

CANON INC
Form 6-K
August 07, 2014

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**, **2014**

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 7, 2014**

By /s/ Shinichi Aoyama
(Signature)*

Shinichi Aoyama
General Manager
Consolidated Accounting Div.
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, 2014

[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, 2014

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; 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; disasters, outages or similar events; and inventory risk due to disruptions in supply chains and 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,
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	2013
Net sales	1,795,108	1,783,533	926,796	966,880	3,731,380
Income before income taxes	196,166	159,123	116,975	98,868	347,604
Net income attributable to Canon Inc.	128,458	107,409	80,848	66,496	230,483
Comprehensive income	94,986	253,168	62,148	124,796	532,429
Canon Inc. stockholders' equity	-	-	2,827,052	2,690,371	2,910,262
Total equity	-	-	2,985,859	2,848,283	3,066,777
Total assets	-	-	4,093,780	4,109,526	4,242,710
Net income attributable to Canon Inc. stockholders per share:					
Basic (yen)	114.47	93.17	72.61	57.68	200.78
Diluted (yen)	114.47	93.17	72.61	57.68	200.78
Canon Inc. stockholders' equity to total assets (%)	-	-	69.1	65.5	68.6
Cash flows from operating activities	294,487	217,889	-	-	507,642
Cash flows from investing activities	(142,067)	(139,266)	-	-	(250,212)
Cash flows from financing activities	(176,387)	(85,354)	-	-	(222,181)
Cash and cash equivalents at end of period	-	-	744,684	707,774	788,909
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). Financial information presented in sections II. The Business is also in conformity with U.S.GAAP.

Canon (consisting of the Company, 253 consolidated subsidiaries and 10 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, imaging system, industry and others. No material change in Canon s business has occurred during the six months ended June 30, 2014.

No additions or removals of significant group entities have occurred during the six months ended June 30, 2014.

II. The Business

(1) 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.

(2) Significant Business Contracts Entered into in the Second Quarter of Fiscal 2014

No material contracts were entered into during the three months ended June 30, 2014.

(3) Operating Results

Looking back at the global economy in the first half of 2014, in the United States, although the economy has recovered steadily from the impact of the major cold wave that struck the country at the beginning of the year, the improvement has yet to stimulate consumer spending. In Europe, although uncertainty remained due to the political unrest in Ukraine, the economies of Germany and the U.K. have realized moderate recoveries. China and other emerging countries realized modest economic growth. As for Japan, the economy continued to grow gradually despite the rebound following the rush in demand leading up to the hike in the country's consumption tax. As a result, overall global economic growth during the first half continued to be sluggish.

As for the markets in which Canon operates amid these conditions, demand for office multifunction devices (MFDs) and laser printers remained firm. Demand for interchangeable-lens digital cameras decreased in Japan, due to the increase in the consumption tax, while demand overseas showed signs of recovery in China. As for digital compact cameras, demand continued to shrink in both developed countries as well as emerging markets. Looking at the overall market for inkjet printers, demand declined from the previous year. In the industry and others sector, a rebound in capital investment for both image sensors and memory devices led to a pickup in demand for semiconductor lithography equipment, while demand for lithography equipment used in the production of FPD recovered for large-size panels.

The average values of the yen during the second quarter and first half of the year were ¥102.13 and ¥102.40 to the U.S. dollar, respectively, year-on-year depreciations of approximately ¥3 and ¥6, and ¥139.94 and ¥140.35 to the euro, respectively, year-on-year depreciations of approximately ¥11 and ¥14.

[Second-quarter results]

During the second quarter, sales of MFDs remained firm while sales of industrial equipment increased significantly. Conversely, demand for digital compact cameras continued to shrink while net sales of inkjet printers decreased owing to the increase in consumption tax in Japan. Consequently, second-quarter net sales decreased 4.1% year on year to ¥926.8 billion. The gross profit ratio for the second quarter rose 2.8 points year on year to 52.2% thanks to a shift in production to highly profitable high-added-value products and improved factory utilization realized through optimized production, along with the depreciation of the yen. Despite an increase in foreign-currency-denominated operating expenses due to the weaker yen, Group-wide efforts to thoroughly reduce spending contributed to a 1.6% reduction in operating expenses year on year to ¥373.0 billion. As a result, operating profit increased by 12.4% to ¥110.5 billion. Other income (deductions) increased by ¥5.9 billion due to foreign currency exchange gains while income before income taxes increased by 18.3% year on year to ¥117.0 billion. Net income attributable to Canon Inc. increased by 21.6% to ¥80.8 billion.

Basic net income attributable to Canon Inc. stockholders per share for the second quarter was ¥72.61, an increase of ¥14.93 compared with the corresponding quarter of the previous year.

(3) Operating Results (continued)

[First-half results]

During the first half, sales of MFDs remained firm while sales of industrial equipment increased significantly compared with those during the severe market conditions faced in the corresponding period of the previous year. Demand for digital compact cameras during the first six months of the year period continued to shrink. As for inkjet printers, despite solid growth in Japan owing to the rush in demand prior to the consumption tax hike, competition in overseas markets has intensified. Consequently, benefitting from the positive effects of favorable currency exchange rates, first-half net sales increased 0.6% year on year to ¥1,795.1 billion. The gross profit ratio for the first half rose 2.6 points to 51.0% from the year-ago period thanks to a shift in production to highly profitable high-added-value products and improved factory utilization through optimized production along with the depreciation of the yen. Despite an increase in foreign-currency-denominated operating expenses due to the depreciation of the yen, Group-wide efforts to thoroughly reduce spending contributed to limiting the increase in operating expenses to just ¥721.8 billion, an increase of 1.6% year on year for the first six months. Consequently, operating profit for the first half of the year increased by 26.2% to ¥193.2 billion. Other income decreased by ¥3.0 billion for the first half from the year-ago period due to foreign currency exchange gains while income before income taxes increased 23.3% year on year to ¥196.2 billion. First-half net income attributable to Canon Inc. increased by 19.6% to ¥128.5 billion due to the decrease in the tax rate because of the early repeal of the special reconstruction corporate tax.

Basic net income attributable to Canon Inc. stockholders per share for the first half was ¥114.47, a year-on-year increase of ¥21.30.

Looking at Canon's first-half performance by business unit, within the Office Business Unit, sales of color office MFDs, led by strong demand for the imageRUNNER ADVANCE C5200 series, remained at the same level as the year-ago period. As for high-speed continuous-feed printers and wide-format printers, sales of the Océ ColorStream 3000 series showed solid growth. Among laser printers, color multifunction models recorded healthy growth. As a result, in addition to the positive effects of favorable currency exchange rates, sales for the combined first six months of the year totaled ¥1,031.7 billion, a year-on-year increase of 4.8%, while operating profit totaled ¥160.6 billion, increasing 17.8%.

Within the Imaging System Business Unit, although sales volume of interchangeable-lens digital cameras declined owing to a delayed economic recovery, the advanced-amateur-model EOS 70D realized healthy growth, enabling Canon to maintain the top share in such major regional markets as Europe, the U.S. and Japan. As for digital compact cameras, despite a decline in total sales volume due to the contraction of the market and the increasing popularity of smartphones, sales of high-added-value models, featuring high image quality and high-magnification zoom capabilities recorded solid growth, maintaining high market shares. As for inkjet printers, while sales volume declined from the same period of the previous year, sales of consumables remained at the same level. As a result, sales for the first six months totaled ¥625.2 billion, decreasing 8.6% year on year, while operating profit totaled ¥93.0 billion, an increase of 9.7% year on year.

In the Industry and Others Business Unit, with regard to semiconductor lithography equipment, ongoing investment by memory device manufacturers in response to healthy growing demand for smartphones and tablets led to increased first-half unit sales of lithography equipment while a recovery in investment for large-size panels, which had been restricted until now, boosted unit sales of FPD lithography equipment. Consequently, sales for the first half of the year totaled ¥185.1 billion, growing 15.0% year on year, while operating profit posted a loss of ¥10.1 billion owing to Canon's upfront investment, an improvement of ¥3.3 billion from the year-ago period.

(3) Operating Results (continued)

First-half results by major geographic area are summarized as follows:

Japan

Despite fluctuations in demand prior to and following the consumption tax increase, net sales in Japan for the first half increased 0.1% from the year-ago period to ¥1,258.8 billion thanks to a steady recovery in overall demand. First-half operating profit increased 17.2% year on year to ¥188.1 billion.

Americas

Although the U.S. economy recovered gradually from the major cold wave, net sales for the first half decreased by 6.6% from the year-ago period to ¥483.3 billion owing to the delayed recovery in the interchangeable-lens digital camera market and the contraction of the digital compact camera market. Operating profit for the first half totaled ¥8.8 billion, a decrease of 22.0% year on year.

Europe

Although Germany and the U.K. have realized moderate economic recoveries, a turnaround in demand for office multifunction devices and interchangeable-lens digital cameras has been delayed. Therefore, net sales for the first half decreased by 1.7% from the same period of the previous year to ¥559.6 billion. Operating profit for the first half, however, totaled ¥5.4 billion owing to efforts to curtail spending.

Asia and Oceania

While there have been some signs of an economic recovery in China, a turnaround in demand for digital compact cameras and inkjet printers has been delayed. As a consequence, net sales decreased by 5.3% to ¥747.4 billion for the first six months. Operating profit for the first half, however, increased 11.5% to ¥32.9 billion thanks to cost savings.

(3) Operating Results (continued)

Cash Flows

During the first half of 2014, cash flow from operating activities totaled ¥294.5 billion, an increase of ¥76.6 billion compared with the previous year owing to the increase in profit and the change in trade receivables and trade payables. Although capital investment focused on new products, cash flow used in investing activities increased ¥2.8 billion year on year to ¥142.1 billion as a result of an increase in the amount of time deposits included in short-term investments. Accordingly, free cash flow for the first half totaled ¥152.4 billion, an increase of ¥73.8 billion compared with the corresponding year-ago period.

Cash flow from financing activities recorded an outlay of ¥176.4 billion, mainly arising from the dividend payout and the repurchasing of treasury stock.

Owing to these factors, as well as the impact of foreign currency translation adjustments, cash and cash equivalents decreased by ¥44.2 billion to ¥744.7 billion from the end of the previous year.

Management Issues to be Addressed

No material changes or issues with respect to business operations and finances have occurred during the six months ended June 30, 2014.

Research and Development Expenditures

Canon's research and development expenditures for the six months ended June 30, 2014 totaled ¥151.7 billion.

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 first half of 2014.

(2) Prospect of Capital Investment in the First Half of Fiscal 2014

There were no significant new constructions of property, plant and equipment that were in progress as of December 31, 2013 and completed during the first half of 2014.

There were no significant changes in the plans relevant to the retirement of property, plant and equipment during the first half of 2014. Moreover, there were no significant additional plans for new construction or retirement of property, plant and equipment during the first half of 2014.

III. Company Information**(1) Shares**

Total number of authorized shares is 3,000,000,000 shares. The common stock of Canon is listed on the Tokyo, Nagoya, Fukuoka, Sapporo and New York Stock Exchanges. Total issued shares are as follows:

	As of June 30, 2014
Total number of issued shares	1,333,763,464

Stock Acquisition Rights

Not applicable.

Exercise status of bonds with share subscription rights containing an adjustable exercise price clause

Not applicable.

Rights Plan

Not applicable.

Change in Issued Shares, Common Stock and Additional Paid in Capital

	Change during this term	As of June 30, 2014
Issued Shares (Number of shares)	-	1,333,763,464
Common Stock (millions of yen)	-	174,762
Additional Paid-in Capital (millions of yen)	-	306,288

Major Shareholders

	As of June 30, 2014	
	Number of shares owned (Number of shares)	Number of shares owned / Number of shares issued
The Master Trust Bank of Japan, Ltd. (Trust Account)	59,625,700	4.47%
Japan Trustee Services Bank, Ltd. (Trust Account)	50,319,100	3.77%
The Dai-Ichi Life Insurance Company, Limited	37,416,380	2.81%
State Street Bank and Trust Company	36,370,546	2.73%
Barclays Capital	30,000,000	2.25%
Moxley & Co.	24,451,834	1.83%
Mizuho Bank, Ltd.	22,558,173	1.69%
Nomura Securities Co., Ltd.	18,443,700	1.38%

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Sompo Japan Insurance Inc.	17,439,987	1.31%
Obayashi Corporation	16,527,607	1.24%
Total	313,153,027	23.48%

Notes:

1: Apart from the above shares, The Dai-Ichi Life Insurance Company, Limited held 6,180,000 shares contributed to a trust fund for its retirement and severance plans.

2: Moxley and Co. is a nominee of JPMorgan Chase Bank, which is the depository of Canon's ADRs (American Depositary Receipts).

3: Apart from the above shares, Mizuho Bank, Ltd., held 9,057,000 shares contributed to a trust fund for its retirement and severance plans.

(1) Shares (continued)Voting Rights

Classification	As of June 30, 2014	
	Number of shares (shares)	Number of voting rights (units)
Shares without voting rights	-	-
Shares with restricted voting rights (Treasury stock, etc.)	-	-
Shares with restricted voting rights (Others)	-	-
Shares with full voting rights (Treasury stock, etc.)	(treasury stock) 227,842,600	-
Shares with full voting rights (Others)	1,104,248,400	11,042,484
Fractional unit shares (Note)	1,672,464	-
Total number of issued shares	1,333,763,464	-
Total voting rights held by all shareholders	-	11,042,484

Note:

In Fractional unit shares under Number of shares, 35 shares of treasury stock are included.

Treasury Stock, etc.

	Number of shares owned (Number of shares)	Number of shares owned / Number of shares issued
Canon Inc.	227,842,600	17.08%
Total	227,842,600	17.08%

(2) Directors and Executive Officers

There were no changes in members of directors between the filing date of the Annual Securities Report (Yukashoken Houkokusho) for the fiscal year ended December 31, 2013 and the end of this quarter.

Change in functions of director is below:

Yoroku Adachi (Senior Managing Director: Chairman & CEO of Canon U.S.A., Inc.)

There were no changes in members of executive officers between the filing date of the Annual Securities Report (Yukashoken Houkokusho) for the fiscal year ended December 31, 2013 and the end of this quarter.

Changes in functions of executive officers are below:

Yuichi Ishizuka (Senior Executive Officer: President & COO of Canon U.S.A., Inc.)

Masaaki Nakamura (Executive Officer: Deputy Group Executive of Human Resources)

Nobuyuki Tainaka (Executive Officer: Senior General Manager of Corporate Legal Center)

IV. Financial Statements (Unaudited)

(1) Consolidated Financial Statements

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CANON INC. AND SUBSIDIARIES

Consolidated Balance Sheets

	Millions of yen	
	June 30, 2014	December 31, 2013
<u>Assets</u>		
Current assets:		
Cash and cash equivalents (Note 14)	744,684	788,909
Short-term investments (Note 2)	77,007	47,914
Trade receivables, net (Note 3)	533,770	608,741
Inventories (Note 4)	533,445	553,773
Prepaid expenses and other current assets (Notes 10 and 14)	288,154	286,605
 Total current assets	 2,177,060	 2,285,942
 Noncurrent receivables (Note 11)	 29,533	 19,276
Investments (Note 2)	57,795	70,358
Property, plant and equipment, net (Note 5)	1,243,881	1,278,730
Intangible assets, net	141,855	145,075
Other assets (Note 14)	443,656	443,329
 Total assets	 4,093,780	 4,242,710

CANON INC. AND SUBSIDIARIES

Consolidated Balance Sheets (continued)

	Millions of yen	
	June 30, 2014	December 31, 2013
<u>Liabilities and equity</u>		
Current liabilities:		
Short-term loans and current portion of long-term debt	993	1,299
Trade payables (Note 6)	300,572	307,157
Accrued income taxes	61,601	53,196
Accrued expenses (Note 11)	284,242	315,536
Other current liabilities (Note 10)	163,528	171,119
 Total current liabilities	 810,936	 848,307
 Long-term debt, excluding current installments	 1,164	 1,448
Accrued pension and severance cost	203,463	229,664
Other noncurrent liabilities	92,358	96,514
 Total liabilities	 1,107,921	 1,175,933
 Commitments and contingent liabilities (Note 11)		
Equity:		
Canon Inc. stockholders' equity (Note 7):		
Common stock	174,762	174,762
(Number of authorized shares)	(3,000,000,000)	(3,000,000,000)
(Number of issued shares)	(1,333,763,464)	(1,333,763,464)
Additional paid-in capital	401,970	402,029
Legal reserve	63,837	63,091
Retained earnings	3,266,514	3,212,692
Accumulated other comprehensive income (loss) (Note 8)	(118,368)	(80,646)
Treasury stock, at cost	(961,663)	(861,666)
(Number of shares)	(227,842,635)	(196,764,060)
 Total Canon Inc. stockholders' equity	 2,827,052	 2,910,262
Noncontrolling interests (Note 7)	158,807	156,515
 Total equity (Note 7)	 2,985,859	 3,066,777
 Total liabilities and equity	 4,093,780	 4,242,710

CANON INC. AND SUBSIDIARIES

Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Consolidated Statements of Income

	Millions of yen	
	Six months ended June 30, 2014	Six months ended June 30, 2013
Net sales	1,795,108	1,783,533
Cost of sales	880,116	920,262
Gross profit	914,992	863,271
Operating expenses:		
Selling, general and administrative expenses (Note 14)	570,099	558,983
Research and development expenses	151,705	151,161
	721,804	710,144
Operating profit	193,188	153,127
Other income (deductions):		
Interest and dividend income	3,917	2,741
Interest expense	(234)	(251)
Other, net (Notes 10, 13 and 14)	(705)	3,506
	2,978	5,996
Income before income taxes	196,166	159,123
Income taxes	63,180	48,770
Consolidated net income	132,986	110,353
Less: Net income attributable to noncontrolling interests	4,528	2,944
Net income attributable to Canon Inc.	128,458	107,409
	Yen	Yen
Net income attributable to Canon Inc. stockholders per share (Note 9):		
Basic	114.47	93.17
Diluted	114.47	93.17
Cash dividends per share	65.00	65.00

Consolidated Statements of Comprehensive Income

	Millions of yen	
	Six months ended June 30, 2014	Six months ended June 30, 2013
Consolidated net income	132,986	110,353
Other comprehensive income (loss), net of tax (Note 8):		
Foreign currency translation adjustments	(52,990)	137,134
Net unrealized gains and losses on securities	(1,388)	2,155
Net gains and losses on derivative instruments	3,017	3,607
Pension liability adjustments	13,361	(81)
	(38,000)	142,815
Comprehensive income (Note 7)	94,986	253,168
Less: Comprehensive income attributable to noncontrolling interests	4,242	4,397
Comprehensive income attributable to Canon Inc.	90,744	248,771

CANON INC. AND SUBSIDIARIES

Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Consolidated Statements of Income

	Millions of yen	
	Three months ended June 30, 2014	Three months ended June 30, 2013
Net sales	926,796	966,880
Cost of sales	443,286	489,522
Gross profit	483,510	477,358
Operating expenses:		
Selling, general and administrative expenses (Note 14)	296,074	301,359
Research and development expenses	76,887	77,645
	372,961	379,004
Operating profit	110,549	98,354
Other income (deductions):		
Interest and dividend income	2,313	1,705
Interest expense	(131)	(146)
Other, net (Notes 10, 13 and 14)	4,244	(1,045)
	6,426	514
Income before income taxes	116,975	98,868
Income taxes	34,567	30,242
Consolidated net income	82,408	68,626
Less: Net income attributable to noncontrolling interests	1,560	2,130
Net income attributable to Canon Inc.	80,848	66,496
	Yen	Yen
Net income attributable to Canon Inc. stockholders per share (Note 9):		
Basic	72.61	57.68
Diluted	72.61	57.68

Cash dividends per share	65.00	65.00
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Consolidated Statements of Comprehensive Income

	Millions of yen	
	Three months ended June 30, 2014	Three months ended June 30, 2013
Consolidated net income	82,408	68,626
Other comprehensive income (loss), net of tax (Note 8):		
Foreign currency translation adjustments	(20,254)	51,534
Net unrealized gains and losses on securities	(69)	1,029
Net gains and losses on derivative instruments	639	2,672
Pension liability adjustments	(576)	935
	(20,260)	56,170
Comprehensive income	62,148	124,796
Less: Comprehensive income attributable to noncontrolling interests	1,509	2,769
Comprehensive income attributable to Canon Inc.	60,639	122,027

CANON INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	Millions of yen	
	Six months ended June 30, 2014	Six months ended June 30, 2013
Cash flows from operating activities:		
Consolidated net income	132,986	110,353
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation and amortization	123,515	131,653
Loss on disposal of fixed assets	5,442	4,386
Deferred income taxes	(316)	(339)
Decrease in trade receivables	60,413	71,357
Decrease in inventories	2,603	18,269
Increase (decrease) in trade payables	11,141	(55,633)
Increase (decrease) in accrued income taxes	8,851	(7,416)
Decrease in accrued expenses	(23,657)	(38,616)
Decrease in accrued (prepaid) pension and severance cost	(6,827)	(874)
Other, net	(19,664)	(15,251)
Net cash provided by operating activities	294,487	217,889
Cash flows from investing activities:		
Purchases of fixed assets (Note 5)	(112,613)	(119,809)
Proceeds from sale of fixed assets (Note 5)	2,487	1,062
Purchases of available-for-sale securities	(226)	(2,654)
Proceeds from sale and maturity of available-for-sale securities	51	3,141
Increase in time deposits, net	(31,044)	(15,745)
Acquisitions of subsidiaries, net of cash acquired	(11,301)	(4,914)
Purchases of other investments	-	(209)
Other, net	10,579	(138)
Net cash used in investing activities	(142,067)	(139,266)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	700	1,101
Repayments of long-term debt	(1,126)	(1,345)
Decrease in short-term loans, net	(48)	(563)
Dividends paid	(73,905)	(80,695)
Repurchases of treasury stock, net	(100,001)	13
Other, net	(2,007)	(3,865)
Net cash used in financing activities	(176,387)	(85,354)

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Effect of exchange rate changes on cash and cash equivalents	(20,258)	47,827
Net change in cash and cash equivalents	(44,225)	41,096
Cash and cash equivalents at beginning of period	788,909	666,678
Cash and cash equivalents at end of period	744,684	707,774
Supplemental disclosure for cash flow information:		
Cash paid during the period for:		
Interest	223	223
Income taxes	57,404	62,260

CANON INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Basis of Presentation and Significant Accounting Policies(a) Basis of Presentation

The Company issued convertible debentures in the United States in May 1969 and established a program in which its American Depositary Receipts (ADRs) were traded in the U.S. over-the-counter market. Since then, under the U.S. Securities Act of 1933 and the U.S. Securities Exchange Act of 1934, the Company has prepared its annual consolidated financial statements in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and filed them with the U.S. Securities and Exchange Commission on Form 20-F. The Company's ADRs were listed on the NYSE in September 2000 after being quoted on NASDAQ from February 1972 to September 2000.

Canon's quarterly consolidated financial statements are prepared in accordance with the recognition and measurement criteria of accounting principles generally accepted in the United States. Certain disclosures have been omitted.

The number of consolidated subsidiaries and affiliated companies that were accounted for by the equity method basis as of June 30, 2014 and December 31, 2013 are summarized as follows:

	June 30, 2014	December 31, 2013
Consolidated subsidiaries	253	257
Affiliated companies	10	11
Total	263	268

(b) Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its majority owned subsidiaries and those variable interest entities where the Company or its consolidated subsidiaries are the primary beneficiaries. All significant intercompany balances and transactions have been eliminated.

(c) Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued a new accounting standard related to revenue from contracts with customers. This standard requires an entity to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard is effective for annual reporting periods beginning after December 15, 2016 and is required to be adopted by Canon from the first quarter beginning January 1, 2017. Early adoption is not permitted. This standard may be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this standard recognized at the date of initial application. Canon has not selected a transition method and is currently evaluating the effect that the adoption of this standard will have on its consolidated results of operations and financial condition.

CANON INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(2) Investments

The cost, gross unrealized holding gains, gross unrealized holding losses and fair value for available-for-sale securities included in short-term investments and investments by major security type at June 30, 2014 and December 31, 2013 were as follows:

	Millions of yen June 30, 2014			
	Gross			
	unrealized	Gross		
	holding	unrealized		
	gains	holding		
	<u>Cost</u>	<u>losses</u>	<u>Fair value</u>	
Current:				
Equity securities	33	8	-	41
Noncurrent:				
Government bonds	322	-	29	293
Corporate bonds	486	70	29	527
Fund trusts	87	-	-	87
Equity securities	18,586	14,074	16	32,644
	19,481	14,144	74	33,551

	Millions of yen December 31, 2013			
	Gross			
	unrealized	Gross		
	holding	unrealized		
	gains	holding		
	<u>Cost</u>	<u>losses</u>	<u>Fair value</u>	
Noncurrent:				
Government bonds	338	-	31	307
Corporate bonds	491	16	26	481

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Fund trusts	68	-	-	68
Equity securities	18,112	16,450	26	34,536
	19,009	16,466	83	35,392

CANON INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(2) Investments (continued)

Maturities of available-for-sale debt securities included in investments in the accompanying consolidated balance sheets were as follows at June 30, 2014:

	Millions of yen	
	Cost	Fair value
Due after one year through five years	10	10
Due after five years	798	810
	808	820

Realized gains and losses are determined using the average cost method and are reflected in earnings. The gross realized gains were ¥2,328 million and ¥1,586 million for the six months ended June 30, 2014 and 2013, respectively. The gross realized losses, including write-downs for impairments that were other than temporary, were ¥14 million and ¥2 million for the six months ended June 30, 2014 and 2013, respectively. The gross realized gains were ¥2,328 million and ¥608 million for the three months ended June 30, 2014 and 2013, respectively. The gross realized losses, including write-downs for impairments that were other than temporary, were ¥14 million and ¥2 million for the three months ended June 30, 2014 and 2013, respectively.

At June 30, 2014, substantially all of the available-for-sale securities with unrealized losses had been in a continuous unrealized loss position for less than twelve months.

Time deposits with original maturities of more than three months are ¥76,966 million and ¥47,914 million at June 30, 2014 and December 31, 2013, respectively, and are included in short-term investments in the accompanying consolidated balance sheets.

Aggregate cost of non-marketable equity securities accounted for under the cost method totaled ¥3,735 million and ¥14,794 million at June 30, 2014 and December 31, 2013, respectively. These investments were not evaluated for impairment at June 30, 2014 and December 31, 2013, respectively, because (a) Canon did not estimate the fair value of those investments as it was not practicable to estimate the fair value of the investments and (b) Canon did not identify any events or changes in circumstances that might have had significant adverse effects on the fair value of those investments.

CANON INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(3) Trade Receivables

Trade receivables are summarized as follows:

	Millions of yen	
	June 30, 2014	December 31, 2013
Notes	16,548	15,461
Accounts	529,526	606,010
Less allowance for doubtful receivables	(12,304)	(12,730)
	533,770	608,741

(4) Inventories

Inventories are summarized as follows:

	Millions of yen	
	June 30, 2014	December 31, 2013
Finished goods	375,304	406,443
Work in process	138,513	128,120
Raw materials	19,628	19,210
	533,445	553,773

(5) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and are summarized as follows:

	Millions of yen	
	June 30, 2014	December 31, 2013
Land	281,340	282,484
Buildings	1,551,307	1,570,024
Machinery and equipment	1,742,067	1,736,107
Construction in progress	77,065	73,645

	3,651,779	3,662,260
Less accumulated depreciation	(2,407,898)	(2,383,530)
	1,243,881	1,278,730

Fixed assets presented in the consolidated statements of cash flows includes property, plant and equipment and intangible assets.

(6) Trade Payables

Trade payables are summarized as follows:

	Millions of yen	
	June 30, 2014	December 31, 2013
Notes	11,396	8,005
Accounts	289,176	299,152
	300,572	307,157

CANON INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(7) Equity

The change in the carrying amount of total equity, equity attributable to Canon Inc. stockholders and equity attributable to noncontrolling interests in the consolidated balance sheets for the six months ended June 30, 2014 and 2013 are as follows:

	Millions of yen		
	Canon Inc. stockholders equity	Noncontrolling interests	Total equity
Balance at December 31, 2013	2,910,262	156,515	3,066,777
Dividends to Canon Inc. stockholders	(73,905)	-	(73,905)
Dividends to noncontrolling interests	-	(1,572)	(1,572)
Equity transactions with noncontrolling interests and other	(48)	(378)	(426)
Comprehensive income:			
Net income	128,458	4,528	132,986
Other comprehensive income (loss), net of tax			
Foreign currency translation adjustments	(52,687)	(303)	(52,990)
Net unrealized gains and losses on securities	(1,402)	14	(1,388)
Net gains and losses on derivative instruments	3,017	-	3,017
Pension liability adjustments	13,358	3	13,361
Total comprehensive income	90,744	4,242	94,986
Repurchase of treasury stock, net	(100,001)	-	(100,001)
Balance at June 30, 2014	2,827,052	158,807	2,985,859
Balance at December 31, 2012	2,598,026	156,276	2,754,302
Dividends to Canon Inc. stockholders	(155,627)	-	(155,627)
Dividends to noncontrolling interests	-	(2,005)	(2,005)
Equity transactions with noncontrolling interests and other	(812)	(756)	(1,568)
Comprehensive income:			
Net income	107,409	2,944	110,353

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Other comprehensive income (loss), net of tax			
Foreign currency translation adjustments	136,149	985	137,134
Net unrealized gains and losses on securities	1,813	342	2,155
Net gains and losses on derivative instruments	3,607	-	3,607
Pension liability adjustments	(207)	126	(81)
Total comprehensive income	248,771	4,397	253,168
Repurchase of treasury stock, net	13	-	13
Balance at June 30, 2013	2,690,371	157,912	2,848,283

CANON INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(8) Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) for the six months ended June 30, 2014 and 2013 are as follows:

	Millions of yen				
	Foreign currency translation adjustments	Unrealized gains and losses on securities	Gains and losses on derivative instruments	Pension liability adjustments	Total
Balance at December 31, 2013	1,734	10,242	(2,408)	(90,214)	(80,646)
Equity transactions with noncontrolling interests and other	2	1	-	(11)	(8)
Other comprehensive income (loss) before reclassifications	(52,687)	105	1,587	1,273	(49,722)
Amounts reclassified from accumulated other comprehensive income (loss)	-	(1,507)	1,430	12,085	12,008
Net change during the period	(52,685)	(1,401)	3,017	13,347	(37,722)
Balance at June 30, 2014	(50,951)	8,841	609	(76,867)	(118,368)

	Millions of yen				
	Foreign currency translation adjustments	Unrealized gains and losses on securities	Gains and losses on derivative instruments	Pension liability adjustments	Total
Balance at December 31, 2012	(247,734)	4,146	(4,462)	(119,199)	(367,249)
Equity transactions with noncontrolling interests and other	(168)	-	(2)	(116)	(286)
Other comprehensive income (loss) before reclassifications	136,149	2,868	(4,522)	(618)	133,877
Amounts reclassified from accumulated other comprehensive income (loss)	-	(1,055)	8,129	411	7,485
Net change during the period	135,981	1,813	3,605	(323)	141,076
Balance at June 30, 2013	(111,753)	5,959	(857)	(119,522)	