

CANON INC
Form 6-K
November 08, 2011

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Issuer

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

the Securities Exchange Act of 1934

For the month of **November** **2011** . ,

CANON INC.

(Translation of registrant's name into English)

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

(Address of principal executive offices)

[Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F Form 40-F

[Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No

[If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):82-

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CANON INC.
(Registrant)

Date . **November 8, 2011.**

By /s/ Masashiro Kobayashi
(Signature)*

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

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

The following materials are included.

1. Quarterly Report filed with the Japanese government pursuant to the Financial Instruments and Exchange Law of Japan For the third quarter ended September 30, 2011

[English summary with full translation of consolidated financial information]

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

For the third quarter ended

September 30, 2011

CANON INC.

Tokyo, Japan

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Disclaimer Regarding Forward-Looking Statements

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

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

I. Corporate Information

(1) Consolidated Financial Summary

Millions of yen (except per share amounts)

	Nine months	Nine months	Three months	Three months	Year
	ended	ended	ended	ended	ended
	September 30,	September 30,	September 30,	September 30,	December 31,
	2011	2010	2011	2010	2010
Net sales	2,592,676	2,639,035	916,911	913,151	3,706,901
Income before income taxes	281,924	310,329	118,265	108,826	392,863
Net income attributable to Canon Inc.	187,187	192,644	77,864	68,195	246,603
Canon Inc. stockholders' equity	-	-	2,521,160	2,654,979	2,645,782
Total equity	-	-	2,684,757	2,831,223	2,809,637
Total assets	-	-	3,910,019	4,030,551	3,983,820
Canon Inc. stockholders' equity per share (yen)	-	-	2,098.32	2,153.76	2,153.73
Net income attributable to Canon Inc.					
Stockholders per share:					
Basic (yen)	153.42	155.79	64.43	55.07	199.71
Diluted (yen)	153.41	155.79	64.42	55.07	199.70
Canon Inc. stockholders' equity to total assets (%)	-	-	64.5	65.9	66.4
Cash flows from operating activities	342,583	519,427	-	-	744,413
Cash flows from investing activities	(202,000)	(243,202)	-	-	(342,133)
Cash flows from financing activities	(251,569)	(267,958)	-	-	(279,897)
Cash and cash equivalents at end of period	-	-	711,361	759,399	840,579
Number of employees	-	-	199,820	198,333	197,386

Notes:

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

(2) Description of Business

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

Canon (consisting of the Company, 291 consolidated subsidiaries and 13 affiliates accounted for using the equity method, collectively, the Group) is engaged in the development, manufacture, sale and service primarily in the fields of office, consumer, industry and others. No material change in Canon 's business has occurred during the three months ended September 30, 2011.

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

(3) Group Entities

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

(4) Number of Employees

Canon 's number of employees is summarized as follows:

	As of September 30, 2011
Consolidated	199,820
Parent-alone	25,529

Note:

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

II. The Business

(1) Production and Sales

Production

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

	Millions of yen	
	Three months ended September 30, 2011	
		Change from
	Production	September 30, 2010(%)
Office	398,021	-17.7
Consumer	530,072	+24.5
Industry and Others	74,594	+10.1
Total	1,002,687	+2.6

Notes:

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

Sales

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

	Millions of yen	
	Three months ended September 30, 2011	
		Change from
	Sales	September 30, 2010(%)
Office	472,941	-6.7
Consumer	347,442	+7.0

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Industry and Others	123,784	+12.8
Eliminations	(27,256)	-
Total	916,911	+0.4

Notes:

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

Millions of yen

	Three months ended September 30, 2011		Three months ended September 30, 2010	
	Sales	Proportion (%)	Sales	Proportion (%)
Hewlett-Packard Company	182,223	19.9	201,274	22.0

(2) Risk Factors

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

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

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

(4) Operating Results

Looking back at the global economy in the third quarter of 2011, the pace of economic recovery further decelerated due to downward pressure on the economies of Europe and the United States. In the United States, a lack of progress in alleviating the high unemployment rate and housing problems led to a decline in the growth rate, while in Europe, as the peripheral countries confront the debt crisis, the major economies of the region also slowed down. In contrast, emerging Asian countries, such as China and India, continued to achieve solid economic growth fueled by stable domestic demand. In Japan, although the economy continued to face severe challenges, progress was made in restoring the supply chain and indications pointed to a recovery in production in the aftermath of the Great East Japan Earthquake.

As for the markets in which Canon operates amid these conditions, within the office equipment market, demand for network digital multifunction devices (MFDs) continued to recover moderately. The laser printer market continued to display solid growth boosted by emerging economies. With regard to the consumer products market, demand for digital single-lens reflex (SLR) cameras maintained significant growth in all regions, while the market for compact digital cameras grew steadily in emerging markets. Demand for inkjet printers achieved healthy growth in emerging markets and a recovery of demand was also felt in Japan, resulting in stable growth overall. In the industry and others sector, investment in semiconductor lithography equipment used to manufacture DRAM memory devices was partially restrained due to a slowdown in the PC market. Despite solid growth in liquid crystal display (LCD) lithography equipment for the manufacture of mid- and small-size LCD panels used in smartphones, demand for equipment used to manufacture large LCD panels has remained sluggish since the beginning of the year.

The average values of the yen during the third quarter and first nine months of the year were ¥77.75 and ¥80.39 to the U.S. dollar, respectively, year-on-year appreciations of approximately ¥8 and ¥9, and ¥109.98 and ¥113.23 to the euro, respectively, year-on-year appreciations of approximately ¥1 and ¥3.

(4) Operating Results (continued)

In the third quarter, owing to recovery efforts following the earthquake through increased production and expanded sales, net sales of digital SLR cameras recorded significant year-on-year growth. As for network digital MFDs and laser printers, despite the signs of recovery from the previous quarter, third-quarter net sales declined from the year-ago period. Additionally, the Industry and Others Business Unit recorded an increase in net sales during the three-month period. Amid the impact of the strong yen against the U.S. dollar, which led to significantly reduced sales, overall net sales for the third quarter totaled ¥916.9 billion, an increase of 0.4% from the year-ago period. Net sales for the nine months ended September 30, 2011 totaled ¥2,592.7 billion, slipping 1.8% year on year, reflecting the effects of the earthquake in the first half of the year. The gross profit ratio for the third quarter improved by 0.5 points to 49.4%, thanks to ongoing cost-cutting efforts that absorbed the impact of the appreciation of the yen to the U.S. dollar, while the ratio for the first nine months of the year rose 0.4 points to 49.3%. Gross profit for the third quarter totaled ¥452.5 billion, a year-on-year increase of 1.3%, and totaled ¥1,277.2 billion for the first nine months, a year-on-year decline of 1.1%, due to reduced sales. Operating expenses decreased by ¥12.5 billion for the quarter owing to Group-wide efforts to thoroughly reduce spending. For the nine months ended September 30, 2011, however, the amount increased by ¥7.6 billion, mainly stemming from the effects of new consolidation arising from the acquisition of Océ N.V. in the previous year. Consequently, third-quarter operating profit totaled ¥122.5 billion, jumping 17.4% year on year, income before income taxes totaled ¥118.3 billion, an increase of 8.7% from the year-ago period, and net income attributable to Canon Inc. totaled ¥77.9 billion for the quarter, an increase of 14.2%, achieving year-on-year increases in both sales and profit for the first time in four quarters. As for the first nine months of the year, operating profit decreased by 7.0% to ¥283.5 billion, income before income taxes declined 9.2% to ¥281.9 billion, and net income attributable to Canon Inc. dipped 2.8% to ¥187.2 billion.

Basic net income attributable to Canon Inc. stockholders per share for the third quarter was ¥64.43, an increase of ¥9.36 compared with the corresponding quarter for the previous year, and ¥153.42 for the first nine months of 2011, a year-on-year decrease of ¥2.37.

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

Looking at Canon's quarterly performance by business unit, within the Office Business Unit, amid stable demand for color network digital MFDs, particularly the imageRUNNER ADVANCE C5000/C2000-series, efforts to restore production following the earthquake led to a year-on-year increase in overall sales volumes. In addition, sales of imagePRESS C7010VPS/C6010VPS/C6010S-series color MFDs for production printing, which were launched in March this year and are the first products to be jointly developed by Canon and Océ, gained momentum and contributed to increased unit sales of digital commercial printing and production printing devices for corporate clients. As for laser printers, hearty demand centered on emerging countries boosted unit sales volume, mainly for monochrome models, resulting in nearly double-digit growth compared with the corresponding period of the previous year. These performances, however, were affected by the appreciation of the yen against the U.S. dollar along with a shift in demand to lower-priced products. As a result, third-quarter sales for the segment dropped 6.7% year on year to ¥472.9 billion, while operating profit for the quarter decreased 11.2% to ¥67.8 billion due to the appreciation of the yen against the U.S. dollar along with the decline in gross profit accompanying reduced sales. Sales for the first nine months of the year totaled ¥1,419.6 billion, slipping 1.3% year on year, while operating profit decreased by 17.9% to ¥190.7 billion.

(4) Operating Results (continued)

Within the Consumer Business Unit, active efforts to boost production and expand sales in response to robust demand for digital SLR cameras resulted in significant increases in sales volumes over the corresponding year-ago period for such models as the entry-level EOS Rebel T3i/T2i/T3 and the advanced-amateur EOS 5D Mark II and EOS 60D. As for compact digital cameras, sales of the PowerShot ELPH 100 HS/300 HS and PowerShot SX230 HS, which were launched this spring, remained solid while sales of the PowerShot ELPH 310 HS introduced in September recorded a healthy start, resulting in a year-on-year increase of unit sales overall. With regard to inkjet printers, despite the impact of severe price competition among market players in Europe and elsewhere, unit sales increased year on year, fueled by sales growth for the mid- to high-end PIXMA MG6220/6120/5120, mainly in Japan, and for the entry-level PIXMA MP280, mainly in emerging markets. Accordingly, amid the effects of the strong yen to the U.S. dollar, third-quarter sales for the Consumer Business Unit increased 7.0% year on year to ¥347.4 billion, and quarterly operating profit climbed 27.9% to ¥75.2 billion, reflecting the effects of increased sales along with cost-reduction and expense-cutting efforts. Having not fully recovered from the negative effects of the earthquake in the first half and the impact of the appreciation of the yen, net sales for the first nine months totaled ¥939.3 billion, a decline of 4.1% year on year, while operating profit totaled ¥160.4 billion, a decrease of 7.3% year on year.

In the Industry and Others Business Unit, owing to active investment in semiconductor lithography equipment for the manufacture of NAND flash memories and digital-imaging sensors, which are used in smartphones, and power devices utilized in environmentally friendly products, sales of i-line steppers remained solid. Unit sales of LCD lithography equipment dropped substantially in the face of shrinking demand for equipment to produce large-size panels, an area in which Canon is particularly strong. In addition to these factors, sales of equipment used to manufacture organic light-emitting panels, which applies vacuum technologies and is sold by a Canon Group company, increased significantly, contributing to third-quarter sales for the segment, which totaled ¥123.8 billion, an increase of 12.8%. Operating profit was ¥9.1 billion, a surge of 106.9%, owing to the improved gross profit ratio along with efforts to curb expenses. Sales for the first nine months of the year totaled ¥306.8 billion, rising 1.9% year on year, while operating profit was ¥20.5 billion.

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

Japan

Owing to the increase of semiconductor lithography equipment due to active investment for semiconductor equipment, net sales in Japan for the third quarter increased by 7.2% from the year-ago period to ¥755.2 billion but 3.4% decrease to ¥1,992.2 billion for the nine months ended September 30, 2011 because of the aftermath of the earthquake. Operating profit climbed 2.2% year on year to ¥110.2 billion for the quarter, and decline of 8.0% year on year to ¥292.5 billion for the nine-month period.

(4) Operating Results (continued)

Net sales outside Japan, declined in Americas and Europe while increased in Asia-Oceania.

Americas

Digital SLR cameras sold well in third quarter, however due to the severe appreciation of the yen against the U.S dollar, sales decreased by 2.3% from the year-ago period to ¥243.1 billion, and ¥694.5 billion for the combined nine months of the year, a decrease of 3.1%. Operating profit for the third quarter totaled ¥12.3 billion, an increase of 100.6% year on year, due to reduction of spending and ¥16.7 billion for the nine months ended September 30, 2011, a decline of 5.3% from the corresponding period of the previous year.

Europe

Digital SLR cameras sales remained solid whereas sales of laser printers sales dropped largely in this quarter. Total sales for the quarter decreased by 3.9% from the same period of the previous year to ¥274.8 billion. Sales for the first nine months of the year decreased by 0.5% to ¥822.3 billion. Operating profit in Europe increased by 18.6% year on year to ¥14.7 billion for the third quarter, and ¥33.3 billion for the nine months ended September 30, 2011, an increase of 3.1%.

Asia and Oceania

Sales increased by 11.1% to ¥417.7 billion for the third quarter mainly due to significant growth of digital SLR cameras. Sales for the nine months ended September 30, 2011 increased 5.1% to ¥1,080.1 billion. Operating profit in Asia and Oceania increased 31.7% to ¥19.0 billion for the quarter and a rise of 9.7% to ¥43.2 billion for the nine-month period.

Cash Flows

In the third quarter of 2011, cash flow from operating activities totaled ¥151.8 billion, a decrease of ¥19.1 billion compared with the year-ago period, as a result of increased trade receivables with the recovery of business performance. Due to increase in time deposit, cash flow from investing activities increased ¥62.5 billion year on year, totaling ¥128.7 billion outlay. Accordingly, free cash flow totaled ¥23.1 billion, a decrease of ¥81.6 billion from the previous year.

Cash flow from financing activities recorded an outlay of ¥125.1 billion, mainly arising from repurchases of treasury stock. Owing to these factors, as well as the negative impact from foreign currency translation adjustments, cash and cash equivalents decreased by ¥137.0 billion to ¥711.6 billion from the end of the previous quarter.

Management Issues to be Addressed

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

Research and Development Expenditures

Canon's research and development expenditures for the three months ended September 30, 2011 totaled ¥78.0 billion.

Others

Due to the floods in Thailand in October 2011, Canon anticipates delays in production for select inkjet printer and digital camera products. In the short term, this could negatively affect Canon's revenue and generate increased costs, adversely affecting Canon's operating results and financial position.

III. Property, Plant and Equipment

(1) **Major Property, Plant and Equipment**

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

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

The new construction of property, plant and equipment, which had been in progress as of June 30, 2011 and was completed during the third quarter of 2011, is as follows:

Name and location	Principal activities and products manufactured	Date of completion
Canon Hi-Tech Thailand Ltd. Nakhon Ratchasima, Thailand	Manufacturing of inkjet printers MFPs and scanners (Consumer Business Unit)	July 2011

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

IV. 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, Osaka, Nagoya, Fukuoka, Sapporo and New York Stock Exchanges. Total issued shares are as follows:

	As of September 30, 2011
Total number of issued shares	1,333,763,464
<u>Stock Acquisition Rights</u>	

The descriptions of the stock option plans as of September 30, 2011 are below.

The Stock Option Plan Approved on March 28, 2008

1. Number of share options

The number of share options that the Board of Directors are authorized to issue is 5,580.

2. Number of shares acquired upon exercise of a share option

The number of shares acquired upon exercise of one share option (the Allotted Number of Shares) is 100 common shares, and the total number of shares to be delivered due to the exercise of share options is 558,000 common shares.

3. Cash payment for share options (yen)

The cash payment required for each share option is ¥5,502.

- (i) If the Company effects a share split or a share consolidation after the date of the allotment of the share options, the Exercise Price will be adjusted by the following calculation formula, with any fractional amount of less than one yen to be rounded up to one yen:
Exercise Price after Adjustment

1

=Exercise Price before adjustment ×

Ratio of Share Split or Share Consolidation

- (ii) If, after the date of allotment of share options, the Company issues common shares at a price lower than the then market price thereof or disposes common shares owned by it, the Exercise Price will be adjusted by the following calculation formula, with any fractional amount of less than one yen to be rounded up to one yen; however, the Exercise Price will not be adjusted in the case of the exercise of share options:
Exercise Price after Adjustment = Exercise Price before Adjustment ×

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Number of Newly Issued Shares × Payment amount per Share

Number of Issued and Outstanding Shares +

Market Price

Number of Issued and Outstanding Shares + Number of Newly Issued Shares

The Number of Issued and Outstanding Shares is the number of shares already issued by the Company after subtraction of the number of shares owned by the Company. In the case of the Company's disposal of shares owned by it, the Number of Newly Issued Shares will be replaced with the Number of Own Shares to Be Disposed.

(1) Shares (continued)

- (iii) In the case of a merger, a company split or capital reduction after the date of allotment of share options, or in any other analogous case requiring the adjustment of the Exercise Price, the Exercise Price shall be appropriately adjusted within a reasonable range.

4. Period during which share options are exercisable

From May 1, 2010 to April 30, 2014.

5. Exercise price and amount of increased stated capital (yen)

The exercise price and amount of increased stated capital per share is ¥5,502 and ¥2,751, respectively.

6. Other Conditions for Exercise of Share Options

- (i) One share option may not be exercised partially.
- (ii) Each holder of share options must continue to be a director, executive officer or employee of the Company until the end of the Company's general meeting of shareholders regarding the final business term within 2 years from the end of the Ordinary General Meeting of Shareholders for the 107th Business Term of the Company.
- (iii) Holders of share options will be entitled to exercise their share options for 2 years, and during the exercisable period, even after they lose their positions as directors, executive officers or employees. However, if a holder of share options loses such position due to resignation at his/her initiative, or due to dismissal or discharge by the Company, his/her share options will immediately be forfeited.
- (iv) No succession by inheritance is authorized for the share options.
- (v) Any other conditions for the exercise of share options may be established by the Board of Directors.

7. Restriction on Acquisition of Share Options by Transfer

An acquisition of share options by way of transfer requires the approval of the Board of Directors.

The Stock Option Plan Approved on March 27, 2009

1. Number of share options

The number of share options that the Board of Directors are authorized to issue is 7,361.

2. Number of shares acquired upon exercise of a share option

The number of shares acquired upon exercise of one share option (the Allotted Number of Shares) is 100 common shares, and the total number of shares to be delivered due to the exercise of share options is 736,100 common shares.

3. Cash payment for share options (yen)

The cash payment required for each share option is ¥3,287.

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(i) If the Company effects a share split or a share consolidation after the date of the allotment of the share options, the Exercise Price will be adjusted by the following calculation formula, with any fractional amount of less than one yen to be rounded up to one yen:
Exercise Price after Adjustment

$$\text{Exercise Price before adjustment} \times \frac{1}{\text{Ratio of Share Split or Share Consolidation}}$$

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(1) Shares (continued)

- (ii) If, after the date of allotment of share options, the Company issues common shares at a price lower than the then market price thereof or disposes common shares owned by it, the Exercise Price will be adjusted by the following calculation formula, with any fractional amount of less than one yen to be rounded up to one yen; however, the Exercise Price will not be adjusted in the case of the exercise of share options:

Exercise Price after Adjustment = Exercise Price before Adjustment ×

Number of Newly Issued Shares × Payment amount per Share

Number of Issued and Outstanding Shares +

Market Price

Number of Issued and Outstanding Shares + Number of Newly Issued Shares

The Number of Issued and Outstanding Shares is the number of shares already issued by the Company after subtraction of the number of shares owned by the Company. In the case of the Company's disposal of shares owned by it, the Number of Newly Issued Shares will be replaced with the Number of Own Shares to Be Disposed.

- (iii) In the case of a merger, a company split or capital reduction after the date of allotment of share options, or in any other analogous case requiring the adjustment of the Exercise Price, the Exercise Price shall be appropriately adjusted within a reasonable range.

4. Period during which share options are exercisable

From May 1, 2011 to April 30, 2015.

5. Exercise price and amount of increased stated capital (yen)

The exercise price and amount of increased stated capital per share is ¥3,287 and ¥1,644, respectively.

6. Other Conditions for Exercise of Share Options

- (i) One share option may not be exercised partially.
- (ii) Each holder of share options must continue to be a director, executive officer or employee of the Company until the end of the Company's general meeting of shareholders regarding the final business term within 2 years from the end of the Ordinary General Meeting of Shareholders for the 108th Business Term of the Company.
- (iii) Holders of share options will be entitled to exercise their share options for 2 years, and during the exercisable period, even after they lose their positions as directors, executive officers or employees. However, if a holder of share options loses such position due to resignation at his/her initiative, or due to dismissal or discharge by the Company, his/her share options will immediately be forfeited.
- (iv) No succession by inheritance is authorized for the share options.

- (v) Any other conditions for the exercise of share options may be established by the Board of Directors.

7. Restriction on Acquisition of Share Options by Transfer

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An acquisition of share options by way of transfer requires the approval of the Board of Directors.

(1) Shares (continued)

The Stock Option Plan Approved on March 30, 2010

1. Number of share options

The number of share options that the Board of Directors are authorized to issue is 8,680.

2. Number of shares acquired upon exercise of a share option

The number of shares acquired upon exercise of one share option (the Allotted Number of Shares) is 100 common shares, and the total number of shares to be delivered due to the exercise of share options is 868,000 common shares.

3. Cash payment for share options (yen)

The cash payment required for each share option is ¥4,573.

(i) If the Company effects a share split or a share consolidation after the date of the allotment of the share options, the Exercise Price will be adjusted by the following calculation formula, with any fractional amount of less than one yen to be rounded up to one yen:

Exercise Price after Adjustment

1

=Exercise Price before adjustment ×

Ratio of Share Split or Share Consolidation

(ii) If, after the date of allotment of share options, the Company issues common shares at a price lower than the then market price thereof or disposes common shares owned by it, the Exercise Price will be adjusted by the following calculation formula, with any fractional amount of less than one yen to be rounded up to one yen; however, the Exercise Price will not be adjusted in the case of the exercise of share options:

Exercise Price after Adjustment = Exercise Price before Adjustment ×

Number of Issued and Outstanding Shares +

Number of Newly Issued Shares × Payment amount per Share

Market Price

Number of Issued and Outstanding Shares + Number of Newly Issued Shares

The Number of Issued and Outstanding Shares is the number of shares already issued by the Company after subtraction of the number of shares owned by the Company. In the case of the Company's disposal of shares owned by it, the Number of Newly Issued Shares will be replaced with the Number of Own Shares to Be Disposed.

(iii) In the case of a merger, a company split or capital reduction after the date of allotment of share options, or in any other analogous case requiring the adjustment of the Exercise Price, the Exercise Price shall be appropriately adjusted within a reasonable range.

4. Period during which share options are exercisable

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From May 1, 2012 to April 30, 2016.

5. Exercise price and amount of increased stated capital (yen)

The exercise price and amount of increased stated capital per share is ¥4,573 and ¥2,287, respectively.

6. Other Conditions for Exercise of Share Options

- (i) One share option may not be exercised partially.

- (ii) Each holder of share options must continue to be a director, executive officer or employee of the Company until the end of the Company's general meeting of shareholders regarding the final business term within 2 years from the end of the Ordinary General Meeting of Shareholders for the 109th Business Term of the Company.

(1) Shares (continued)

(iii) Holders of share options will be entitled to exercise their share options for 2 years, and during the exercisable period, even after they lose their positions as directors, executive officers or employees. However, if a holder of share options loses such position due to resignation at his/her initiative, or due to dismissal or discharge by the Company, his/her share options will immediately be forfeited.

(iv) No succession by inheritance is authorized for the share options.

(v) Any other conditions for the exercise of share options may be established by the Board of Directors.

7. Restriction on Acquisition of Share Options by Transfer

An acquisition of share options by way of transfer requires the approval of the Board of Directors.

The Stock Option Plan Approved on March 30, 2011

1. Number of share options

The number of share options that the Board of Directors are authorized to issue is 9,000.

2. Number of shares acquired upon exercise of a share option

The number of shares acquired upon exercise of one share option (the Allotted Number of Shares) is 100 common shares, and the total number of shares to be delivered due to the exercise of share options is 900,000 common shares.

3. Cash payment for share options (yen)

The cash payment required for each share option is ¥3,990.

(i) If the Company effects a share split or a share consolidation after the date of the allotment of the share options, the Exercise Price will be adjusted by the following calculation formula, with any fractional amount of less than one yen to be rounded up to one yen:

Exercise Price after Adjustment

$$= \text{Exercise Price before adjustment} \times \frac{1}{\text{Ratio of Share Split or Share Consolidation}}$$

Ratio of Share Split or Share Consolidation

(ii) If, after the date of allotment of share options, the Company issues common shares at a price lower than the then market price thereof or disposes common shares owned by it, the Exercise Price will be adjusted by the following calculation formula, with any fractional amount of less than one yen to be rounded up to one yen; however, the Exercise Price will not be adjusted in the case of the exercise of share options:

$$\text{Exercise Price after Adjustment} = \text{Exercise Price before Adjustment} \times \frac{\text{Number of Issued and Outstanding Shares} + \text{Number of Newly Issued Shares} \times \text{Payment amount per Share}}{\text{Number of Issued and Outstanding Shares}}$$

Number of Issued and Outstanding Shares +

Number of Newly Issued Shares × Payment amount per Share

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Market Price

Number of Issued and Outstanding Shares + Number of Newly Issued Shares

The Number of Issued and Outstanding Shares is the number of shares already issued by the Company after subtraction of the number of shares owned by the Company. In the case of the Company's disposal of shares owned by it, the Number of Newly Issued Shares will be replaced with the Number of Own Shares to Be Disposed.

- (iii) In the case of a merger, a company split or capital reduction after the date of allotment of share options, or in any other analogous case requiring the adjustment of the Exercise Price, the Exercise Price shall be appropriately adjusted within a reasonable range.

(1) **Shares (continued)**

4. Period during which share options are exercisable

From May 1, 2013 to April 30, 2017.

5. Exercise price and amount of increased stated capital (yen)

The exercise price and amount of increased stated capital per share is ¥3,990 and ¥1,995, respectively.

6. Other Conditions for Exercise of Share Options

- (i) One share option may not be exercised partially.
- (ii) Each holder of share options must continue to be a director, executive officer or employee of the Company until the end of the Company's general meeting of shareholders regarding the final business term within 2 years from the end of the Ordinary General Meeting of Shareholders for the 110th Business Term of the Company.
- (iii) Holders of share options will be entitled to exercise their share options for 2 years, and during the exercisable period, even after they lose their positions as directors, executive officers or employees. However, if a holder of share options loses such position due to resignation at his/her initiative, or due to dismissal or discharge by the Company, his/her share options will immediately be forfeited.
- (iv) No succession by inheritance is authorized for the share options.
- (v) Any other conditions for the exercise of share options may be established by the Board of Directors.

7. Restriction on Acquisition of Share Options by Transfer

An acquisition of share options by way of transfer requires the approval of the Board of Directors.

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 September 30, 2011
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

(1) **Shares (continued)**

Major Shareholders

As of September 30, 2011, the Company has identified that Deutsche Securities Inc., who was a major shareholder of the Company as of June 30, 2011, has reduced its shareholdings and is no longer a major shareholder, whereas The Chase Manhattan Bank, N.A. London S.L. Omnibus Account has increased its shareholdings and has become a major shareholder.

	As of September 30, 2011	
	Number of shares owned (Number of shares)	Number of shares owned / Number of shares issued
The Chase Manhattan Bank, N.A. London S.L. Omnibus Account		
(Local Custodian: Mizuho Corporate Bank, Ltd.)	19,471,449	1.46