

TREND MICRO INC
Form 6-K
February 17, 2005
Table of Contents

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 UNDER
THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 333-10486

For the Month of February 2005

Trend Micro Incorporated

(Translation of registrant's name into English)

Shinjuku MAYNDS Tower, 1-1, Yoyogi 2-chome,

Shibuya-ku, Tokyo 151-0053, 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.

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Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

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

Yes No

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

Table of Contents

Information furnished on this form:

Table of Contents

1. Press release dated February 3, 2005, relating to the announcement of annual earnings results for the year ended December 31, 2004.

Table of Contents

Feb 3, 2005

Report of Earning Results (Consolidated)

For Fiscal Year Ending December 31, 2004

[Prepared in accordance with US GAAP]

Company: Trend Micro Incorporated Tokyo Stock Exchange 1st Section
Code: 4704 Location : Tokyo
(URL <http://www.trendmicro.co.jp/>)
Representative: Title Representative Director and Chief Executive Officer
Name Eva Chen
Contact: Title Controller, Finance&Accounting Department and General Manager, Corporate Affairs Department
Name Yuzuru Nanami (Phone: 81-3-5334-3600)
Date of the board of directors authorizing the earning results: Feb 3, 2005

1. Financial Highlights for FY 2004 (January 1, 2004 through December 31, 2004)

(1) Consolidated Results of Operations

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

	<u>Net Sales</u>	<u>Growth rate</u>	<u>Operating income</u>	<u>Growth rate</u>	<u>Net income before tax</u>	<u>Growth rate</u>
	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY 2004	62,049	29.0	26,078	72.1	26,325	71.7
FY 2003	48,088	11.9	15,153	9.3	15,329	17.0

	<u>Net Income</u>	<u>Growth Rate</u>	<u>Net income per share (basic)</u>	<u>Net income per share (diluted)</u>	<u>Return on shareholders equity</u>	<u>Net income before tax / total assets ratio</u>	<u>Net income before tax ratio</u>
	Millions of yen	%	Yen	Yen	%	%	%
FY 2004	15,875	71.6	120.64	118.59	29.6	28.0	42.4
FY 2003	9,250	19.9	70.11	69.95	22.8	19.8	31.9

(Note)

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1. Equity in earnings of affiliated companies: 53 million yen (24 million yen in FY 2003)
2. The company made no changes in accounting principle that had material effects on the financial position, results of operations, and cash flow position, during the period.
3. Weighted average number of shares outstanding: 131,588,738 shares (131,940,179 shares in FY 2003)
4. The percentage of net sales, operating income, net income before tax and net income are comparison to the prior fiscal year.

Table of Contents

(2) Consolidated Financial Position

As of	<u>Total assets</u>	<u>Shareholders equity</u>	<u>Shareholders equity ratio</u>	<u>Shareholders equity</u> per share
	Millions of yen	Millions of yen	%	Yen
December 31, 2004	106,734	63,175	59.2	474.40
December 31, 2003	81,271	43,952	54.1	336.38

(Note)

Number of shares outstanding : 133,167,433 shares as of December 31, 2004

130,661,453 shares as of December 31, 2003

(3) Consolidated Cash Flow Position

	<u>Cash flows from</u> <u>operating activities</u>	<u>Cash flows from</u> <u>investing activities</u>	<u>Cash flows from</u> <u>financing activities</u>	<u>Ending balance of cash</u> <u>and cash equivalents</u>
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
FY2004	24,900	(16,030)	(3,250)	52,908
FY2003	15,666	(9,453)	(6,811)	46,719

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

The number of consolidated subsidiaries 19

The number of unconsolidated subsidiaries accounted by equity method 0

The number of affiliated companies 2

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

The number of additional consolidated subsidiaries 2

The number of excluded consolidated subsidiaries 0

The number of additional consolidated affiliated companies 0

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The number of excluded consolidated affiliated companies 1

2. Projected consolidated earnings

Projected earnings for the next quarter (January 1, 2005 through March 31, 2005)

	<u>Net Sales</u>	<u>Operating income</u>	<u>Net income</u>
	Millions of yen	Millions of yen	Millions of yen
1st Qtr	16,300	6,200	3,800

(Note) Since the business environment surrounding Trend Micro Group tends to fluctuate in the short run, it is difficult to make the highly reliable projection figures on a yearly basis. We, therefore, decided to announce the earnings on a quarterly basis in the fiscal year ending December 31, 2005 as well as earnings projection of the succeeding quarter.

If we found through our calculation conducted from time to time that the net sales fluctuate from the most recent quarterly projection by more than 10%, or operating income or net income fluctuates by more than 30%, we will announce the revision of the earnings projection.

Table of Contents

Attachment to the Report

1. Condition of corporate group

Trend Micro Group consists of Trend Micro Inc. (Japan), and its subsidiaries which develop and sell anti-virus products and offer other related services. Affiliated companies are Soft Trend Capital Corporation which manages capital funds to be invested into Internet-related ventures and NetSTAR Inc. which develops and offers the products of URL filtering.

The business related to anti-virus are described below.

Products related to anti-virus:

PC client products	Trend Micro Inc. (Japan) develops and sells the products. Some parts of the research and development activities are entrusted to Trend Micro Incorporated (Taiwan), Trend Micro Inc. (U.S.A.), Trend Micro Deutschland GmbH (Germany), Trend Micro(UK)Limited (UK), and Trend Micro (China) Incorporated. (China). Trend Micro Incorporated (Taiwan) also 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 Micro Korea Inc. (Korea), Trend Micro Deutschland GmbH(Germany), Trend Micro Italy S.r.l.(Italy), Trend Micro Australia Pty. Ltd.(Australia), Trend Micro do Brasil Ltda.(Brazil), Trend Micro France(France), Trend Micro Hong Kong Limited(China), Trend Micro(UK)Limited(UK), Trend Micro Latinoamerica S.A.de C.V (Mexico), Trend Micro (China) Incorporated(China). Besides below indicated chart, Trend Micro (EMEA) Limited (Ireland) provides the back office functions for our business in Europe. In addition, Trend Micro Inc. (Japan) owns software copyrights and receives from its overseas subsidiaries royalties based on the respective sales of products to such subsidiaries.
LAN server products	
Internet server products	
Other products	

Table of Contents

2. Management Policy and Results

MANAGEMENT POLICY

(1). BASIC POLICY OF MANAGEMENT

Our Vision: To create a world safe for exchanging digital information.

Our Mission: We ensure digital operational continuity against unpredictable threats.

The environment in which many companies and individuals are connected globally through the Internet is being realized. The advanced information society, which evolves day by day, brings about changes in business forms and personal lifestyles around the world and has much impact on the whole society. When we think about the changes of our life from the viewpoint of information, the convenience brought about by worldwide networking cannot be overestimated. Nonuniform products that restricted digital information exchange in the past gradually disappeared and as a consequence, improvement in compatibility and convenience is realized. At the same time, with the disappearance of diversity, a vulnerable aspect of the whole net work system to attacks from computer viruses is acknowledged as a problem.

Today the threats on the network such as computer viruses, spywares and junk e-mails are not of a nature that can be predicted beforehand and treated with all possible measures. We are protecting each company and individual from the threats on the network by providing products and services strongly support a series of operations which should be experienced in the event of an attack such as preventive measures, risk management, prevention of mass infection, timely delivery of virus pattern files, minimization of damage and system restoration. In addition to this, we would like to contribute to the further development of the information society by improving the safety of the whole network system.

(2). BASIC POLICY OF PROFIT SHARING

We intend to continue to return profits to shareholders based on the net profit on the consolidated basis while striving to enhance financial strength and secure inner reserve in order to deal with significantly changing business environment and maintain competitive edge against competitors. As our basic policy about dividend, we plan to pay a year-end dividend on the basis of the dividend ratio of 30%.

(3). VIEWS AND POLICIES FOR INVESTMENT UNIT

While we recognize that securing liquidity of our shares is an important issue, we consider the current liquidity is at a satisfactory level. With that background, we conclude that reducing investment unit which will incur considerable expense is not necessarily profitable to all shareholders.

We intend to review in the future the investment unit as needed taking into consideration the shareholders' interest and influences to the liquidity of our shares.

(4). TARGET MANAGEMENT INDEX

According to a research institute, the anti-virus industry, which we belongs to, is estimated to expand at an annual growth rate of around 20% from 2003 to 2004 and is also expected two-digit annual growth rate for a medium-term forecast (August 2004, IDC, USA). Making the growth rate of our consolidated net sales to exceed the industry average without fail is an important index for us weather we can grow up to a leading company which can contribute to customers in the global market as well as Japanese market or not.

In view of the fact that we have relatively small amount of investment in physical fixed assets such as manufacturing equipment and have no significant time-lag between accounting profit and loss and cash flow as a characteristics of software companies, have uncertainty about the long-term forecast of the whole industry which, including our company, has a relatively short history, we set target as operating income margin rate of 35 - 40% at this time.

(5). ISSUES TO DEAL WITH

In the anti-virus industry which we belongs to, there are two competitors having higher market share than ours in the U.S. These companies have strong brand powers and sales forces especially in foreign countries because they have longer histories in the industry. They are also developing businesses supported by management resources larger than ours including work forces and financial strengths. In such situation, we would like to aim for further growth by developing original solutions which respond to the evolution of viruses faster than the competitors with concentrated our management resources, by improving our superiority in products and services with additional improvements in the specifications and performance of our products from the view point of customers, and by strengthening customers' loyalty with our marketing development which is conscious of customer attribute characterized by the difference in purchasing behavior.

We, specializing in the antivirus area, have formed several alliances with dominant vendors in areas other than antivirus solutions. During this quarter, we announced affiliation with the U.S. Cisco Systems, the world's biggest network equipment vendor. In consequence of the affiliation, we have now a plan to put our antivirus solutions on the market as internal functions of Cisco's routers, switches and security appliance products. We consider that this sort of affiliation plays an important role in our sales strategy since we can expect effects of combination of products which are competitive in the respective area and of complementation of each other's sales channel.

Table of Contents

(6). CORPORATE GOVERNANCE

Our management system is administering business operations under the recognition that quickly corresponding to changes in the environment of our company group and securing transparency and soundness of management as well as keeping reliability of disclosures are of prime importance.

The Board of Directors is composed of four directors and holding the Board meetings according to circumstances so that it can quickly make decisions. One of the four directors is appointed from outside of our company to enhance supervisory function for appropriate operation of the Board.

An executive is appointed for each business unit to take responsibility for executing respective operation so that our management policy decided by the Board of Directors is reflected in actual operation in the business area extending into over 20 countries in the world.

We have appointed four corporate auditors all from outside of our company so that the Board of Auditors can audit without bias the operation of the Board of Directors and business execution by the directors. The Board of Auditors has formulated a guideline for the relationship with the external auditor in order to ensure independence of the external auditor which takes charge of audit of our consolidated financial statements. The guideline prohibits commissioning the external auditor any affair which may impair independence of the said auditor. The guideline has also established a system in which the Board of Auditors is to make advance approval according to the guideline for audit and non-audit services we receive from the said auditor.

As for the internal control functions of our whole group, we have established an effective internal control functions by considering our business model and the business environment surrounding our group. We have also appointed a full-time person for supervision at corporate affairs department and are developing this system in communication with the external auditor and legal advisors as well as the board of corporate auditors and the board of directors. For this period we have implemented our Code of Conduct focusing on ethical behavior, compliance with laws and full and fair disclosure and clarified internal reporting channel and executed a survey of business process by physical inspections at major department both domestically and abroad. We will continually aim to establish internal control in the direction of strengthening our unique and global business operation which is not restricted by time, space and culture, and will also respond to the Sarbanes-Oxley Act of 2002 which is applicable to us because we are listed on the Nasdaq exchange.

Table of ContentsOPERATING RESULTS AND FINANCIAL CONDITIONI. OPERATING RESULTS(1). REVIEW OF CURRENT PERIOD

(Unit: million yen)

	<u>Net Sales</u>	<u>Gross Profit</u>	<u>Operating income</u>	<u>Net income before tax</u>	<u>Net Earnings</u>
FY2003	48,088	44,920	15,153	15,329	9,250
FY2004	62,049	58,813	26,078	26,325	15,875
Rate of Change	29	31	72	72	72

(Unit: million yen)

	<u>Net Sales</u>			
			<u>Rate of Change (%)</u>	
	<u>FY2004</u>	<u>FY2003</u>	<u>Before Adjustment for Exchange</u>	<u>After Adjustment for Exchange</u>
Japan	25,443	20,052	27	27
North America	11,891	9,633	32	23
Europe	16,418	12,138	32	35
Asia and Pacific Reg.	6,305	4,809	34	31
Latin America	1,992	1,456	47	37

[Overview of Current Business Performance]

Looking at the economical conditions of this period, although business sentiment showed prudence in some part due to cause of concern about skyrocketing crude oil prices, Japanese economy has steadily recovered with brisk consumer spending. In foreign countries, business conditions have remained strong primarily in U.S and Asian countries and seem to continue a recovery trend. We think capital investment will continue to increase thanks to the improvement of company earnings.

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In the network security industry the demand for network security products have developed steadily because computer viruses such as MYDOOM , BAGLE and NETSKY were prevalent globally and the total number of virus damage reports was up to 65,531, far larger than last year (47,607 reports).

Damages from a new type of computer viruses which target the vulnerabilities (security holes) in operating systems (OSs) and lead to infection just one connects to the Internet become popular. Thus we started the sales of Network Virus Wall series as a solution to these damages.

Further we have attempted to expand the number of users using our products through alliance with new resellers in addition to the existing sales network for personal products, while we have strengthened our product lineup for corporate products by launching products which can be introduced and managed easily targeting at medium and small companies which are in short of persons in charge of network management.

It is also expected that new devices or new communication tools which have not been targets for attack in the past may be targets for virus attack, so we started providing Trend Micro Mobile Security TM as a new solution for mobile devices and also started supplying our products for Hotmail which is an e-mail service provided by Microsoft Corporation, U.S.A.

As a result, the net sales for this period came to 62,049 million yen (29% increase from the previous period), the consolidated operating income 26,078 million yen (72% increase from the previous period) and the consolidated net income for this period 15,875 million yen (72% increase from the previous period).

In Japan the sales of the Virus Buster series including Virus Buster 2005 , released in the fourth quarter as personal product, were significantly increased. We think this result is due to the following factors; the number of virus damage reports was reached to the worst level in the past, the number of broadband users was steadily increased, our support system, which we had been improved and expanded, gained support from customers.

Table of Contents

The introduction of anti-virus products also become widespread among medium and small companies as well as large companies in response to a Personal Information Protection Act, which will be fully enforced from April 2005, and the sales of corporate products were strong. As a result, the net sales for this period came to 25,443 million yen (27% increase from the previous period).

In the North American region the positive attitude toward investment of security products was beginning to be seen due to some changes in the attitude toward capital investment which had been weak until the previous period. As the result of the reinforcement measures of sales channels to expand the sales for medium and small companies became evident, the net sales on a local currency basis was significantly increased compared to the previous period. But the net sales for this period came to 11,891 million yen (23% increase from the previous period) due to the effect of currency exchange.

In Europe thanks to the launch of new products and the expansion of number of affiliated resellers as well as strong demand, the net sales in U.K., Italy and Germany were increased and the sales for medium and small companies were especially increased. The sales in the North Europe region such as Norway and Sweden and the South Europe region like Spain were significantly increased with the improvement and expansion of sales channels. The net sales for this period in these regions came to 16,418 million yen (35% increase from the previous period).

At Asia and Pacific region and Latin America region the sales in Mexico, Taiwan, China and Australia were expanded and the net sales for two regions came to 6,305 million yen (31% increase from the previous period) and 1,992 million yen (37% increase from the previous period), respectively.

(2). Projection for the First Quarter of the fiscal year 2005 (from January 1, 2005 to March 31)

The business environment tends to drastically change over a short term. Consequently, it is difficult to calculate highly reliable values about the projection for the whole financial year. Instead, we make it a rule to announce a business forecast for the coming quarter term at the time of reporting quarterly results.

In the event forecast numbers are revised by more than 10% for net sales or 30% for operating income and net income from the last forecast, we will announce revision of the earnings forecast.

Business Forecast for the First Quarter of FY2005 (January 1 2005 – March 31 2005)

Consolidated Net Sales	16,300 million yen
Consolidated Operating income	6,200 million yen
Consolidated Current Net income	3,800 million yen

In development of the business forecasts the main assumed exchange rates are as follows.

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1 U.S.\$	103 yen
1 Euro	135 yen

Table of Contents**II. FINANCIAL CONDITION****CASH FLOW**

(Unit: million yen)

	<u>FY2004</u>	<u>FY2003</u>	<u>Increase (Decrease)</u>
Cash Flows from Operating Activities	24,900	15,666	9,234
Cash Flows from Investing Activity	(16,030)	(9,453)	(6,576)
Cash Flows from Financing Activity	(3,250)	(6,811)	3,561
Effect of Exchange Rate Changes on Cash and Cash Equivalents	569	(512)	1,081
Net increase (Decrease) in Cash and Cash Equivalents	6,189	(1,111)	7,300
Cash and Cash Equivalents at end of period	52,908	46,719	6,189

[Overview of Cash Flow]

For the cash flows from operating activity for this period, income was increased 9,234 million yen compared with the previous period and the balance was ended with a surplus of 24,900 million yen. This increase in income is mainly due to increases in net income and deferred revenue, etc.

For the cash flows from investing activity, expenditure was increased 6,576 million yen compared with the previous period and the balance was ended with a deficit of 16,030 million yen. This increase in expenditure is mainly due to increase in payments for purchases of marketable securities and security investments, etc.

For the cash flows from financing activity, expenditure was decreased 3,561 million yen compared with the previous period and the balance was ended with a deficit of 3,250 million yen. This decrease in expenditure is mainly due to substantial increase in income from issuance of common stock pursuant to exercise of stock purchase warrants and stock acquisition rights, etc.

Taking these increase and decrease and the effect of exchange rate changes on cash and cash equivalents into account, the cash and cash equivalents at end of this period was 52,908 million yen and was increased 6,189 million yen compared with the previous period.

Table of Contents**[Trends of Cash Flow Indexes]**

(U.S. GAAP)

	<u>FY 2003</u>	<u>FY 2004</u>
Shareholder's equity Ratio (%)	54.1	59.2
Capital Adequacy Ratio on Market Value Basis (%)	462.2	690.0
Debt Redemption Period (years)	0.4	
Interest Coverage Ratio	103.3	218.2

(Japan GAAP)

	<u>FY2000</u>	<u>FY2001</u>	<u>FY2002</u>
Shareholder's equity Ratio (%)	59.9	47.3	50.0
Capital Adequacy Ratio on Market Value Basis (%)	2475.5	626.7	360.4
Debt Redemption Period (years)	1.3	1.2	0.8
Interest Coverage Ratio	35.7	44.2	49.4

(Note) Shareholder's equity Ratio	: (Total shareholder's Equity)/(Total Assets)
Capital Adequacy Ratio on Market Value Basis	: (Total Market Value of Shares)/(Total Assets)
Debt Redemption Period	: (Interest-bearing Debt)/(Operating Cash Flow)
Interest Coverage Ratio	: (Operating Cash Flow)/(Interest Payment)

- * All indexes are calculated from the financial values on a consolidated basis.
- * Total Market Value of Shares is calculated as follows; closing share price at the term end multiplies by number of shares issued at the term end (net treasury stocks).
- * Operating Cash Flow is Net cash flows provided by operating activity in the consolidated statement of cash flows. Interest-bearing Debt is all debts with interest payments among the debts reported on consolidated balance sheet. Interest Payment is the amount of payment for interest expense in the consolidated statement of cash flows
- * With the enforcement of revision of Rules on the terms, forms and making method of a consolidated financial statement in March 2002, consolidated financial statements had been prepared based on U.S.GAAP from the year ended December 31, 2003.

Table of Contents**3 CONSOLIDATED FINANCIAL STATEMENTS****(1) CONSOLIDATED BALANCE SHEETS**

(Thousands of yen)

<u>Account</u>	<u>December 31, 2003</u>	<u>December 31, 2004</u>
<Assets>		
Current assets:		
Cash and cash equivalents	46,718,940	52,908,357
Time deposits	440,323	383,276
Marketable securities	4,769,935	15,288,575
Notes and accounts receivable, trade less allowance for doubtful accounts and sales returns of (Yen)1,023,734 in FY2003 and (Yen) 864,938 in FY2004, respectively	11,681,457	15,245,213
Inventories	77,950	201,243
Deferred income taxes	4,894,387	6,224,972
Prepaid expenses and other current assets	1,397,821	1,560,058
Total current assets	69,980,813	91,811,694
Investments and other assets:		
Securities investments	6,107,872	9,831,913
Investment in and advances to affiliated companies	119,591	175,281
Software development costs	505,616	438,464
Other intangibles	311,756	296,368
Deferred income taxes	1,806,760	1,695,771
Other	734,533	636,009
Total investments and other assets	9,586,128	13,073,806
Property and equipment:		
Office furniture and equipment	2,823,506	3,323,526
Other properties	1,038,524	1,165,173
	3,862,030	4,488,699
Less: Accumulated depreciation	(2,157,884)	(2,640,288)