           |             |
| * 5 Major component of unusual loss                                  |           | * 5 Major component of unusual loss           |           | * 5         |
| Loss on prior year adjustment (due to change in revenue recognition) | 2,800,962 | Loss on disposal of fixed assets              | 2,195     | Loss on di  |
| Allowance for intercompany loans receivable                          | 370,000   |   |           | fixed ass   |
| Valuation difference on investments in subsidiaries and affiliates   | 3,098,897 |   |           |             |
| Retirement benefit expense   | 106,581   |   |           |             |
| -----  |           |   |           |             |
| * 6 Depreciation and amortization expense                            |           | * 6 Depreciation and amortization expense     |           | * 6         |
| Property and equipment   | 38,354    | Property and equipment                        | 31,839    | Property an |
| Intangible fixed assets  | 207,088   | Intangible fixed assets                       | 329,669   | Intangible  |
| -----  |           |   |           |             |

2. Lease transactions

None

39

3. Market value of the marketable securities

\* Regarding "Securities (excluding investments in subsidiaries and affiliates with fair market value)" and "Marketable securities with market value" for the first half of current fiscal year, they are described in the notes of the consolidated financial statements for the first half of current fiscal year.  
(1) FY 2000 (As of June 30, 2000)

| Current/Non-current | Recorded amount on B/S | Fair market value | Ap |
|---------------------|------------------------|-------------------|----|
| -----               |                        |                   |    |

Securities classified as current assets

Edgar Filing: TREND MICRO INC - Form 6-K

|   |           |           |
|---|-----------|-----------|
| Equity securities                           | 465,238   | 1,394,774 |
| [Treasury stock included above]             | [22,421]  | [24,045]  |
| Debt securities                             | 1,800,000 | 1,811,280 |
| Others                                      | -         | -         |
| Sub-total                                   | 2,265,238 | 3,206,054 |
| -----                                       |           |           |
| Securities classified as non-current assets |           |           |
| Equity securities                           | -         | -         |
| Debt securities                             | -         | -         |
| Others                                      | -         | -         |
| Sub-total                                   | -         | -         |
| -----                                       |           |           |
| Total                                       | 2,265,238 | 3,206,054 |
| -----                                       |           |           |

(Note) 1. Calculation method of fair (market) value.

For the first-half of the previous fiscal year

- (1) Securities traded in the overseas over-the-counter market  
Based on price quotations in NASDAQ.
- (2) Securities traded in the domestic over-the-counter market  
Based on price quotations announced by Japan Securities Association.
- (3) Debt securities whose fair value are determinable  
Based on the standard indication price announced by Japan Securities Association.

2. The amount of securities included in the balance sheets but excluded from the above table.

(Thousands of y

FY 2000  
As of June 30, 2000

Securities classified as current assets:

Mutual fund that is not affected by market volatility including medium-term JGB fund and MMF [MMF included above]

Securities classified as non-current assets:

Non-listed equity securities excluding equity securities traded in the over-the-counter market

3,87

40

[Investments in subsidiaries and affiliates included above]

[ 3,8

## Edgar Filing: TREND MICRO INC - Form 6-K

(2) FY 2001 (As of June 30, 2001)

Subsidiaries and affiliates : No fair market value

(Significant subsequent events)

Members of the Trend Micro, Inc. board meeting on August 3, 2001 decided to transfer the business of the consolidated subsidiary ipTREND Inc (Chuo-ku, Tokyo) (100% Trend Micro controlling share) to Trend Micro and to IPSQUARE Inc (no human or capital relation to Trend Micro); the board also decided to commence dissolution and liquidation procedures of ipTREND (Chuo-ku). As for ipTREND (Taiwan), a 99.9%-owned subsidiary of ipTREND (Chuo-ku) and a consolidated subsidiary of Trend Micro, all the business will be transferred to Trend Micro (Taiwan) (99.9% Trend Micro controlling share) and will be liquidated.

- 1 Corporate profile of ipTREND Inc. (Chuo-ku, Tokyo)  
Address: 2-13-9 Ningyo-cho, Nihonbashi, Chuo-ku, Tokyo, Japan  
Representative: Mahendra Negi  
Business description: Providing Internet platform-related products and services  
Capital: 218 million yen  
Acquisition value of the shares: 2.8 billion yen
- 2 Business, properties, and liabilities to be transferred
  - 2.1 IPSQUARE Inc.  
Real-time OS Project and equipment, works in progress, and sales deposits involved in the project
  - 2.2 Trend Micro, Inc.  
All business and properties other than those mentioned above and the same amount of liabilities (Trend Micro will take over all the liabilities from third persons.)
- 3 Transfer price  
Transfer price will be calculated by the fair market value on the day of transfer.
- 4 Business transferring schedules  
Business transfer contracted on August 3, 2001  
Business transfer to be implemented by August 31, 2001
- 5 Dissolution date: September 3, 2001
- 6 Completion date for liquidation: December 2001
- 7 Reasons for dissolution and liquidation:  
To restructure the operations of ipTREND and improve efficiency of the group because the market of appliance servers for small and medium-sized businesses has not expanded fast enough.
- 8 Influence on Trend Micro in terms of business results
  - 8.1 With the business transfer, dissolution, and liquidation of ipTREND with excessive liabilities as of June 30, 2001, the loan from Trend Micro is expected to be abandoned. Accordingly, 370 million yen will be added up as an allowance for doubtful accounts, and the whole value of the stock of ipTREND (2.8 billion yen) will be written down, which will be added as an extraordinary loss in this interim fiscal period.
  - 8.2 It is expected that the influence on business results of Trend Micro by partial transfer of business of ipTREND should be minor.

41

Supplementary information (Consolidated)

- 
- (1) Manufacturing result

Edgar Filing: TREND MICRO INC - Form 6-K

(Thousands)

| Products                         | Period | ( From January 1, 2001<br>To June 30, 2001 ) | ( From Januar<br>To December |
|----------------------------------|--------|--|------------------------------|
| P C Client                       |        | 4,116  | 3                            |
| LAN Server                       |        | 15,735                                       |                              |
| Internet Server                  |        | 154,956                                      | 14                           |
| Other Products                   |        | 10,290                                       | 5                            |
| Internet based products/ service |        | 356,427                                      | 68                           |
| Sub-total                        |        | 541,525                                      | 93                           |
| Other service                    |        | 0  | 1                            |
| Total                            |        | 541,525                                      | 95                           |

(Note)

1. Amount is based on manufacturing expense.
2. Consumption tax is not included in the amount above.

(2) Sales result

(T

| Products                         | Period | ( From January 1, 2001<br>To June 30, 2001 ) | ( From J<br>To Dece |
|----------------------------------|--------|--|---------------------|
| P C Client                       |        | 4,320,161                                    |                     |
| LAN Server                       |        | 1,237,716                                    |                     |
| Internet Server                  |        | 4,513,593                                    |                     |
| Other Products                   |        | 209,099                                      |                     |
| Internet based products/ service |        | 505,043                                      |                     |
| Sub-total                        |        | 10,785,615                                   |                     |
| Other service                    |        | 2,153,739                                    |                     |
| Total                            |        | 12,939,355                                   |                     |

(Note)

1. Quantity is omitted due to many types of products included in one product line.

