

Edgar Filing: TREND MICRO INC - Form 6-K

TREND MICRO INC  
Form 6-K  
October 22, 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 October 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  Form 40-F   
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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   
-----

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:

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1. Press release dated October 22, 2001 relating to the U.S. GAAP consolidated interim financial information (unaudited) of the registrant and its consolidated subsidiaries for the six months ended June 30, 2001, which information the registrant plans to file with the Tokyo Stock Exchange on October 23, 2001. (\*)
2. The U.S. GAAP consolidated interim financial information (unaudited) of the registrant and its consolidated subsidiaries for the six months ended June 30, 2001.

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(\*) The U.S. GAAP consolidated interim financial information (unaudited) contained in the press release is the same as 2. (except that the press release does not contain full notes thereto) and is thus omitted from 1.

### 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: October 22, 2001

By: /s/ Toshihiro Watanabe

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Toshihiro Watanabe  
Representative Director and  
Senior Executive Vice  
President

Attachment 1

Trend Micro announced its U.S. GAAP financial information for the first half of 2001

Tokyo, Japan - October 22, 2001 - Trend Micro Incorporated (Nasdaq: TMIC, Tokyo Stock Exchange: 4704), a leading provider of enterprise antivirus and content security software, today announced its unaudited U.S. GAAP financial information for the first half of 2001.

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

(1) Consolidated Results of Operations (Unaudited except FY 00 (annual))

	Sales	Growth rate	Operating income	Growth rate	N b
	Millions of yen	%	Millions of yen	%	M
The first half of FY 01	12,939	38.7	1,007	(62.4)	
The first half of FY 00	9,331	62.7	2,678	56.7	
FY 00 (annual)	20,070		5,527		

	Net Income	Growth rate	Net income per share

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	Millions of yen	%	Yen
The first half of FY 01	554	(74.8)	4.22
The first half of FY 00	2,194	162.7	16.88
-----			
FY 00 (annual)	3,675		28.18
-----			

(Note)

1. Equity in loss of affiliated companies: - 105 million yen (- 24 million yen in the first half of FY 2001, 24 million yen in FY 2000)
2. The average number of issued and outstanding shares (consolidated): 131,339,944 shares (130,011,158 shares for the first half of FY 2001, 130,388,962 shares for FY 2000)
3. Changes in accounting principles: Not applicable
4. The percentage of sales, operating income, net income before tax and net income are in comparison with the corresponding half of the prior fiscal year.

(2) Consolidated Financial Position (Unaudited except December 31, 2000)

	Total assets	Shareholders' equity	Shareholders' equity ratio
	Millions of yen	Millions of yen	%
As of June 30, 2001	52,993	26,891	50.7
June 30, 2000	38,519	20,999	54.5
-----			
December 31, 2000	44,574	24,344	54.6
-----			

(Note)

- Number of issued and outstanding shares (consolidated): 131,681,887 shares as of June 30, 2001, the end of the first half of FY 2001 (130,345,338 shares as of the end of the first half of FY 2000, 130,388,962 shares as of the end of the FY 2000)

(3) Consolidated Cash Flow Position (Unaudited except December 31, 2000)

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

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As of	Millions of yen	Millions of yen	Millions of yen
June 30, 2001	4,191	(1,364)	6,963
June 30, 2000	1,594	(1,772)	5,430
December 31, 2000	6,086	(4,141)	6,496

(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 ..... -

Previously, on August 3, 2001, Trend Micro announced its Japanese GAAP financial information for the same period. Significant differences between Japanese GAAP and U.S. GAAP applicable to Trend Micro are summarized below.

Goodwill write-off (2,000 million yen), which is recognized as other expenses under Japanese GAAP, is recognized as operating expenses under U.S. GAAP.

From the fiscal year ending December 31, 2001, Trend Micro and Trend Micro Incorporated (Taiwan) have adopted the deferred revenue accounting for their Post-contract Customer Support service for its Japanese GAAP financial reporting purposes. The cumulative effect of adopting the deferred revenue accounting of 3,009 million yen is recorded as other expenses under Japanese GAAP. For its U.S. GAAP reporting purposes, Trend Micro and Trend Micro Incorporated (Taiwan) have historically adopted the deferred revenue accounting for their Post-contract Customer Support service on a consistent basis.

[For the U.S. GAAP consolidated interim financial information (unaudited) of Trend Micro and its consolidated subsidiaries for the six months ended June 30, 2001, see the second attachment to this report on Form 6-K.]

About Trend Micro, Inc.

Trend Micro, Inc. is a leader in network antivirus and Internet content security software and services. The Tokyo-based corporation has its North American headquarters in Cupertino, CA, and business units worldwide. Trend Micro products are sold directly, through corporate, value-added resellers and managed service providers. Trend Micro's U.S. GAAP financial statements for the six months ended June 30, 2001, including the notes thereto, are available on its website at

[http://www.antivirus.com/corporate/investor\\_relations/financial\\_information.htm](http://www.antivirus.com/corporate/investor_relations/financial_information.htm).

For additional information and evaluation copies of all Trend Micro products, visit <http://www.antivirus.com>.

For additional information:

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ir@trendmicro.co.jp

Attachment 2

TREND MICRO INCORPORATED  
-----  
AND CONSOLIDATED SUBSIDIARIES  
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INDEX TO CONSOLIDATED INTERIM FINANCIAL INFORMATION (UNAUDITED)  
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TREND MICRO INCORPORATED  
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AND CONSOLIDATED SUBSIDIARIES  
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CONSOLIDATED BALANCE SHEETS  
-----

(Except December 31, 2000, all balances unaudited)

ASSETS  
-----

	Thousands of yen		
	June 30, ----- 2000	December 31, ----- 2000	
Current assets:			
Cash and cash equivalents	(Yen) 20,901,860	(Yen) 24,435,503	(Yen)
Time deposits	-	-	
Marketable securities	3,262,862	1,893,475	
Notes and accounts receivable, trade - less allowance for doubtful accounts and sales return of			

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(Yen) 419,776, (Yen) 646,566 and (Yen) 608,682 (\$4,869)	6,812,271	8,133,700
Inventories	101,778	318,188
Deferred income taxes	940,866	2,687,913
Prepaid expenses and other current assets	1,749,301	607,142
	-----	-----
	33,768,938	38,075,921
	-----	-----
Investments and other assets:		
Securities investments	980,801	1,335,849
Investment in and advances to affiliated Companies	246,628	182,473
Goodwill and other intangible assets	1,586,609	2,740,827
Deferred income taxes	398,019	446,004
Other	539,415	570,742
	-----	-----
	3,751,472	5,275,895
	-----	-----
Property and equipment:		
Office furniture and equipment	1,308,853	1,536,444
Other properties	357,362	443,102
	-----	-----
	1,666,215	1,979,546
Less: Accumulated depreciation	(667,128)	(756,898)
	-----	-----
	999,087	1,222,648
	-----	-----
	(Yen) 38,519,497	(Yen) 44,574,464
	=====	=====
	(Ye	

The accompanying notes are an integral part of the financial information.

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TREND MICRO INCORPORATED  
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AND CONSOLIDATED SUBSIDIARIES  
-----  
CONSOLIDATED BALANCE SHEETS  
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(Except December 31, 2000, all balances unaudited)

LIABILITIES AND SHAREHOLDERS' EQUITY  
-----

	Thousands of ye	
	June 30,	December 31,
	2000	2000
	-----	-----
Current liabilities:		
Current portion of long-term debt	-	(Yen) 57,200

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Notes payable, trade	(Yen) 148,182	132,499
Accounts payable, trade	472,072	796,782
Accounts payable, other	591,154	517,247
Withholding income taxes	145,999	120,994
Accrued expenses	476,950	615,850
Accrued income and other taxes	946,855	2,014,589
Deferred revenue	2,898,887	5,043,425
Other	349,417	415,372
	-----	-----
	6,029,516	9,713,958
	-----	-----
Long-term liabilities:		
Long-term debt	10,865,760	9,799,900
Deferred revenue	330,544	548,225
Accrued pension and severance costs	143,590	168,032
	-----	-----
	11,339,894	10,516,157
	-----	-----
Minority interest in consolidated subsidiary	151,468	-
Shareholders' equity:		
Common stock, (Yen)50 par value -		
Authorized - 250,000,000 shares		
Issued and outstanding		
- June 30, 2000	130,345,338 shares	5,620,192
- December 31, 2000	131,120,842 shares	6,183,266
- June 30, 2001	131,681,887 shares	
Additional paid-in capital	10,101,923	11,631,591
Legal reserve	149,991	149,991
Deferred compensation related to stock options	(50,764)	-
Retained earnings	5,276,722	6,745,769
Accumulated other comprehensive income		
Net unrealized gain on debt and equity securities	503,255	(168,277)
Cumulative translation adjustments	(580,279)	(169,616)
	-----	-----
	(77,024)	(337,893)
	-----	-----
Treasury stock, at cost	(22,421)	(28,375)
	-----	-----
	20,998,619	24,344,349
	-----	-----
Commitments and contingent liabilities	-	-
	-----	-----
	(Yen) 38,519,497	(Yen) 44,574,464
	=====	=====

The accompanying notes are an integral part of the financial information.

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(Unaudited)

	Thousands of yen	
	For the six months ended June 30,	
	2000	
Net sales	(Yen) 9,330,979	(Yen)
Cost of sales	603,879	
Gross profit	8,727,100	
Operating expenses:		
Selling	1,068,155	
Research and development	850,858	
General and administrative	4,034,058	
Goodwill amortization	95,797	
Goodwill write-off	-	
	6,048,868	
Operating income	2,678,232	
Other income (expenses):		
Interest income	76,561	
Interest expense	(85,521)	
Gain on sales of marketable securities	65,377	
Foreign exchange gain, net	31,191	
Other income (expense), net	974,227	
	1,061,835	
Income before income taxes, minority interest and equity in loss of affiliated companies	3,740,067	
Income taxes (benefit):		
Current	1,790,174	
Deferred	(340,689)	
	1,449,485	
Income before minority interest and equity in loss of affiliated companies	2,290,582	
Minority interest in income of a consolidated subsidiary	72,645	
Income from consolidated companies	2,217,937	
Equity in losses of affiliated companies	23,517	

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Net income	(Yen) 2,194,420	
	-----	-----
	Yen	
	-----	-----
Per share data:		
Net income - basic	(Yen) 16.88	
- diluted	16.40	
Cash dividends	-	

The accompanying notes are an integral part of the financial information.

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TREND MICRO INCORPORATED  
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AND CONSOLIDATED SUBSIDIARIES  
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CONSOLIDATED STATEMENTS OF CASH FLOWS  
-----

(Unaudited)

	Thousands of yen	
	-----	-----
	For the six months ended June 30,	
	-----	-----
	2000	
	-----	-----
Cash flows from operating activities:		
Net income	(Yen) 2,194,420	(Yen)
Adjustments to reconcile net income to net cash provided by operating activities -		
Amortization of deferred compensation related to stock Options	46,114	
Depreciation and amortization	466,243	
Pension and severance costs, less payments	30,833	
Loss on disposal of fixed assets	2,739	
Deferred income taxes	(340,688)	
Gain on sales of marketable securities	(65,377)	
Minority interest in income of a consolidated subsidiary	72,645	
Changes in assets and liabilities:		
Increase in deferred revenue	800,107	
Decrease (increase) in notes and accounts receivable, trade, net of allowances	(915,342)	
Decrease (increase) in inventories	(26,987)	
(Decrease) in notes and accounts payable, trade	(187,070)	
(Decrease) increase in accrued corporate taxes and other	76,529	
Increase in other current assets	(726,786)	
Increase (decrease) in other current liabilities	(6,101)	
Other	172,974	
	-----	-----

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Net cash provided by operating activities	1,594,253	
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Cash flows from investing activities:		
Payments for purchases of fixed assets	(412,227)	
Proceeds from sales of marketable securities	150,814	
Payments for purchases of marketable securities	(2,736)	
Acquisitions of businesses, net of cash acquired	(1,308,248)	
Increase in investments in affiliated companies	(200,000)	
Payments for time deposits	-	
<hr style="border-top: 1px dashed black;"/>		
Net cash used in investing activities	(1,772,397)	
<hr style="border-top: 1px dashed black;"/>		
Cash flows from financing activities:		
Issuance of common stock pursuant to exercise of stock options	359,273	
Tax benefit from exercise of non-qualified stock options	621,555	
Proceeds from long-term debt	5,000,000	
Repayment of long-term debt	(325,056)	
Decrease in short-term borrowings	(198,000)	
Other	(27,555)	
<hr style="border-top: 1px dashed black;"/>		
Net cash provided by financing activities	5,430,217	
<hr style="border-top: 1px dashed black;"/>		
Effect of exchange rate changes on cash and cash equivalents	906	
<hr style="border-top: 1px dashed black;"/>		
Net increase in cash and cash equivalents	5,252,979	
Cash and cash equivalents at beginning of period	15,648,881	
<hr style="border-top: 1px dashed black;"/>		
Cash and cash equivalents at end of period	(Yen) 20,901,860	(Yen)
<hr style="border-top: 3px double black;"/>		

The accompanying notes are an integral part of the financial information.

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TREND MICRO INCORPORATED  


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AND CONSOLIDATED SUBSIDIARIES  


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NOTES TO CONSOLIDATED FINANCIAL INFORMATION  


---

(Unaudited)

1. Basis of presentation

The consolidated financial information of Trend Micro Incorporated and its subsidiaries (collectively "the Company") are unaudited. The financial information has been prepared in accordance with U.S. GAAP. The unaudited financial information furnished include all adjustments that are, in the opinion of management, necessary to a fair statement of the results for the interim periods presented. Operating results for the six months ended June 30, 2001 are not necessarily indicative of the results for the year ended December 31, 2001.

2. Recent pronouncements

From the fiscal year beginning January 1, 2001, The Company adopted FAS

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No. 133 "Accounting for Derivative Instruments and Hedging Activities" as amended by FAS No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities - an Amendment of FASB statement No. 133". FAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments. Specifically, FAS No. 133 requires an entity to recognize all derivatives as either assets or liabilities in the balance sheet and to measure those instruments at fair value. Additionally, the fair value adjustments will affect either stockholders' equity or net income depending on whether the derivative instrument qualifies as a hedge for accounting purposes and, if so, the nature of the hedging activity. The adoption of FAS No. 133 did not have an effect on the Company's financial position and results of operations.

In July 2001, the Financial Accounting Standards Board issued FAS No. 141 "Business Combinations" and FAS No. 142 "Goodwill and Other Intangible Assets." FAS No. 141 supersedes Accounting Principles Board Opinion ("APB") No. 16 "Business Combination" and FAS No. 38 "Accounting for Preacquisition Contingencies of Purchases Enterprises." Under FAS No. 141, all business combinations are required to be accounted for under a single method, the purchase method. This new statement prohibits the use of the pooling-of-interest method, which was previously permitted under APB No. 16, for business combinations initiated after June 30, 2001. FAS No. 141 also established criteria for the separate recognition of intangible assets acquired in a business combination. FAS No. 142 supersedes APB No. 17 "Intangible Assets." This new statement requires that goodwill no longer be amortized to earnings, but instead be subject to periodic testing for impairment. FAS No. 142 is effective for fiscal years beginning after December 15, 2001, with earlier application permitted only in specified circumstances. The Company believes that the adoption of FAS No. 141 and FAS No. 142 will not have a material effect on the financial statements of the Company.

In July 2001, the Financial Accounting Standards Board issued SFAS No. 143 "Accounting for Asset Retirement Obligations" ("FAS 143"). FAS No. 143 requires the recognition of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the carrying amount of the related long-lived asset is correspondingly increased. Over time, the liability is accreted to its present value and the related capitalized charge is depreciated over the useful life of the asset. FAS No. 143 is effective for fiscal years beginning after June 15, 2002. The Company is evaluating the effect of the new standard on its financial position and results of operations.

### 3. U.S. dollar amounts

U.S. dollar amounts presented in the financial information are included solely for the convenience of the reader. These translations should not be construed as representations that the yen amounts actually represent, or have been or could be converted into, U.S. dollars. As the amounts shown in U.S. dollars are for convenience only, the approximate current rate at June 29, 2001 ((Yen)125.00 = U.S. \$1) has been used for the purpose of presentation of the U.S. dollar amounts in the accompanying consolidated financial information.

### 4. Stock split

On February 15 2001, the Board of Directors of the Company decided and declared a stock split in the ratio of two-for-one for which the record date was May 18, 2001. All prior share and per share amounts in the financial information and accompanying notes have been restated to reflect this stock split.

### 5. Net income per share

Net income per share amounts were computed based on Statements of Financial Accounting Standards No. 128. For the six months ended June 30, 2000 and 2001,

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weighted average shares used for computation of basic net income per share were 130,011 thousand shares and 131,340 thousand shares, respectively, and the weighted average shares used for diluted net income per share were 133,810 thousand shares and 133,676 thousand shares, respectively. The weighted average shares outstanding for diluted net income per share calculation were increased to include additional shares from the assumed exercise of stock warrants and options which had dilutive effect.

### 6. Comprehensive income

Changes in shareholders' interest that do not result directly from transactions with shareholders are as follows:

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	Thousands of yen	
	For the six months ended June 30,	
	2000	2001
Net income	(Yen) 2,194,420	(Yen) 553,861
Other comprehensive income, net of tax:		
Unrealized gain on debt and equity securities:		
Unrealized holding gains arising during period	561,635	495,407
Less reclassification adjustment for gains included in net income	(65,377)	-
	496,258	495,407
Foreign currency translation adjustments	52,709	410,317
Other comprehensive income, before tax	548,967	905,724
Income tax expense related to items of other comprehensive income	(208,925)	(208,410)
Other comprehensive income, net of tax	340,042	697,314
Comprehensive income	(Yen) 2,534,462	(Yen) 1,251,175

### 7. Supplemental cash flow information

Cash payments for income taxes were (Yen)883,384 thousand and (Yen)1,618,952 thousand (\$12,952 thousand) for the six months ended June 30, 2000 and 2001, respectively. In these respective periods, interest payments were (Yen)85,725 thousand and (Yen)122,593 thousand (\$981 thousand).

### 8. Marketable securities

Cash equivalents and marketable securities (current and non-current) include money market funds, mutual funds and debt and equity securities for

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which the aggregate fair value, gross unrealized gains and losses and cost pertaining to "available-for-sale" investments as of June 30 and December 31, 2000 and June 30, 2001 were as follows:

Thousands of yen				
June 30, 2000				
Gross unrealized				
Cost	Gains	Losses	Fair value	
Available for sale:				
Money market funds	(Yen) 31	(Yen) -	(Yen) -	(Yen) 31
Mutual funds	960,806	-	-	960,806
Equity securities	573,747	927,912	30,082	1,471,667
Debt securities	1,800,000	11,280	-	1,811,280
<b>Total</b>	<b>(Yen) 3,334,584</b>	<b>(Yen) 939,192</b>	<b>(Yen) 30,082</b>	<b>(Yen) 4,243,310</b>

Thousands of yen				
December 31, 2000				
Gross unrealized				
Cost	Gains	Losses	Fair value	
Available for sale:				
Money market funds	(Yen) 31	(Yen) -	(Yen) -	(Yen) 31
Mutual funds	970,802	-	32,747	938,055
Equity securities	825,344	-	245,124	580,220
Debt securities	1,700,000	11,050	-	1,711,050
<b>Total</b>	<b>(Yen) 3,496,177</b>	<b>(Yen) 11,050</b>	<b>(Yen) 277,871</b>	<b>(Yen) 3,228,306</b>

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Thousands of yen				
June 30, 2001				
Gross unrealized				
Cost	Gains	Losses	Fair value	
Available for sale:				
Money market funds	(Yen) -	(Yen) -	(Yen) -	(Yen) -
Mutual funds	970,802	-	32,901	937,901
Equity securities	862,830	192,976	-	1,055,806

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Debt securities	1,700,000	68,510	-	1,768,510
	-----	-----	-----	-----
Total	(Yen) 3,533,632	(Yen) 261,486	(Yen) 32,901	(Yen) 3,762,217
	=====	=====	=====	=====

Thousands of U.S. dollars

	-----			
	June 30, 2001			
	-----			
	Gross unrealized			
	-----			
	Cost	Gains	Losses	Fair value
	-----	-----	-----	-----
Available for sale:				
Money market funds	\$ -	-	-	\$ -
Mutual funds	7,766	-	263	7,503
Equity securities	6,903	1,544	-	8,447
Debt securities	13,600	548	-	14,148
	-----	-----	-----	-----
Total	\$ 28,269	\$ 2,092	\$ 263	\$ 30,098
	=====	=====	=====	=====

Fair value of money market funds approximates cost due to the short-term maturities of these investments.

At June 30, 2000 and 2001, debt securities consisted of bonds issued by a related party (SOFTBANK). The cost and fair value of "available-for sale" debt securities by contractual maturity at June 30 and December 31, 2000 and June 30, 2001 are as follows:

	-----				
	Thousands of yen				
	-----				
	June 30, 2000		December 31, 2000		
	-----		-----		
	Available-for sale		Available-for sale		
	-----		-----		
	Cost	Fair value	Cost	Fair value	
	-----	-----	-----	-----	-----
Due within one year	(Yen) 100,000	(Yen) 100,230	(Yen) -	(Yen) -	(Yen) -
Due after one year	1,700,000	1,711,050	1,700,000	1,711,050	1,711,050
	-----	-----	-----	-----	-----
	(Yen) 1,800,000	(Yen) 1,811,280	(Yen) 1,700,000	(Yen) 1,711,050	(Yen) 1,711,050
	=====	=====	=====	=====	=====

Thousands of U.S. dollars

	-----	
	June 30, 2001	
	-----	
	Available-for-sale	
	-----	
	Cost	Fair value
	-----	-----
Due within one year	\$ -	\$ -
Due after one year	13,600	14,148

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\$ 13,600	\$ 14,148
=====	=====

Proceeds from sales of "available-for-sale" securities for the six months ended June 30, 2000 and 2001 were (Yen)151,621 and (Yen)2,611,426 thousand (\$20,891 thousand).

Equity securities of (Yen)160,000 thousand which had previously been recorded as "Securities investments" under investments and other assets was reclassified to "Marketable securities" under current assets at June 30, 2001.

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9. Transactions with related parties

Account balances and transactions with SOFTBANK and its affiliated companies are as follows:

	Thousands of yen		
	June 30, 2000	December 31, 2000	June 30, 2001
	-----	-----	-----
Accounts receivable, trade	(Yen) 737,693	(Yen)1,072,768	(Yen)1,335,247
Securities investments	1,811,280	1,700,000	1,768,510
Accounts payable, other	44,604	16,435	2,802
Sales for the six months ended	1,241,653	3,507,641	2,580,812
Purchase and expense for the six months ended	95,280	69,104	56,483
Interest income on security investments	26,605	53,113	25,290

The Company believes that each of these transactions has been negotiated on an arm's length basis and done at fair value based on market pricing.

10. Short-term borrowings and long-term debt

At June 30, 2001, the Company had unused lines of credit amounting to (Yen)800,000 thousand relating to bank overdraft and other short-term loan agreements. Under these overdraft agreements, the Company is authorized to obtain short-term financing at prevailing interest rates for periods not in excess of one year.

Long-term debt comprises the following:

	Thousands of yen		
	June 30, 2000	December 31, 2000	June 30, 2001
	-----	-----	-----

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Unsecured bank loan of a consolidated subsidiary due 2001 with a weighted average interest rate of 2.175% per annum.....	(Yen)	-	(Yen) 57,200	(Yen)	28,600
Unsecured bank loan of a consolidated subsidiary due 2003 with a weighted average interest rate of 2.25% per annum.....		165,760	-		-
Unsecured bank loan of a consolidated subsidiary due 2003 with a weighted average interest rate of 2.175% per annum.....		-	99,900		99,900
Unsecured 2.5% bonds, due 2002 with detachable warrants.....		5,700,000	4,700,000		3,900,000
Unsecured 2.1% bonds, due 2003 with detachable warrants.....		5,000,000	5,000,000		5,000,000
Unsecured 1.75% bonds, due 2004 with detachable warrants.....		-	-		5,000,000
Unsecured 1.5% bonds, due 2004 with detachable warrants		-	-		1,500,000
		-----	-----		-----
		10,865,760	9,857,100		15,528,500
Less - portion due within one year		-	57,200		57,200
		-----	-----		-----
	(Yen)	10,865,760	(Yen) 9,799,900	(Yen)	15,471,300
		=====	=====		=====

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11. Stock Warrants

Based on the Company's 1997, 1998 and 1999 incentive plans, the Company issued the following bonds with detachable warrants to SOFTBANK.

1. Shareholders' meeting/board meeting approval.....	September 29, 1997	March 28, 1998	Ma
2. Date of bond issuance.....	October 17, 1997	April 15, 1998	Jun
3. Amount of each bond (Thousands of yen).....	(Yen) 908,523	(Yen) 412,965	(Y
4. Date on which the bonds were fully redeemed.....	October 17, 1997	April 15, 1998	Jun
5. Exercise price per each warrant....	(Yen) 142.5	(Yen) 142.5	
6. Warrant exercise period.....	October 27, 1997 to October 12, 2001	April 27, 1998 to April 5, 2002	June 2 Ju
7. Number of shares represented by warrants.....	6,375,600	2,898,000	
8. Outstanding as of June 30, 2000....	1,190,400	769,800	
9. Outstanding as of December 31, 2000.....	940,200	682,200	
10. Outstanding as of June 30, 2001....	834,600	549,600	

Based on the Company's 2000 and 2001 incentive plan, the Company issued following bonds with detachable warrants to public.

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1.	Shareholders' meeting/ board meeting approval.....	June 1, 2000	February 15, 2001
2.	Date of bond issuance.....	June 26, 2000	March 19, 2001
3.	Amount of each bond (Thousands of yen)...	(Yen) 5,000,000	(Yen) 5,000,000
4.	Date on which the bonds were fully redeemed.....	-	-
5.	Exercise price per each warrant.....	(Yen) 7,850	(Yen) 5,675
6.	Warrant exercise period.....	July 21, 2000 to June 19, 2003	April 12, 2001 to March 12, 2004
7.	Number of shares represented by warrants.....	636,942	881,057
8.	Outstanding as of June 30, 2000.....	636,942	-
9.	Outstanding as of December 31, 2000.....	636,942	-
10.	Outstanding as of June 30, 2001.....	636,942	873,128

Upon issuance of each bond, the Company bought all of the warrants and distributed them to the directors and certain employees of the Company and its subsidiaries as a part of their remuneration.

These transactions were accounted for both as an issuance of debt to SOFTBANK and the public, and as an issuance of warrants to the directors and certain employees of the Company and its subsidiaries. The issuance of the warrants to the directors and employees was accounted for under APB 25.

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Warrant activity was as follows:

	Thousands of shares repr warrants
	-----
Outstanding at December 31, 1997.....	6,376
Granted.....	4,278
Exercised.....	(2,014)
Cancelled.....	-
Redeemed.....	(749)
	-----
Outstanding at December 31, 1998.....	7,891
Granted.....	1,875
Exercised.....	(4,672)
Cancelled.....	-
Redeemed.....	-
	-----
Outstanding at December 31, 1999.....	5,094
Granted.....	637
Exercised.....	(1,435)
Cancelled.....	-
Redeemed.....	-
	-----
Outstanding at December 31, 2000	4,296
Granted.....	1,141

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Exercised.....	(561)
Cancelled.....	(12)
Redeemed.....	-

Outstanding at June 30, 2001 4,864

Balances were as follows:

	June 30	Thousands of shares December 31	June 30
	2000	2000	2001
Authorized and outstanding.....	5,071	4,296	4,86
Exercisable.....	3,180	2,958	3,27

For the above stock warrants granted on April 15, 1998 and June 15, 1998, management calculated deferred compensation expense of (Yen)878,798 thousand during fiscal 1998. Such deferred compensation will be amortized over the vesting period which is generally 24 months. Approximately (Yen)397,467 thousand, (Yen)379,803 thousand and (Yen)101,528 thousand was amortized during fiscal 1998, 1999 and 2000 respectively. The grants of October 17, 1997, July 29, 1999, June 26, 2000 March 19, 2001 and June 4, 2001 with respect to which the vesting period is generally 24 months, did not result in deferred compensation.

In July 1999, the subsidiary in the United States introduced the U.S. program of the Company's incentive plan. Under the U.S. program, STG Incentive Company L.L.C., a Delaware limited company organized for the program by three principal shareholders of the Company, grants stock options to purchase shares of the Company's common stock, which vest one year from the date of grant and which are exercisable for the 3 years subsequent to the vesting date, to directors and certain employees of the subsidiary in the United States. The grants of options to the directors and employees were accounted for under APB 25. Option activity under the U.S. program for the year ended December 31, 2000 and for the period ended June 30, 2001 was as follows:

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	Thousands of shares represented by optio
Outstanding at December 31, 1999.....	1,620.0
Granted.....	-
Exercised.....	(113.0)
Cancelled.....	-
Redeemed.....	-
Outstanding at December 31, 2000.....	1,507.0
Granted.....	-
Exercised.....	(45.5)

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Cancelled.....	-
Redeemed.....	-
Outstanding at June 30, 2001.....	1,461.5

The exercise price per share for the options granted was determined as equivalent to the fair market value of the Company's shares at the time of the grants. The weighted average exercise price per share for the option granted for the six months ended June 30, 2001 was (Yen)3,126. Consequently, the grants of the option did not result in deferred compensation.

In February 2001, the Company introduced the stock option plan qualified under Article 280-19 of the Commercial Code of Japan. This stock option plan grants subscription rights to the Company's shares of common stock, which are exercisable from April 1 2002 to March 31, 2009, to certain directors and employees of the Company and its subsidiaries qualifying for the special related business as defined in Paragraph 1 of Article 9 of the Corporate Rehabilitation Law of Japan. The exercise price per share for the options granted was determined as equivalent to the fair market value of the Company's shares at the time of the grants. The weighted average exercise price per share for the option granted for the six months ended June 30, 2001 was (Yen)5.760. Consequently, the grants of the option did not result in deferred compensation. Option activity qualified under the Commercial Code of Japan for the period ended June 30, 2001 was as follows:

	Thousands of shares represented by options
Outstanding at December 31, 2000	-
Granted.....	725
Exercised.....	-
Cancelled.....	(11)
Redeemed.....	-
Outstanding at June 30, 2001.....	714

### 12. COMMITMENTS AND CONTINGENT LIABILITIES

The Company and its subsidiaries have no significant commitments outstanding, and no material pending litigation or claims threatened against them.

### 13. SEGMENT INFORMATION

The Company and its consolidated subsidiaries operate principally in two industry segments: "Security software business" and "Internet-related products/service business". However, industry segment information is not currently disclosed since more than 90% of sales, operating income and assets in all segments are from the "security software business". Net sales is attributed to countries based on the location of the Company or the relevant

consolidated subsidiary. Geographic information concerning the Company's net sales to external customers and long-lived assets for the six months ended June

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30, 2000 and 2001 is as follows:

	Thousands of yen	
	-----	
	For the six months ended J	
	2000	2001
	-----	-----
Net sales to external customers:		
Japan	(Yen) 3,388,855	(Yen) 4,000,000
U.S.A.	2,778,167	4,000,000
Taiwan	829,621	
Europe	1,870,517	2,000,000
Other	463,819	
	-----	-----
Total	9,330,979	12,000,000
	=====	=====
Long-lived assets:		
Japan	(Yen) 939,497	(Yen) 1,000,000
U.S.A.	351,647	
Taiwan	371,104	
Europe	83,803	
Other	33,532	
	-----	-----
Total	(Yen) 1,779,583	(Yen) 3,000,000
	=====	=====

Long-lived assets for a particular geographic segment are those assets used in the geographic segment.

14. Impairment of ipTrend Investment

In February 2000, the company acquired a controlling interest in ipTrend Incorporated ("ipTrend"). ipTrend effectively became a wholly owned subsidiary in November 2000, when the remaining minority interest was acquired. The total purchase price was (Yen)2,800,000 thousand and (Yen)2,527,636 thousand was allocated to goodwill. Recently, the company undertook a revaluation of its investment in ipTrend and related business strategy and determined that the investment was impaired. On August 3, 2001, the company approved the sale of the main business of ipTrend to IPSQUARE, an unrelated third party, and subsequently commenced liquidation of the subsidiary. Although a definitive agreement has not been agreed between the parties, the company does not expect a significant gain or loss on the sale of the business, apart from the goodwill write-off of (Yen)2,253,559 thousand (\$18,028 thousand). Goodwill amortization of (Yen)95,797 thousand and the write off of (Yen)2,253,559 thousand (\$18,028 thousand) are included in operating income for the six months ended June 30, 2000 and 2001, respectively.