

CANON INC
Form 6-K
August 25, 2011

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Issuer

Pursuant to Rule 13a-16 or 15d-16 of

the Securities Exchange Act of 1934

For the month of **August**, **2011**

CANON INC.

(Translation of registrant's name into English)

30-2, Shimomaruko 3-Chome, Ohta-ku, Tokyo 146-8501, 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

[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-

SIGNATURES

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.

CANON INC.
(Registrant)

Date . **August 25, 2011** .

By /s/ Masashiro Kobayashi
(Signature)*

Masashiro Kobayashi
Deputy Senior General Manager
Global Finance Accounting Center
Canon Inc.

*Print the name and title of the signing officer under his signature.

The following materials are included.

1. Quarterly Report filed with the Japanese government pursuant to the financial Instruments and Exchange Law of Japan For the second quarter ended June 30, 2011

[English summary with full translation of consolidated financial information]

**Quarterly Report filed with the Japanese government
pursuant to
the Financial Instruments and Exchange Law of Japan**

For the second quarter ended

June 30, 2011

CANON INC.

Tokyo, Japan

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Disclaimer Regarding Forward-Looking Statements

This quarterly report includes forward-looking statements (within the meaning of Section 27A of the U.S. Securities Act of 1933 and Section 21E of the U.S. Securities Exchange Act of 1934) concerning Canon Inc. (the Company) and its subsidiaries (collectively Canon). To the extent that statements in this quarterly report do not relate to historical or current facts, they constitute forward-looking statements. These forward-looking statements are based on the current assumptions and beliefs of Canon in light of the information currently available to them, and involve known and unknown risks, uncertainties and other factors. Such risks, uncertainties and other factors may cause Canon's actual results, performance, achievements or financial position to be materially different from any future results, performance, achievements or financial position expressed or implied by these forward-looking statements. Canon undertakes no obligation to publicly update any forward-looking statements after the date of this quarterly report. Investors are advised to consult any further disclosures by Canon in its subsequent filings with the U.S. Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934 and its other filings.

The risks, uncertainties and other factors referred to above include, but are not limited to, foreign currency exchange rate fluctuations; the uncertainty of Canon's ability to implement its plans to localize production and other measures to reduce the impact of foreign currency exchange rate fluctuations; uncertainty as to economic conditions in Canon's major markets; uncertainty of continued demand for Canon's high-value-added products; uncertainty as to the recovery of computer and related markets; uncertainty of recovery in demand for Canon's semiconductor lithography equipment; Canon's ability to continue to develop products and to market products that incorporate new technology on a timely basis, are competitively priced, and achieve market acceptance; the possibility of losses resulting from foreign currency transactions designed to reduce financial risks from changes in foreign currency exchange rates; and inventory risk due to shifts in market demand.

I. Corporate Information

(1) Consolidated Financial Summary

Millions of yen (except per share amounts)

	Six months ended	Six months ended	Three months ended	Three months ended	Year ended December 31, 2010
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010	
Net sales	1,675,765	1,725,884	836,574	970,358	3,706,901
Income before income taxes	163,659	201,503	81,627	112,651	392,863
Net income attributable to Canon Inc.	109,323	124,449	53,861	67,638	246,603
Canon Inc. stockholders' equity	-	-	2,645,115	2,699,378	2,645,782
Total equity	-	-	2,810,730	2,876,283	2,809,637
Total assets	-	-	3,994,744	4,016,902	3,983,820
Canon Inc. stockholders' equity per share (yen)	-	-	2,176.03	2,176.72	2,153.73
Net income attributable to Canon Inc. Stockholders per share:					
Basic (yen)	89.16	100.68	43.99	54.67	199.71
Diluted (yen)	89.16	100.68	43.99	54.66	199.70
Canon Inc. stockholders' equity to total assets (%)	-	-	66.2	67.2	66.4
Cash flows from operating activities	190,825	348,575	-	-	744,413
Cash flows from investing activities	(73,308)	(176,982)	-	-	(342,133)
Cash flows from financing activities	(126,434)	(150,605)	-	-	(279,897)
Cash and cash equivalents at end of period	-	-	848,619	771,697	840,579
Number of employees	-	-	198,572	193,804	197,386

Notes:

1. Canon's consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles.
2. Consumption tax is excluded from the stated amount of net sales.

(2) Description of Business

Canon prepares quarterly consolidated financial statements in accordance with U.S. generally accepted accounting principles (U.S. GAAP). The conformity to U.S. GAAP is also applied to sections II. The Business and III. Property, Plant and Equipment .

Canon (consisting of the Company, 297 consolidated subsidiaries and 13 affiliates accounted for using the equity method, collectively, the Group) is engaged in the development, manufacture, sale and service primarily in the fields of office, consumer, industry and others. No material change in Canon 's business has occurred during the three months ended June 30, 2011.

No additions or removals of significant group entities have occurred during the three months ended June 30, 2011.

(3) Group Entities

No additions or removals of significant group entities have occurred during the three months ended June 30, 2011.

(4) Number of Employees

Canon 's number of employees is summarized as follows:

	As of June 30, 2011
Consolidated	198,572
Parent-alone	25,656

Note:

The total number of employees includes seasonal workers and others who do not work full time.

II. The Business

(1) Production and Sales

Production

Canon's production by segment group are summarized as follows:

	Millions of yen	
	Three months ended June 30, 2011	
		Change from
	Production	June 30, 2010(%)
Office	362,067	-25.6
Consumer	331,193	-18.0
Industry and Others	56,013	-23.0
Total	749,273	-22.2

Notes:

1. Amount of production is calculated by sales price.
2. Consumption tax is excluded from the stated amount of production.

Sales

Canon's sales by segment group are summarized as follows:

	Millions of yen	
	Three months ended June 30, 2011	
		Change from
	Sales	June 30, 2010(%)
Office	465,799	-10.8
Consumer	302,216	-17.0

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Industry and Others	91,256	-16.2
Eliminations	(22,697)	-
Total	836,574	-13.8

Notes:

1. Consumption tax is excluded from the stated amount of net sales.
2. Canon's sales to its significant customer are summarized as follows:

	Millions of yen			
	Three months ended June 30, 2011		Three months ended June 30, 2010	
	Sales	Proportion (%)	Sales	Proportion (%)
Hewlett-Packard Company	162,195	19.4	193,743	20.0

(2) Risk Factors

No material changes are recognized pursuant to the risk factors of Canon's business indicated in the Annual Securities Report (Yukashoken houkokusho) of the previous fiscal year.

(3) Significant Business Contracts Entered into in the Second Quarter of Fiscal 2011

No material contracts were entered into during the three months ended June 30, 2011.

(4) Operating Results

Looking back at the global economy in the second quarter of 2011, the United States saw a temporary slowdown due to supply chain disruptions triggered by the earthquake that struck north eastern Japan coupled with surges in fuel and food prices, while in Europe, trends continued to vary by country. In Japan, although the economy decelerated in the wake of the Great East Japan Earthquake mainly due to a drop in production activities, the economies of China and India continued to achieve solid growth fueled by stable domestic demand, leading to a continued moderate recovery of the global economy.

As for the markets in which Canon operates amid these conditions, within the office equipment market, while demand for network digital multifunction devices (MFDs) in the Japanese market declined due to the adverse effects of the earthquake, overseas markets continued to realize a moderate recovery. The laser printer market continued to display solid growth boosted by emerging economies. With regard to the consumer products market, demand for compact digital cameras grew steadily, mainly in emerging markets, while the market for digital single-lens reflex (SLR) cameras continued to realize robust growth in all regions with the exception of Japan. Overall demand for inkjet printers remained at around the same level as the previous year. In the industry and others sector, while active investment by chip manufacturers fueled growth in sales of semiconductor lithography equipment, demand for liquid crystal display (LCD) lithography equipment marked a significant decline largely due to decreases in investment following the large-scale outlays made in the previous year and a drop in LCD panel prices. Some of these markets incurred temporary product-supply shortages due to the impact of lower production in the aftermath of the Great East Japan Earthquake.

Despite the direct impact the earthquake had on Canon, including damage to buildings and production facilities, along with the significant effects of decreased production triggered by supply shortages of components, Canon swiftly launched recovery and restoration measures, realizing a recovery in parts procurement and rebuilding production systems ahead of initial forecasts, effectively minimizing the impact on Canon's operating results and financial position.

The average values of the yen during the second quarter and first half of the year were ¥81.58 and ¥81.92 to the U.S. dollar, respectively, year-on-year appreciations of approximately ¥10 and ¥9, and ¥117.28 and ¥114.95 to the euro, respectively, a year-on-year depreciation of approximately ¥1 and appreciation of approximately ¥5.

(4) Operating Results (continued)

Net sales for the second quarter totaled ¥836.6 billion, a decrease of 13.8% from the year-ago period, largely due to such factors as the appreciation of the yen against the U.S. dollar and a shift in market demand toward more competitively priced products, along with reduction in sales resulting from the significant impact on production of compact digital cameras and digital network MFDs caused by supply shortages of components following the earthquake, and decreased sales of LCD lithography equipment as an outcome of the sluggish market. Net sales for the six months ended June 30, 2011 totaled ¥1,675.8 billion, a year-on-year decrease of 2.9%, reflecting the effects of new consolidation arising from the acquisition of Océ N.V. in the previous year. Despite the appreciation of the yen against the U.S. dollar and decreased production turnover resulting from the earthquake, the gross profit ratio for the second quarter improved by 1.0 points overall from the year-ago period, reaching 50.0% thanks to ongoing cost-cutting efforts. The gross profit ratio for the first half of the year rose 0.3 points to 49.2%.

Gross profit for the second quarter totaled ¥418.5 billion, a year-on-year decrease of 12.0%, and totaled ¥824.7 billion for the first six months, a year-on-year decline of 2.3%. Operating expenses decreased by ¥21.8 billion for the quarter owing to Group-wide efforts to thoroughly reduce spending. For the six months ended June 30, 2011, however, the amount increased by ¥20.2 billion, mainly stemming from the new consolidation. Consequently, second-quarter operating profit decreased by 30.9% to ¥78.4 billion while operating profit for the first half of the year decreased by 19.7% to ¥160.9 billion. Other income (deductions) achieved a turnaround of ¥4.0 billion, while income before income taxes for the second quarter totaled ¥81.6 billion, a drop of 27.5% from the year-ago period, and ¥163.7 billion for the first half, a decline of 18.8% year on year. Net income attributable to Canon Inc. decreased by 20.4% to ¥53.9 billion for the quarter and declined 12.2% to ¥109.3 billion for the first six months of the year.

Basic net income attributable to Canon Inc. stockholders per share for the second quarter was ¥43.99, a decrease of ¥10.68 compared with the corresponding quarter of the previous year, and ¥89.16 for the first half of 2011, a year-on-year decrease of ¥11.52.

(4) Operating Results (continued)

Canon's second-quarter results by business unit are summarized as follows:

Looking at Canon's quarterly performance by business unit, within the Office Business Unit, despite the admirable sales performance of imageRUNNER ADVANCE-series products, sales volume of digital network MFDs decreased from the year-ago period due to the impact on production arising from parts-supply shortages following the earthquake. As for laser printers, buoyed by hearty demand, sales volume remained in line with that from the corresponding period of the previous year thanks to efforts targeting an early recovery in production and expanded sales. Consequently, second-quarter sales for the segment totaled ¥465.8 billion, a drop of 10.8% year on year, reflecting the appreciation of the yen against the U.S. dollar. Likewise, operating profit for the quarter decreased by 28.6% to ¥59.8 billion due to the decline in gross profit accompanying reduced sales. Sales for the combined first six months of the year totaled ¥946.7 billion, growing 1.7% year on year owing to the impact of the new consolidation in the previous year, while operating profit decreased by 21.2% to ¥122.9 billion.

Within the Consumer Business Unit, demand for digital SLR cameras continued to display solid growth. Amid the effects of parts-supply shortages, efforts to swiftly recover production levels and boost sales of such products as the competitively priced EOS Digital Rebel-series models and the advanced-amateur-model EOS 60D, resulted in sales volume comparable to that from the corresponding year-ago period. As for compact digital cameras, despite the launch of ten new ELPH (IXUS)-series and PowerShot-series models in the first quarter, unit sales decreased from the previous year, reflecting the significant impact of parts-supply shortages. With regard to inkjet printers, although sales in emerging markets displayed solid growth, unit sales overall recorded only a slight increase as a result of price competition among market players, mainly in Europe. Accordingly, second-quarter sales for the Consumer Business Unit declined by 17.0% year on year to ¥302.2 billion, affected by the appreciation of the yen against the U.S. dollar along with the shift in demand toward lower priced products. Quarterly operating profit decreased by 32.3% to ¥45.3 billion, reflecting the decrease in gross profit accompanying the reduction in sales. Sales for the first six months totaled ¥591.8 billion, a decline of 9.5% year on year, while operating profit totaled ¥85.2 billion, a decrease of 25.4% year on year.

In the Industry and Others Business Unit, while semiconductor lithography equipment recorded robust unit sales in response to the rapid restoration of production facilities amid growing demand, unit sales of LCD lithography equipment dropped substantially in the face of shrinking demand for equipment to produce large-size panels which Canon boasts strong performance. Consequently, second-quarter sales for the segment decreased by 16.2% to ¥91.3 billion while operating profit totaled ¥4.8 billion, a turnaround of ¥10.3 billion through the improved gross profit ratio along with efforts to curb expenses. Sales for the first half of the year totaled ¥183.0 billion, a drop of 4.3% year on year, while operating profit was ¥11.4 billion, a turnaround of ¥19.8 billion from the year-ago period.

Second-quarter results by major geographic area are summarized as follows:

Japan

Due to the severe impact of the Great East Japan Earthquake, net sales in Japan for the second quarter decreased by 15.9% from the year-ago period to ¥616.6 billion and 8.9% decrease to ¥1,237.0 billion for the six months ended June 30, 2011. Operating profit dropped 16.7% year on year to ¥95.8 billion for the quarter, and decline of 13.3% year on year to ¥182.3 billion for the six-month period.

(4) Operating Results (continued)

Net sales outside Japan declined significantly due to such factors as the appreciation of the yen and supply shortages of components and products.

Americas

Second-quarter sales decreased by 12.7% from the year-ago period to ¥232.7 billion, and ¥451.5 billion for the combined six months of the year, a decrease of 3.5%, largely due to the appreciation of the yen against the U.S. dollar and product-supply shortages of digital cameras caused by the earthquake. Operating profit for the second quarter totaled ¥3.4 billion, a decrease of 55.5% year on year, and ¥4.4 billion for the six months ended June 30, 2011, a decline of 61.7% from the corresponding period of the previous year.

Europe

Due to the shortages of supply of office equipment and digital cameras caused by the earthquake, sales for the quarter decreased by 13.4% from the same period of the previous year to ¥268.9 billion, however, because of the consolidation effects in the previous year, sales increased by 1.3% to ¥547.5 billion for the combined six months of the year. Operating profit in Europe decreased by 44.2% year on year to ¥7.3 billion for the second quarter, and ¥18.6 billion for the six months ended June 30, 2011, a decline of 6.6%.

Asia and Oceania

Sales decreased by 15.4% to ¥308.2 billion for the second quarter mainly because of supply shortages of digital cameras and decreases in investment following the large-scale outlays made in the previous year in LCD lithography equipment. Sales for the six months ended June 30, 2011 increased 1.6% to ¥662.4 billion. Operating profit in Asia and Oceania declined 29.9% to ¥9.9 billion for the quarter and a decrease of 3.1% to ¥24.2 billion for the six-month period.

Cash Flows

In the second quarter of 2011, cash flow from operating activities totaled ¥118.9 billion, a decrease of ¥68.0 billion compared with the year-ago period, as a result of decreased sales and profit triggered by the Great East Japan Earthquake. Due to ongoing capital investment focused on higher priority items and decrease in time deposit, cash flow from investing activities decreased ¥39.1 billion year on year, totaling ¥26.8 billion outlay. Accordingly, free cash flow totaled ¥92.1 billion, a decrease of ¥28.9 billion from the previous year.

Cash flow from financing activities recorded an outlay of ¥52.6 billion, mainly arising from repurchases of treasury stock. Owing to these factors, as well as the negative impact from foreign currency translation adjustments, cash and cash equivalents increased by ¥32.0 billion to ¥848.6 billion from the end of the previous quarter.

Management Issues to be Addressed

No material changes or issues with respect to business operations and finance have occurred during the three months ended June 30, 2011.

Research and Development Expenditures

Canon's research and development expenditures for the three months ended June 30, 2011 totaled ¥76.1 billion.

III. Property, Plant and Equipment

(1) Major Property, Plant and Equipment

There were no significant changes to the status of existing major property, plant and equipment during the second quarter of 2011.

(2) Prospect of Capital Investment in the Second Quarter of Fiscal 2011

The new construction of property, plant and equipment, which had been in progress as of March 31, 2011 and was completed during the second quarter of 2011, is as follows:

Name and location	Principal activities and products manufactured	Date of completion
Kawasaki Office, Canon Inc.	R&D of electrophotographic technologies	
Kanagawa, Japan	(Office Business Unit)	April 2011

There were no significant changes in the plans relevant to the retirement of property, plant and equipment during the second quarter of 2011. Moreover, there were no significant additional plans for new construction or retirement of property, plant and equipment during the second quarter of 2011.

