

CANON INC
Form 6-K
October 26, 2007

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**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 October, 2007
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-_____

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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.

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

The following material is included.

1. CONSOLIDATED RESULTS FOR THE THIRD QUARTER AND THE NINE MONTHS ENDED
SEPTEMBER 30, 2007

Table of Contents**CONSOLIDATED RESULTS FOR THE THIRD QUARTER AND
THE NINE MONTHS ENDED SEPTEMBER 30, 2007**

October 25, 2007

CONSOLIDATED RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007

(Millions of yen, thousands of U.S. dollars, except per share amounts)

	Actual			Projected		
	Nine months ended September 30, 2007 (Unaudited)	Nine months ended September 30, 2006 (Unaudited)	Change(%)	Nine months ended September 30, 2007 (Unaudited)	Year ending December 31, 2007	Change(%)
Net sales	¥ 3,217,547	¥ 2,940,224	+ 9.4	\$ 27,978,670	¥ 4,560,000	+ 9.7
Operating profit	563,097	511,163	+ 10.2	4,896,496	773,000	+ 9.3
Income before income taxes and minority interests	568,468	521,371	+ 9.0	4,943,200	788,000	+ 9.6
Net income	¥ 360,487	¥ 329,761	+ 9.3	\$ 3,134,670	¥ 500,000	+ 9.8
Net income per share:						
- Basic	¥ 276.67	¥ 247.66	+ 11.7	\$ 2.41	¥ 396.49	+ 15.9
- Diluted	276.62	247.57	+ 11.7	2.41		

CONSOLIDATED RESULTS FOR THE THIRD QUARTER

(Millions of yen, thousands of U.S. dollars, except per share amounts)

	Actual		
	Three months ended September 30, 2007 (Unaudited)	Three months ended September 30, 2006 (Unaudited)	Change(%)
Net sales	¥ 1,050,823	¥ 987,969	+ 6.4
Operating profit	174,221	172,686	+ 0.9
Income before income taxes and minority interests	162,327	180,326	10.0
Net income	¥ 105,304	¥ 115,587	8.9
Net income per share:			
- Basic	¥ 81.94	¥ 86.80	5.6
- Diluted	81.93	86.78	5.6

	As of September 30, 2007 (Unaudited)		As of December 31, 2006	Actual Change(%)		As of September 30, 2007 (Unaudited)
Total assets	¥4,295,325	¥	4,521,915	5.0	\$	37,350,652
Stockholders equity	¥2,819,596	¥	2,986,606	5.6	\$	24,518,226

- Notes: 1. Canon's consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles.
2. U.S. dollar amounts are translated from yen at the rate of JPY115=U.S.\$1, the approximate exchange rate on the Tokyo Foreign Exchange Market as of September 28, 2007, solely for the convenience of the reader.

Canon Inc.
Headquarter office

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Table of Contents**I. Operating Results and Financial Conditions****2007 Third Quarter in Review**

Looking back at the global economy in the third quarter of 2007, economic expansion was fairly steady during the term. In the United States, despite concern over the economic fallout of the subprime loan crisis, the impact was limited and the economy continued to display moderate growth. In Europe, while export growth proved sluggish, the region headed toward moderate recovery as domestic demand expanded in major European countries, boosted by such factors as increased consumer spending. Within Asia, the Chinese economy maintained a high rate of growth while other economies in the region also enjoyed generally favorable conditions. In Japan, although consumer spending grew at a sluggish pace, the economy maintained a trend toward recovery boosted by such factors as increased capital spending.

As for the markets in which the Canon Group operates, within the camera segment, demand for digital single-lens reflex (SLR) cameras and compact digital cameras continued to realize healthy growth during the term. Within the office imaging products market, sales of network digital multifunction devices (MFDs) remained solid as demand shifted in all regions toward color models and advanced functionality. In the computer peripherals segment, which includes printers, demand for laser beam printers continued growing for both color and monochrome models. Among inkjet printers, as the shift in demand from single-function to multifunction machines gained momentum, price competition for multifunction models increased in severity. In the optical equipment segment, while demand for steppers, used in the production of semiconductors, indicated a moderate recovery, the market for projection aligners, used to produce liquid crystal display (LCD) panels, declined due to restrained investment by LCD manufacturers. The average value of the yen in the third quarter was ¥117.67 to the U.S. dollar and ¥161.82 to the euro, representing year-on-year decreases of about 1% against the U.S. dollar and about 9% against the euro.

Amid these conditions, Canon's consolidated net sales for the third quarter increased by 6.4% from the year-ago period to ¥1,050.8 billion (U.S.\$9,138 million), boosted by a solid rise in sales of digital cameras and color network MFDs, along with the positive effect of favorable currency exchange rates. The gross profit ratio in the third quarter improved 0.9 points year on year to 50.3%. The improved gross profit ratio was mainly the result of such factors as the launch of new products and continued cost-reduction efforts, which absorbed the effects of escalating raw material costs, declining sales price in the consumer products market, and an increase in depreciation expense due to the implementation of a change in accounting method to calculate depreciation of fixed assets. Owing to the improved gross profit ratio, third quarter gross profit increased by 8.3% to ¥528.4 billion (U.S.\$4,594 million). Operating expenses for the third quarter increased by 12.3% from the year-ago period to ¥354.1 billion (U.S.\$3,079 million), mainly due to an increase in depreciation expense, a factor that also led to a rise in cost of sales, along with R&D spending of ¥90.0 billion (U.S.\$783 million), representing a year-on-year increase of 27.3%. Consequently, third-quarter operating profit totaled ¥174.2 billion (U.S.\$1,515 million), a year-on-year increase of 0.9%. Other income (deductions) decreased by ¥19.5 billion (U.S.\$170 million), due to an increase in currency exchange loss on foreign-currency-denominated trade receivables. Income before income taxes and minority interests in the third quarter totaled ¥162.3 billion (U.S.\$1,412 million), a year-on-year decrease of 10.0%, and third quarter net income totaled ¥105.3 billion (U.S.\$916 million), a decrease of 8.9% compared with last year.

Basic net income per share for the third quarter was ¥81.94 (U.S.\$0.71), a year-on-year decrease of ¥4.86 (U.S.\$0.04).

Table of Contents**Results by Product Segment**

In the business machine segment, demand for network digital MFDs, which are grouped in the office imaging products sub-segment, continued to expand for color models in both the domestic Japanese and overseas markets. Additionally, among color network digital MFDs, the competitively priced iR C2880 series and the high-end iR C5185 series continued to enjoy strong sales. Among monochrome network digital MFDs, the iR5055 series and the new energy-saving iR3025 series contributed to expanded sales. Overall, sales of office imaging products for the third quarter recorded a year-on-year increase of 13.2%. In the field of computer peripherals, while laser beam printers achieved year-on-year unit sales growth amid strong demand for monochrome models, and consumables also grew favorably, sales in value terms for the segment remained at the same approximate level as the same period last year due to an increase in low-priced models as a percentage of unit sales as market demand shifted toward low-end models. As for inkjet printers, despite a continuing decline in unit sales for single-function models and severe price competition in the market, sales in value terms increased by 12.8%, boosted by such factors as increased unit sales of multifunction models, such as the PIXMA MP600, and healthy sales growth for consumables. As a result, sales of computer peripherals for the third quarter realized a year-on-year increase of 2.9%. Within the field of business information products, demand for document scanners grew, contributing to a sales increase of 1.6%. Collectively, sales of business machines for the third quarter totaled ¥685.8 billion (U.S.\$5,963 million), a year-on-year increase of 7.2%. Operating profit for the business machine segment totaled ¥152.4 billion (U.S.\$1,325 million), a year-on-year increase of 9.5%, made possible by such factors as increased sales and an improved gross profit ratio.

Within the camera segment, demand for digital SLR cameras fueled growth, with particularly strong sales for the competitively priced EOS DIGITAL REBEL XT_i and the new advanced-amateur model EOS 40D, launched in the third quarter of this year, which, in turn, led to expanded sales of interchangeable lenses for SLR cameras. Sales of compact digital cameras also continued to expand steadily with healthy demand for stylish ELPH-series models as well as for PowerShot-series models, which cater to a diverse range of shooting styles. Accordingly, unit sales of digital cameras for the third quarter expanded approximately 20% compared with the year-ago period. As a result, camera sales overall for the term increased by 14.0% year on year to ¥268.0 billion (U.S.\$2,330 million). Operating profit for the camera segment totaled ¥76.9 billion (U.S.\$668 million), a year-on-year increase of 14.0%, boosted by such factors as the suppression of price declines through the launch of new products and continued cost-reduction efforts, as well as sales growth.

In the optical and other products segment, while steppers, used in the production of semiconductors, enjoyed steady demand, sales of optical products decreased for the three-month period amid declining demand for aligners for the production of LCD panels as investment by LCD manufacturers remained at a low level. As a result, third-quarter sales for the segment totaled ¥97.0 billion (U.S.\$844 million), a year-on-year decrease of 14.4%. Operating profit for the segment decreased by 83.6% year on year to ¥2.4 billion (U.S.\$20 million).

Cash Flow

In the nine months ended September 30, 2007, Canon generated cash flow from operating activities of ¥562.6 billion (U.S.\$4,892 million), a year-on-year increase of ¥102.9 billion (U.S.\$895 million), reflecting the growth in net sales and net income and the change in working capital. Cash flow from investing activities totaled ¥340.9 billion (U.S.\$2,965 million), due to such factors as active capital investment, used mainly to expand production capabilities. As a result, free cash flow totaled ¥221.7 billion (U.S.\$1,927 million), representing a ¥90.2 billion (U.S.\$784 million) improvement from ¥131.5 billion for the year-ago period.

Cash flow from financing activities recorded an outlay of ¥602.7 billion (U.S.\$5,241 million), mainly resulting from the dividend payout of ¥131.6 billion (U.S.\$1,144 million) in accordance with the company's basic policy regarding profit distribution and the ¥450.0 billion (U.S.\$3,913 million) purchase of treasury stock with the aim of improving capital efficiency and ensuring a flexible capital strategy. Consequently, cash and cash equivalents totaled ¥766.3 billion (U.S.\$6,664 million), representing a ¥389.3 billion (U.S.\$3,385 million) decrease from the end of the previous year.

Table of Contents**Outlook**

As for the global economic outlook in the fourth quarter, although uncertainty surrounds such factors as the future direction of crude-oil and raw-material prices and a slowdown in the U.S. economy, the global economy is expected to continue growing gradually.

In the businesses in which Canon is involved, demand for both digital SLR cameras and compact digital cameras is expected to continue enjoying robust growth. As for network digital MFDs and laser beam printers, while additional demand is projected for full-color models, severe price competition and shifting demand toward lower-priced models are expected to continue. Within the semiconductor-production equipment market, demand for steppers indicates a trend toward steady performance supported by increasing orders from chip manufacturers, while demand for projection aligners used in the production of LCD panels is expected to continue being sluggish as investment levels by LCD manufacturers remain low.

Following a review of the current business climate and currency exchange trends, the company has revised its forecast for the 2007 fiscal year and now anticipates consolidated net sales of ¥4,560.0 billion (U.S.\$39,652 million) while maintaining its forecasts for consolidated income before income taxes and minority interests of ¥788.0 billion (U.S.\$6,852 million), and consolidated net income of ¥500.0 billion (U.S.\$4,348 million). These forecasts reflect an increase in depreciation expense of around ¥63.0 billion (U.S.\$548 million) for the full business year, resulting from the change in the accounting method used to calculate depreciation. Additionally, these forecasts assume exchange rates of ¥115 to the U.S. dollar and ¥160 to the euro, representing an approximately 2% appreciation of the yen against the U.S. dollar, and an approximately 5% depreciation of the yen against the euro compared with the previous year.

Consolidated Outlook**Fiscal year**

	Millions of yen			Year ended December 31, 2006	Change (%)
	Year ending		Change (B - A)		
	December 31, 2007				
	Previous Outlook (A)	Revised Outlook (B)	Results (C)		
Net sales	¥ 4,580,000	¥ 4,560,000	¥ (20,000)	¥ 4,156,759	+ 9.7%
Income before income taxes and minority interests	788,000	788,000		719,143	+ 9.6%
Net income	500,000	500,000		455,325	+ 9.8%

This document contains forward-looking statements with respect to future results, performance and achievements that are subject to risk and uncertainties and reflect management's views and assumptions formed by available information. All statements other than statements of historical fact are statements that could be considered forward-looking statements. When used in this document, words such as anticipate, believe, estimate, expect, intend, may, or should and similar expressions, as they relate to Canon, are intended to identify forward-looking statements. Many factors could cause the actual results, performance or achievements of Canon to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, among others, changes in general economic and business conditions, changes in currency exchange rates and interest rates, introduction of competing products by other companies, lack of acceptance of new products or services by Canon's targeted customers, inability to meet efficiency and cost reduction objectives, changes in business strategy and various other factors, both referenced and not referenced in this document. A detailed description of these and other risk factors is included in Canon's annual report on Form 20-F, which is on file with the United States

Securities and Exchange Commission. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein. Canon does not intend or assume any obligation to update these forward-looking statements.

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

II. Financial Statements**1. CONSOLIDATED STATEMENTS OF INCOME****Results for the third quarter**

	Millions of yen			Thousands of U.S. dollars
	Three months ended September 30, 2007 (Unaudited)	Three months ended September 30, 2006 (Unaudited)	Change(%)	Three months ended September 30, 2007 (Unaudited)
Net sales	¥ 1,050,823	¥ 987,969	+ 6.4	\$ 9,137,591
Cost of sales	522,471	499,928		4,543,226
Gross profit	528,352	488,041	+ 8.3	4,594,365
Operating expenses:				
Selling, general and administrative expenses	264,117	244,663		2,296,670
Research and development expenses	90,014	70,692		782,730
	354,131	315,355		3,079,400
Operating profit	174,221	172,686	+ 0.9	1,514,965
Other income (deductions):				
Interest and dividend income	8,133	7,299		70,722
Interest expense	(350)	(560)		(3,043)
Other, net	(19,677)	901		(171,105)
	(11,894)	7,640		(103,426)
Income before income taxes and minority interests	162,327	180,326	10.0	1,411,539
Income taxes	53,578	61,031		465,896
Income before minority interests	108,749	119,295		945,643
Minority interests	3,445	3,708		29,956
Net income	¥ 105,304	¥ 115,587	8.9	\$ 915,687

Note: Comprehensive income for the three months ended September 30, 2007 and 2006 was JPY60,662 million (U.S.\$527,496 thousand) and JPY135,362 million, respectively.

Results for the nine months

	Millions of yen			Thousands of U.S. dollars
	Nine months ended September 30, 2007 (Unaudited)	Nine months ended September 30, 2006 (Unaudited)	Change(%)	Nine months ended September 30, 2007 (Unaudited)
Net sales	¥ 3,217,547	¥ 2,940,224	+ 9.4	\$ 27,978,670
Cost of sales	1,581,641	1,473,470		13,753,400
Gross profit	1,635,906	1,466,754	+ 11.5	14,225,270
Operating expenses:				
Selling, general and administrative expenses	812,528	738,372		7,065,461
Research and development expenses	260,281	217,219		2,263,313
	1,072,809	955,591		9,328,774
Operating profit	563,097	511,163	+ 10.2	4,896,496
Other income (deductions):				
Interest and dividend income	25,500	18,442		221,739
Interest expense	(1,145)	(1,185)		(9,957)
Other, net	(18,984)	(7,049)		(165,078)
	5,371	10,208		46,704
Income before income taxes and minority interests	568,468	521,371	+ 9.0	4,943,200
Income taxes	196,414	179,845		1,707,948
Income before minority interests	372,054	341,526		3,235,252
Minority interests	11,567	11,765		100,582
Net income	¥ 360,487	¥ 329,761	+ 9.3	\$ 3,134,670

Note: Comprehensive income for the nine months ended September 30, 2007 and 2006 was JPY417,296 million (U.S.\$3,628,661 thousand) and JPY352,837 million, respectively.

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

2. DETAILS OF SALES**Results for the third quarter**

Sales by product	Millions of yen			Thousands of U.S. dollars
	Three months ended September 30, 2007 (Unaudited)	Three months ended September 30, 2006 (Unaudited)	Change(%)	Three months ended September 30, 2007 (Unaudited)
Business machines:				
<i>Office imaging products</i>	¥ 305,715	¥ 269,983	+ 13.2	\$ 2,658,391
<i>Computer peripherals</i>	355,962	345,790	+ 2.9	3,095,322
<i>Business information products</i>	24,103	23,723	+ 1.6	209,591
	685,780	639,496	+ 7.2	5,963,304
Cameras	267,987	235,141	+ 14.0	2,330,322
Optical and other products	97,056	113,332	14.4	843,965
Total	¥ 1,050,823	¥ 987,969	+ 6.4	\$ 9,137,591

Sales by region	Millions of yen			Thousands of U.S. dollars
	Three months ended September 30, 2007 (Unaudited)	Three months ended September 30, 2006 (Unaudited)	Change(%)	Three months ended September 30, 2007 (Unaudited)
Japan	¥ 218,665	¥ 219,251	0.3	\$ 1,901,435
Overseas:				
<i>Americas</i>	313,805	299,811	+ 4.7	2,728,739
<i>Europe</i>	338,918	297,762	+ 13.8	2,947,113
<i>Other areas</i>	179,435	171,145	+ 4.8	1,560,304
	832,158	768,718	+ 8.3	7,236,156
Total	¥ 1,050,823	¥ 987,969	+ 6.4	\$ 9,137,591

Results for the nine months

	Millions of yen		Thousands of U.S. dollars
	Nine months	Nine months	Nine months

Sales by product	ended September 30, 2007 (Unaudited)	ended September 30, 2006 (Unaudited)	Change(%)	ended September 30, 2007 (Unaudited)
Business machines:				
<i>Office imaging products</i>	¥ 938,143	¥ 855,420	+ 9.7	\$ 8,157,765
<i>Computer peripherals</i>	1,116,649	992,453	+ 12.5	9,709,991
<i>Business information products</i>	77,575	78,219	0.8	674,566
	2,132,367	1,926,092	+ 10.7	18,542,322
Cameras	787,561	695,426	+ 13.2	6,848,357
Optical and other products	297,619	318,706	6.6	2,587,991
Total	¥3,217,547	¥ 2,940,224	+ 9.4	\$ 27,978,670

Sales by region	Millions of yen		Change(%)	Thousands of U.S. dollars
	Nine months ended September 30, 2007 (Unaudited)	Nine months ended September 30, 2006 (Unaudited)		Nine months ended September 30, 2007 (Unaudited)
Japan	¥ 676,967	¥ 665,549	+ 1.7	\$ 5,886,670
Overseas:				
<i>Americas</i>	955,754	894,284	+ 6.9	8,310,904
<i>Europe</i>	1,061,297	908,705	+ 16.8	9,228,670
<i>Other areas</i>	523,529	471,686	+ 11.0	4,552,426
	2,540,580	2,274,675	+ 11.7	22,092,000
Total	¥3,217,547	¥ 2,940,224	+ 9.4	\$ 27,978,670

Notes: 1. The primary products included in each of the product segments are as follows:

Business machines:

Office imaging products : Office network digital multifunction devices (MFDs) / Color network digital MFDs / Office copying machines / Personal-use copying machines / Full-color copying machines / etc.

Computer peripherals : Laser beam printers / Inkjet multifunction peripherals / Single function inkjet printers / Image scanners / etc.

Business information products : Computer information systems / Document scanners / Personal information products / etc.

Cameras : Digital SLR cameras / Compact digital cameras / Interchangeable lenses / Digital video camcorders / etc.

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Optical and other products : Semiconductor production equipment / Mirror projection mask aligners for LCD panels / Broadcasting equipment / Medical equipment / Large format printers / Components / etc.

2. The principal countries and regions included in each regional category are as follows:

Americas: United States of America, Canada, Latin America / Europe: England, Germany, France, Netherlands /

Other Areas: Asian regions, China, Oceania

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

3. SEGMENT INFORMATION BY PRODUCT**Results for the third quarter**

	Millions of yen			Thousands of U.S. dollars
	Three months ended September 30, 2007 (Unaudited)	Three months ended September 30, 2006 (Unaudited)	Change(%)	Three months ended September 30, 2007 (Unaudited)
Business machines				
Net sales:				
Unaffiliated customers	¥ 685,780	¥ 639,496	+ 7.2	\$ 5,963,304
Intersegment				
Total	685,780	639,496	+ 7.2	5,963,304
Operating cost and expenses	533,409	500,397	+ 6.6	4,638,339
Operating profit	152,371	139,099	+ 9.5	1,324,965
Cameras				
Net sales:				
Unaffiliated customers	¥ 267,987	¥ 235,141	+ 14.0	\$ 2,330,322
Intersegment				
Total	267,987	235,141	+ 14.0	2,330,322
Operating cost and expenses	191,131	167,751	+ 13.9	1,662,009
Operating profit	76,856	67,390	+ 14.0	668,313
Optical and other products				
Net sales:				
Unaffiliated customers	¥ 97,056	¥ 113,332	14.4	\$ 843,965
Intersegment	65,361	49,879	+ 31.0	568,357
Total	162,417	163,211	0.5	1,412,322
Operating cost and expenses	160,067	148,852	+ 7.5	1,391,887
Operating profit	2,350	14,359	83.6	20,435

Corporate and Eliminations

Net sales:

Unaffiliated customers	¥	¥		\$
Intersegment	(65,361)	(49,879)		(568,357)
Total	(65,361)	(49,879)		(568,357)
Operating cost and expenses	(8,005)	(1,717)		(69,609)
Operating profit	(57,356)	(48,162)		(498,748)

Consolidated

Net sales:

Unaffiliated customers	¥ 1,050,823	¥ 987,969	+ 6.4	\$ 9,137,591
Intersegment				
Total	1,050,823	987,969	+ 6.4	9,137,591
Operating cost and expenses	876,602	815,283	+ 7.5	7,622,626
Operating profit	174,221	172,686	+ 0.9	1,514,965

Note: General corporate expenses of JPY57,368 million (U.S.\$498,852 thousand) and JPY48,073 million in the three months ended September 30, 2007 and 2006, respectively, are included in Corporate and Eliminations.

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

Results for the nine months

	Millions of yen			Thousands of U.S. dollars
	Nine months ended September 30, 2007 (Unaudited)	Nine months ended September 30, 2006 (Unaudited)	Change(%)	Nine months ended September 30, 2007 (Unaudited)
Business machines				
Net sales:				
Unaffiliated customers	¥ 2,132,367	¥ 1,926,092	+ 10.7	\$ 18,542,322
Intersegment				
Total	2,132,367	1,926,092	+ 10.7	18,542,322
Operating cost and expenses	1,644,525	1,492,428	+ 10.2	14,300,218
Operating profit	487,842	433,664	+ 12.5	4,242,104
Cameras				
Net sales:				
Unaffiliated customers	¥ 787,561	¥ 695,426	+ 13.2	\$ 6,848,357
Intersegment				
Total	787,561	695,426	+ 13.2	6,848,357
Operating cost and expenses	573,402	519,300	+ 10.4	4,986,105
Operating profit	214,159	176,126	+ 21.6	1,862,252
Optical and other products				
Net sales:				
Unaffiliated customers	¥ 297,619	¥ 318,706	6.6	\$ 2,587,991
Intersegment	173,278	138,585	+ 25.0	1,506,766
Total	470,897	457,291	+ 3.0	4,094,757
Operating cost and expenses	447,162	419,737	+ 6.5	3,888,366
Operating profit	23,735	37,554	36.8	206,391

Corporate and Eliminations

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Net sales:					
Unaffiliated customers	¥	¥		\$	
Intersegment	(173,278)	(138,585)		(1,506,766)	
Total	(173,278)	(138,585)		(1,506,766)	
Operating cost and expenses	(10,639)	(2,404)		(92,515)	
Operating profit	(162,639)	(136,181)		(1,414,251)	
Consolidated					
Net sales:					
Unaffiliated customers	¥ 3,217,547	¥ 2,940,224	+ 9.4	\$ 27,978,670	
Intersegment					
Total	3,217,547	2,940,224	+ 9.4	27,978,670	
Operating cost and expenses	2,654,450	2,429,061	+ 9.3	23,082,174	
Operating profit	563,097	511,163	+ 10.2	4,896,496	

Note: General corporate expenses of JPY162,661 million (U.S.\$1,414,443 thousand) and JPY136,004 million in the nine months ended September 30, 2007 and 2006, respectively, are included in Corporate and Eliminations.

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

4. CONSOLIDATED BALANCE SHEETS

	As of September 30, 2007 (Unaudited)	Millions of yen As of December 31, 2006	Change	Thousands of U.S. dollars As of September 30, 2007 (Unaudited)
ASSETS				
Current assets:				
Cash and cash equivalents	¥ 766,307	¥ 1,155,626	¥ (389,319)	\$ 6,663,539
Time deposits	25,814	41,953	(16,139)	224,470
Marketable securities	10,436	10,445	(9)	90,748
Trade receivables, net	684,238	761,947	(77,709)	5,949,896
Inventories	607,792	539,057	68,735	5,285,148
Prepaid expenses and other current assets	290,258	273,321	16,937	2,523,982
Total current assets	2,384,845	2,782,349	(397,504)	20,737,783
Noncurrent receivables	14,438	14,335	103	125,548
Investments	99,577	110,418	(10,841)	865,887
Property, plant and equipment, net	1,370,748	1,266,425	104,323	11,919,548
Other assets	425,717	348,388	77,329	3,701,886
Total assets	¥4,295,325	¥ 4,521,915	¥ (226,590)	\$ 37,350,652
LIABILITIES AND STOCKHOLDERS				
EQUITY				
Current liabilities:				
Short-term loans and current portion of long-term debt	¥ 14,926	¥ 15,362	¥ (436)	\$ 129,791
Trade payables	505,495	493,058	12,437	4,395,609
Income taxes	93,022	133,745	(40,723)	808,887
Accrued expenses	322,653	303,353	19,300	2,805,678
Other current liabilities	203,968	217,789	(13,821)	1,773,635
Total current liabilities	1,140,064	1,163,307	(23,243)	9,913,600
Long-term debt, excluding current installments	6,239	15,789	(9,550)	54,252
Accrued pension and severance cost	49,154	83,876	(34,722)	427,426
Other noncurrent liabilities	59,587	55,536	4,051	518,148
Total liabilities	1,255,044	1,318,508	(63,464)	10,913,426
Minority interests	220,685	216,801	3,884	1,919,000

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Stockholders' equity:				
Common stock	174,698	174,603	95	1,519,113
Additional paid-in capital	403,208	403,510	(302)	3,506,157
Legal reserve	45,823	43,600	2,223	398,461
Retained earnings	2,592,495	2,368,047	224,448	22,543,435
Accumulated other comprehensive income (loss)	59,527	2,718	56,809	517,626
Treasury stock	(456,155)	(5,872)	(450,283)	(3,966,566)
Total stockholders' equity	2,819,596	2,986,606	(167,010)	24,518,226
Total liabilities and stockholders' equity	¥4,295,325	¥ 4,521,915	¥ (226,590)	\$ 37,350,652

	Millions of yen		Thousands of U.S. dollars
	As of September 30, 2007 (Unaudited)	As of December 31, 2006	As of September 30, 2007 (Unaudited)
Allowance for doubtful receivables	¥ 15,984	¥ 13,849	\$ 138,991
Accumulated depreciation	1,537,689	1,382,944	13,371,209
Accumulated other comprehensive income (loss):			
Foreign currency translation adjustments	25,046	22,858	217,791
Net unrealized gains and losses on securities	7,496	8,065	65,183
Net gains and losses on derivative instruments	2,763	(1,663)	24,026
Pension liability adjustments	24,222	(26,542)	210,626

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

5. CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

Millions of yen

	Common Stock	Additional paid-in capital	Legal reserve	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total stockholders equity
Balance at December 31, 2006	¥ 174,603	¥ 403,510	¥ 43,600	¥ 2,368,047	¥ 2,718	¥ (5,872)	¥ 2,986,606
Cumulative effect of a change in accounting principle adoption of EITF 06-2, net of tax				(2,204)			(2,204)
Conversion of convertible debt and other Cash dividends	95	(306)		(131,612)			(211) (131,612)
Transfers to legal reserve			2,223	(2,223)			
Comprehensive income:							
Net income				360,487			360,487
Other comprehensive income (loss), net of tax							
Foreign currency translation adjustments					2,188		2,188
Net unrealized gains and losses on securities					(569)		(569)
Net gains and losses on					4,426		4,426

derivative instruments								
Pension liability adjustments						50,764		50,764
Total comprehensive income								417,296
Repurchase of treasury stock, net			4				(450,283)	(450,279)
Balance at September 30, 2007 (Unaudited)	¥ 174,698	¥ 403,208	¥ 45,823	¥ 2,592,495	¥ 59,527	¥ (456,155)	¥ 2,819,596	
Balance at December 31, 2005	¥ 174,438	¥ 403,246	¥ 42,331	¥ 2,018,289	¥ (28,212)	¥ (5,410)	¥ 2,604,682	
Conversion of convertible debt and other	122	146						268
Cash dividends					(104,298)			(104,298)
Transfers to legal reserve			969		(969)			
Comprehensive income:								
Net income					329,761			329,761
Other comprehensive income (loss), net of tax								
Foreign currency translation adjustments						23,132		23,132
Net unrealized gains and losses on securities						536		536
Net gains and losses on derivative instruments						(863)		(863)
						271		271

Minimum pension liability adjustments								
Total comprehensive income								352,837
Repurchase of treasury stock, net							(289)	(289)
Balance at September 30, 2006 (Unaudited)	¥ 174,560	¥ 403,392	¥ 43,300	¥ 2,242,783	¥ (5,136)	¥ (5,699)	¥ 2,853,200	

Thousands of U.S. dollars

Balance at December 31, 2006	\$ 1,518,287	\$ 3,508,783	\$ 379,131	\$ 20,591,712	\$ 23,635	\$ (51,061)	\$ 25,970,487
Cumulative effect of a change in accounting principle - adoption of EITF 06-2, net of tax				(19,165)			(19,165)
Conversion of convertible debt and other	826	(2,661)					(1,835)
Cash dividends				(1,144,452)			(1,144,452)
Transfers to legal reserve			19,330	(19,330)			
Comprehensive income:							
Net income				3,134,670			3,134,670
Other comprehensive income (loss),							

net of tax							
Foreign							
currency							
translation							
adjustments					19,026		19,026
Net unrealized							
gains and losses							
on securities					(4,948)		(4,948)
Net gains and							
losses on							
derivative							
instruments					38,487		38,487
Pension							
liability							
adjustments					441,426		441,426
Total							
comprehensive							
income							3,628,661
Repurchase of							
treasury stock,							
net		35				(3,915,505)	(3,915,470)
Balance at							
September 30,							
2007							
(Unaudited)	\$ 1,519,113	\$ 3,506,157	\$ 398,461	\$ 22,543,435	\$ 517,626	\$ (3,966,566)	\$ 24,518,226

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CANON INC. AND SUBSIDIARIES

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6. CONSOLIDATED STATEMENTS OF CASH FLOWS**Results for the nine months**

	Millions of yen		Thousands of U.S. dollars
	Nine months ended September 30, 2007 (Unaudited)	Nine months ended September 30, 2006 (Unaudited)	Nine months ended September 30, 2007 (Unaudited)
Cash flows from operating activities:			
Net income	¥ 360,487	¥ 329,761	\$ 3,134,670
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	235,446	187,923	2,047,357
Loss on disposal of property, plant and equipment	5,599	8,619	48,687
Deferred income taxes	(16,642)	8,531	(144,713)
Decrease in trade receivables	95,021	49,294	826,270
Increase in inventories	(71,692)	(57,873)	(623,409)
Increase (decrease) in trade payables	12,345	(16,387)	107,348
Decrease in income taxes	(42,499)	(36,088)	(369,557)
Increase in accrued expenses	10,224	6,455	88,904
Decrease in accrued pension and severance cost	(9,049)	(19,110)	(78,687)
Other, net	(16,611)	(1,371)	(144,444)
Net cash provided by operating activities	562,629	459,754	4,892,426
Cash flows from investing activities:			
Purchases of fixed assets	(363,509)	(318,790)	(3,160,948)
Proceeds from sale of fixed assets	4,960	12,233	43,130
Purchases of available-for-sale securities	(2,256)	(7,497)	