

CANON INC
Form 6-K
July 25, 2008

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 **July**..... , **2008**
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.... **July 24, 2008**....

By...../s/..... Masashiro Kobayashi.....
(Signature)*

Masashiro Kobayashi
General Manager
Global Finance Management Center
Canon Inc.

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

The following materials are included.

1. RESULTS FOR THE SECOND QUARTER AND THE FIRST HALF ENDED JUNE 30, 2008

**RESULTS FOR THE SECOND QUARTER
AND THE FIRST HALF ENDED JUNE 30, 2008**

July 24, 2008

CONSOLIDATED RESULTS FOR THE FIRST HALF

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

	Actual		Change(%)	Projected			
	Six months ended June 30, 2008 (Unaudited)	Six months ended June 30, 2007 (Unaudited)		Six months ended June 30, 2008 (Unaudited)	Year ended December 31, 2007	Year ending December 31, 2008	Change(%)
Net sales	¥ 2,113,432	¥ 2,166,724	- 2.5	\$ 19,938,038	¥ 4,481,346	¥ 4,590,000	+ 2.4
Operating profit	330,983	388,876	- 14.9	3,122,481	756,673	770,000	+ 1.8
Income before income taxes and minority interests	339,245	406,141	- 16.5	3,200,425	768,388	785,000	+ 2.2
Net income	¥ 214,485	¥ 255,183	- 15.9	\$ 2,023,443	¥ 488,332	¥ 500,000	+ 2.4
Net income per share:							
- Basic	¥ 170.08	¥ 194.38	- 12.5	\$ 1.60	¥ 377.59	¥ 396.47	+ 5.0
- Diluted	170.07	194.33	- 12.5	1.60	377.53	-	-

	Actual		Change(%)	As of	
	As of June 30, 2008 (Unaudited)	As of June 30, 2007 (Unaudited)		As of June 30, 2008 (Unaudited)	As of December 31, 2007
Total assets	¥ 4,458,196	¥ 4,608,514	- 3.3	\$ 42,058,453	¥ 4,512,625
Stockholders equity	¥ 3,007,929	¥ 3,074,367	- 2.2	\$ 28,376,689	¥ 2,922,336

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 JPY106= U.S.\$1, the approximate exchange rate on the Tokyo Foreign

Exchange Market as of June 30, 2008, solely for the convenience of the reader.

NON-CONSOLIDATED RESULTS FOR THE FIRST HALF

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

Edgar Filing: CANON INC - Form 6-K

	Actual				
	Six months ended June 30, 2008 (Unaudited)	Six months ended June 30, 2007 (Unaudited)	Change(%)	Six months ended June 30, 2008 (Unaudited)	Year ended December 31, 2007
Net sales	¥ 1,395,347	¥ 1,370,988	+ 1.8	\$ 13,163,651	¥ 2,887,912
Operating profit	235,890	280,363	- 15.9	2,225,377	533,841
Ordinary profit	256,211	302,276	- 15.2	2,417,085	552,843
Net income	¥ 168,439	¥ 200,925	- 16.2	\$ 1,589,047	¥ 366,973
Net income per share	¥ 133.57	¥ 153.05	- 12.7	\$ 1.26	¥ 283.75
Dividend per share	55.00	50.00	+ 10.0	0.52	110.00

	Actual				
	As of June 30, 2008 (Unaudited)	As of June 30, 2007 (Unaudited)	Change(%)	As of June 30, 2008 (Unaudited)	As of December 31, 2007
Total assets	¥ 2,836,060	¥ 2,808,645	+ 1.0	\$ 26,755,283	¥ 2,790,892
Net assets	¥ 1,981,996	¥ 2,042,600	- 3.0	\$ 18,698,075	¥ 1,890,566

Note: U.S. dollar amounts are translated from yen at the rate of JPY106 = U.S.\$1, the approximate exchange rate on the Tokyo Foreign Exchange Market as of June 30, 2008, solely for the convenience of the reader.

Canon Inc.
Headquarter office

30-2, Shimomaruko 3-chome, Ohta-ku,
Tokyo 146-8501, Japan
Phone: +81-3-3758-2111

I. Operating Results and Financial Conditions

2008 First Half in Review

Looking back at the global economy in the first half of 2008, in the United States, housing investment remained lackluster during the period due to the subprime loan crisis while escalating crude oil prices led to slack consumer spending. In Europe, growth of consumer spending was sluggish due to a rise in prices, and exports suffered a slowdown due to the appreciation of the euro. Within Asia, although the effects of the U.S. and European economies resulted in a slight slowdown, the Asian economy, led by China, continued to realize a high rate of growth. In Japan, consumer spending floundered amid uncertainty over the future while export growth was limited due to the slowdown in the global economy and the appreciation of the yen.

As for the markets in which Canon operates, within the office imaging product market, amid the shift toward color models and advanced functionality, demand for network digital multifunction devices (MFDs) remained low primarily in the U.S. market due to the deterioration of the business climate. As for computer peripherals, including printers, demand for laser beam printers continued to display growth, mainly for color models. With regard to inkjet printers, demand continued to shift from single-function to multifunction models amid fierce price competition within the market. Within the digital camera segment, demand for digital single-lens reflex (SLR) cameras and digital compact cameras grew steadily during the term. In the optical equipment segment, while demand for steppers, utilized in the production of semiconductors, remained low due to restrained facility investment by device manufacturers, the market for aligners, used to produce liquid crystal display (LCD) panels, improved dramatically thanks to a recovery in capital spending by LCD panel manufacturers. The average value of the yen for the first half was ¥104.69 to the U.S. dollar, a year-on-year appreciation of about 13%, and ¥160.69 to the euro, approximately the same level as the year-ago period.

Amid these conditions, Canon has been working steadily to strengthen the company's management foundation by bolstering competitiveness in each business field through management innovations. During the first six months of the year, sales volumes of digital cameras, color network MFDs and other products increased supported by the enhancement of market share and recording sales increases on a local-currency basis. The negative effect, however, of the sharp and sudden appreciation of the yen against the U.S. dollar resulted in consolidated net sales for the first half of ¥2,113.4 billion (U.S.\$19,938 million), a year-on-year decrease of 2.5%. Despite the continued launch of new products and ongoing cost-cutting efforts, the gross profit ratio for the first half was 49.3%, a decline of 1.8 points due to such factors as the rapid appreciation of the yen against the U.S. dollar and escalating resource and materials costs. As such, first-half gross profit declined by 6.0% to ¥1,041.5 billion (U.S.\$9,825 million) from the year-ago period. While R&D expenditures grew by 3.1% compared with the same period for the previous year, group-wide expense-reduction efforts supported a decrease in operating expenses of 1.1% year on year. Consequently, operating profit in the first half totaled ¥331.0 billion (U.S.\$3,122 million), a decline of 14.9% compared with last year. Other income (deductions) decreased by ¥9.0 billion (U.S.\$85 million), mainly due to a reduced interest income and a drop in earnings on investments in affiliates accounted for by the equity method. As a result, while income before income taxes and minority interests for the first half totaled ¥339.2 billion (U.S.\$3,200 million), a decline of 16.5%, and first-half net income also recorded a decrease of 15.9% to ¥214.5 billion (U.S.\$2,023 million), the net income ratio, at 10.1%, remained at a double-digit level.

Basic net income per share for the first half was ¥170.08 (U.S.\$1.60), a year-on-year decline of ¥24.30 (U.S.\$0.23).

Results by Product Segment

Reviewing first-half consolidated results by business sector, within the business machine segment, despite sales growth for such products as the competitively priced iR C3580 series of color network digital MFDs, the appreciation of the yen along with restrained investment in office equipment as a result of concerns regarding business performance had a negative impact on sales led by the U.S. market. Consequently, business machine sales overall declined by 5.3% year on year. In the field of computer peripherals, despite a steady increase in sales of laser beam printers on a local-currency basis, the significant impact of the yen's appreciation against the U.S. dollar resulted in a decrease in sales of 3.9% from the year-ago period. As for inkjet printers, however, home-use multifunction models such as the PIXMA MP610, as well as business-use MFDs equipped with a facsimile function, recorded an increase in unit sales with sales of related consumables also expanding, which contributed to a sales increase of 2.8% despite the impact of the yen's appreciation. As a result, first-half profit for computer peripherals overall declined by 2.3%. As for business information products, a drop in demand for personal computer sales in the Japanese domestic market resulted in a reduction in sales of 12.6%. Collectively, sales of business machines overall during the term totaled ¥1,389.0 billion (U.S.\$13,104 million), dropping 4.0% from the year-ago period. Operating profit for the segment totaled ¥303.0 billion (U.S.\$2,859 million), a year-on-year decrease of 9.7%, as a result of lower gross profit ratio due to the appreciation of the yen.

Within the digital camera segment, the high-resolution, competitively priced EOS Digital Rebel XSi and advanced-amateur model EOS 40D contributed to robust sales while also boosting sales of interchangeable lenses and other accessories. Sales volume of digital compact cameras also maintained stable growth, bolstered by the launch of 7 new models, including 4 new stylish ELPH (IXUS)-series models and 3 new PowerShot-series models that cater to a range of photographic demands. As a result, while year-on-year sales volume for digital cameras rose by 16%, overall camera sales for the first half grew by only 1.9% from the year-ago period to ¥529.4 billion (U.S.\$4,994 million) due to the dramatic appreciation of the yen against the U.S. dollar along with fierce price competition. Additionally, operating profit for the camera segment decreased by 18.0% year on year to ¥112.6 billion (U.S.\$1,062 million) as a result of the significant decline in the gross profit ratio for the sector.

In the optical and other products segment, while sales of aligners, used to produce LCD panels, gained momentum owing to a recovery in demand by LCD panel manufacturers, sales of steppers, used in the production of semiconductors, remained stagnant throughout the period due to market shrinkage. As a result, sales for the segment totaled ¥195.0 billion (U.S.\$1,840 million), a year-on-year decrease of 2.8%, while operating profit for the segment fell by 74.2% to ¥5.5 billion (U.S.\$52 million).

Cash Flow

In the first half of 2008, Canon generated cash flow from operating activities of ¥335.6 billion (U.S.\$3,166 million), a decrease of ¥104.7 billion (U.S.\$988 million) compared with the corresponding period for last year, reflecting the decrease in net income. Cash flow from investing activities totaled ¥289.5 billion (U.S.\$2,732 million), a year-on-year increase of ¥80.2 billion (U.S.\$756 million), due to such factors as aggressive facility investment to reinforce production capabilities and the payment to acquire shares of Hitachi Displays, Ltd. toward the launch of Canon's display business. As a result, free cash flow totaled ¥46.1 billion (U.S.\$435 million), deteriorating by ¥184.9 billion (U.S.\$1,744 million).

Cash flow from financing activities recorded an outlay of ¥85.0 billion (U.S.\$802 million), mainly resulting from the dividend payout of ¥75.7 billion (U.S.\$714 million). Consequently, cash and cash equivalents decreased by ¥78.1 billion (U.S.\$736 million) to ¥866.4 billion (U.S.\$8,174 million) from the end of the previous year, including the ¥39.2 billion (U.S.\$369 million) negative impact of currency translation due to the appreciation of the yen against the U.S. dollar.

Non-consolidated Results

While first-half non-consolidated net sales totaled ¥1,395.3 billion (U.S.\$13,164 million), a year-on-year increase of 1.8%, ordinary profit declined by 15.2% to ¥256.2 billion (U.S.\$2,417 million) and net income fell by 16.2% to ¥168.4 billion (U.S.\$1,589 million) due to the impact of foreign currency exchange rates, which also had a similar impact on the company's consolidated financial results.

Outlook

As for the outlook for the global economy in the third quarter and thereafter, fallout from the subprime loan crisis, including financial instability and escalating prices of crude oil and raw materials, have led to rising anxiety over an economic slowdown and uncertainty about the future. Amid this environment, while the economic slowdown is likely to continue among developed countries for the time being, these economies are expected to gradually move toward recovery as the effects of financial policies and economic stimulus measures in the U.S. and other countries begin to materialize from the end of the year. As for emerging-market economies, including those of Asia and Russia, despite the negative economic influence of developed countries, these regions are expected to continue enjoying high rates of growth.

In the businesses in which the Canon is involved, the market for digital SLR and digital compact cameras is projected to continue achieving healthy expansion amid intensifying price competition. Demand for color network digital MFDs and color laser beam printers is also expected to remain solid amid continued price competition and shifting market demand toward lower priced models. While the market for steppers will likely remain depressed, the market for aligners is expected to stage a healthy recovery owing to large-scale facility investment by LCD panel manufacturers. As for currency exchange rates from the third quarter onward, on which Canon's performance outlook for the full year is based, while uncertainty over future interest rate policies and economic prospects for major countries is likely to continue, Canon anticipates exchange rates of ¥105 to the U.S. dollar and ¥165 to the euro, representing year-on-year appreciation of approximately 9% against the U.S. dollar and depreciation of about 1% against the euro. Upon taking into consideration first-half business results as well as the expected business climate based on these foreign exchange rate assumptions, the company has slightly revised its projected consolidated net sales upwards to ¥4,590.0 billion (U.S.\$43,302 million), while maintaining earlier announced projections for operating profit of ¥770.0 billion (U.S.\$7,264 million), income before income taxes and minority interests of ¥785.0 billion (U.S.\$7,406 million), and net income of ¥500.0 billion (U.S.\$4,717 million).

Fiscal year

	Millions of yen				
	Year ending		Change	Year ended December 31, 2007	Change (%)
	December 31, 2008				
	Previous Outlook (A)	Revised Outlook (B)	(B - A)	Results (C)	(B - C) / C
Net sales	¥4,570,000	¥4,590,000	¥20,000	¥4,481,346	+ 2.4%
Operating profit	770,000	770,000	-	756,673	+ 1.8%
Income before income taxes and minority interests	785,000	785,000	-	768,388	+ 2.2%
Net income	500,000	500,000	-	488,332	+ 2.4%

Basic Policy Regarding Profit Distribution

Canon is being more proactive in returning profits to shareholders, mainly in the form of a dividend, taking into consideration planned future investments, free cash flow, and the company's consolidated business performance. Specifically, Canon's medium- to long-term objective is to continuously strive to raise its consolidated payout ratio to approximately 30%.

The company plans to distribute a full-year dividend for fiscal 2008 totaling ¥110.00 (U.S.\$1.04), comprising an interim dividend of ¥55.00 (U.S.\$0.52) per share, and a year-end dividend of ¥55.00 (U.S.\$0.52) per share.

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.

- 4 -

II. Management Policy

(1) Basic Policy

Under the corporate philosophy of *kyosei* living and working together for the common good Canon's basic management policy is to contribute to the prosperity and well-being of the world while endeavoring to become a truly excellent global corporate group targeting continued growth and development.

(2) Management Goals

Based on this basic management policy, Canon launched two consecutive five-year management plans Phase I of its Excellent Global Corporation Plan in 1996, and Phase II in 2001 with the aim of becoming a truly excellent global corporation. Through these two management plans, the company promoted a range of management reforms, thoroughly strengthening its product competitiveness and financial base. Since 2006, under a new five-year management plan Phase III, which targets further growth and improved corporate value Canon is pursuing sound growth, making use of the solid management foundation achieved through the two preceding plans, and further expanding its corporate scale while maintaining a high level of profitability. In particular, the company is focusing on the following five important management objectives.

- 1) Achieving the overwhelming No. 1 position worldwide in all current core businesses
- 2) Expanding business operations through diversification
- 3) Identifying new business domains and accumulating required technologies
- 4) Establishing new production systems to sustain international competitiveness
- 5) Nurturing truly autonomous and strong individuals promoting everlasting corporate reforms

(3) Business Challenges and Countermeasures

At Canon, the creation of new businesses and maintaining a high profitability structure represent two very important management objectives to ensure continuous future growth.

As for new businesses, the company is promoting research based on leading-edge technologies in its areas of expertise, such as biotechnology, nanotechnology and life sciences. At the same time, Canon is also looking into M&A opportunities and business tie-ups toward launching such businesses. Additionally, the company aims to enter the display business, moving away from a focus on still images while strengthening the ability to deliver video images, which will play an increasingly important role in the broadband era.

With regard to maintaining the company's current high profitability structure, in order to effectively respond to the intensifying price competition centered on the consumer goods market and the investment burden that accompanies the launch of competitive new businesses, Canon believes that it is important to further improve the profit-earning ability of current businesses. To facilitate this, the company is promoting the development of new products and actively carrying out cost-reduction activities.

Canon also views its approach to the environment as an important management issue. From the product planning stage through to design, development, production, sales, use, recovery and recycling, the company focuses its energies on such areas as creating environmentally conscious products that realize energy efficiency, resource efficiency, and eliminate the use of hazardous substances. Additionally, Canon actively promotes the development of recycling systems, the expansion of green procurement policies, the disclosure of environmental information, and participation in environmental conservation activities at the community level.

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

III. Financial Statements**1. CONSOLIDATED STATEMENTS OF INCOME**

<u>Results for the second quarter</u>	Millions of yen			Thousands of U.S. dollars
	Three months ended June 30, 2008 (Unaudited)	Three months ended June 30, 2007 (Unaudited)	Change(%)	Three months ended June 30, 2008 (Unaudited)
Net sales	¥ 1,105,894	¥ 1,126,931	- 1.9	\$ 10,432,962
Cost of sales	564,304	553,054		5,323,622
Gross profit	541,590	573,877	- 5.6	5,109,340
Operating expenses:				
Selling, general and administrative expenses	285,529	295,067		2,693,670
Research and development expenses	95,908	97,337		904,793
	381,437	392,404		3,598,463
Operating profit	160,153	181,473	- 11.7	1,510,877
Other income (deductions):				
Interest and dividend income	4,773	9,112		45,028
Interest expense	(251)	(402)		(2,368)
Other, net	7,928	8,114		74,793
	12,450	16,824		117,453
Income before income taxes and minority interests	172,603	198,297	- 13.0	1,628,330
Income taxes	61,304	70,289		578,339
Income before minority interests	111,299	128,008		1,049,991
Minority interests	3,458	4,075		32,623
Net income	¥ 107,841	¥ 123,933	- 13.0	\$ 1,017,368

Note: Comprehensive income for the three months ended June 30, 2008 and 2007 was JPY 160,962 million (U.S.\$ 1,518,509 thousand) and JPY 172,538 million, respectively.

<u>Results for the first half</u>	Millions of yen		Thousands of U.S. dollars	Millions of yen
	Six months	Six months	Six months	Year ended

Edgar Filing: CANON INC - Form 6-K

	ended June 30, 2008 (Unaudited)	ended June 30, 2007 (Unaudited)	Change(%)	ended June 30, 2008 (Unaudited)	December 31, 2007
Net sales	¥ 2,113,432	¥ 2,166,724	- 2.5	\$ 19,938,038	¥ 4,481,346
Cost of sales	1,071,977	1,059,170		10,112,991	2,234,365
Gross profit	1,041,455	1,107,554	- 6.0	9,825,047	2,246,981
Operating expenses:					
Selling, general and administrative expenses	535,009	548,411		5,047,255	1,122,047
Research and development expenses	175,463	170,267		1,655,311	368,261
	710,472	718,678		6,702,566	1,490,308
Operating profit	330,983	388,876	- 14.9	3,122,481	756,673
Other income (deductions):					
Interest and dividend income	10,966	17,367		103,453	32,819
Interest expense	(663)	(795)		(6,255)	(1,471)
Other, net	(2,041)	693		(19,254)	(19,633)
	8,262	17,265		77,944	11,715
Income before income taxes and minority interests	339,245	406,141	- 16.5	3,200,425	768,388
Income taxes	117,338	142,836		1,106,963	264,258
Income before minority interests	221,907	263,305		2,093,462	504,130
Minority interests	7,422	8,122		70,019	15,798
Net income	¥ 214,485	¥ 255,183	- 15.9	\$ 2,023,443	¥ 488,332

Note: Comprehensive income for the six months ended June 30, 2008 and 2007 was JPY 161,371 million (U.S.\$ 1,522,368 thousand) and JPY 356,634 million, respectively.

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

2. DETAILS OF SALES

<u>Results for the second quarter</u>	Millions of yen		Change(%)	Thousands of U.S. dollars
	Three months ended June 30, 2008	Three months ended		Three months ended
Sales by product				