

CANON INC
Form 6-K
August 24, 2007

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 __, 2007

CANON INC.

(Translation of registrant's name into English)
30-2, Shimomaruko 3-Chome, Ohta-ku, Tokyo 146-8501, Japan

(Address of principal executive offices)

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

Form 20-F Form 40-F

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

Yes No

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

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 24, 2007

By /s/ Hiroshi Kawashimo
(Signature)*

Hiroshi Kawashimo
Deputy Senior General Manager,
Finance Division
Canon Inc.

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

The following materials are included.

1. Interim Report For The 107th Business Term From January 1, 2007 to June 30, 2007 Canon Inc.
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To Our Shareholders

We are pleased to present our report for the summary of the first half of our 107th business term (from January 1, 2007 to June 30, 2007).

Reviewing conditions in both the domestic and overseas economies during the first half of the current business term, the U.S. economy continued to show modest growth, despite the impact of a slowdown in housing investment and capital investment. The European economies were strong overall, including a steady recovery of consumer spending and continued growth in internal demand. Asian economies maintained their high growth particularly in China. The Japanese economy remained strong with a firm bottom in capital investment under modest growth in corporate earnings and also due to a pickup in consumer spending. In the foreign exchange markets, the yen was weaker against both the U.S. dollar and the euro compared with the first half of the previous fiscal year.

Regarding markets in which the Canon Group operates, demand expanded greatly for digital single-lens-reflex (SLR) cameras, color network multifunction devices and color laser beam printers. Fiercer price competition for inkjet printers was accompanied by an acceleration in the shift from single-function to multifunction machines. Although demand for semiconductor production equipment showed a trend of recovery, demand for mirror projection mask aligners for LCDs fell greatly due to a restraint in capital investment by LCD panel manufacturers.

Under these business conditions, the Canon Group, entering the second year of Phase III (2006 to 2010) of our Excellent Global Corporation Plan, continued to launch new products differentiated by their unique technology in a market where price competition keeps intensifying, while concentrating on various initiatives to improve our cost competitiveness and strengthen our corporate structure, by further advancing our efforts on in-house production of key components, production automation and procurement reform activities, etc.

Additionally, in February and March of this year, we acquired approximately 31 million of our own shares for about 200 billion yen in order to improve our capital efficiency and to ensure a flexible future capital strategy.

As to the earnings for the first half of the current business term, on a consolidated basis, we recorded net sales of 2,166.7 billion yen (up 11.0% from the first half of 2006), income before income taxes and minority interests of 406.1 billion yen (up 19.1%), and net income of 255.2 billion yen (up 19.1%). Also on a non-consolidated basis, we recorded net sales of 1,371.0 billion yen (up 8.3%), ordinary profit of 302.3 billion yen (up 22.8%), and net income of 200.9 billion yen (up 29.2%). All of these figures were record highs.

For the interim dividend, we have decided to pay 50.0 yen per share from August 24.

Looking ahead to the second half of the current business term, we expect the global economy to continue growing steadily, but also believe that factors such as rise in crude oil and other resource costs, fluctuating interest rates and intensifying market competition will continue to provide uncertainty in our business environment. Under these conditions, the Canon Group is fully committed in management to achieve strong performance in the current business term, which marks the 70th anniversary of our founding.

We look forward to your continued support and encouragement in the future.

August 2007

Fujio Mitarai
Chairman & CEO
Tsuneji Uchida
President & COO

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Change in Profits

Net Sales (Consolidated)
100 MILLIONS OF YEN

Net Sales (Non-Consolidated)
100 MILLIONS OF YEN

**Income before Income Taxes and
Minority Interests (Consolidated)**
100 MILLIONS OF YEN

Ordinary Profit (Non-Consolidated)
100 MILLIONS OF YEN

Net Income (Consolidated)
100 MILLIONS OF YEN

Net Income (Non-Consolidated)
100 MILLIONS OF YEN

Business Conditions by Operations
n Sales by Operations
Consolidated

Operations	Sales (100 millions of yen)	Change from the First Half of Fiscal 2006 (%)
Business Machines	14,466	12.4
Office Imaging Products	6,324	8.0
Computer Peripherals	7,607	17.6
Business Information Products	535	(1.9)
Cameras	5,196	12.9
Optical and Other Products	2,005	(2.3)
Total	21,667	11.0

Non-Consolidated

Operations	Sales (100 millions of yen)	Change from the First Half of Fiscal 2006 (%)
Business Machines	9,245	10.9
Office Imaging Products	2,771	8.5
Computer Peripherals	6,474	11.9
Cameras	3,688	11.6
Optical and Other Products	777	(23.6)
Total	13,710	8.3

Consolidated

Non-Consolidated

Note:

Regarding the segment of Business Information Products within the Business Machines category in the consolidated information above, there were no sales on a non-consolidated basis.

n Business Machines Operations

Office Imaging Products

Regarding color machines in our imageRUNNER series of office-use digital network multifunction devices, in a market shifting toward color machines, we launched the iR C5185/C5185N, which are the two top models in the series, capable of printing 51 color pages per minute. We also worked to increase sales of the predecessor model the popular iR C5180 as well as the affordable iR C3380/C2880 series.

As for black-and-white machines, we began and worked to expand sales of five models of three high-speed multifunctional products, including the iR5075N/iR5065N, which boasts excellent productivity and energy saving, as well as six models of three affordable products, including the iR3045F/3035F, which combines energy saving with space-saving. We also worked to expand our solution business, leveraging the Multifunctional Embedded Application Platform (MEAP) capable of expanding range of functions, which is installed on our imageRUNNER series.

Additionally, regarding printers for digital commercial printing, under our new imagePRESS brand launched last year toward our full-scale entry into the Digital Commercial Printing market which is expected to grow, we launched sales of the imagePRESS C7000VP which is capable of printing 70 pages per minute in both color and black-and-white, and worked to expand sales together with our popular imagePRESS C1.

In the multifunctional black-and-white machines for individuals and small-business owners, of which market is expanding in Japan and overseas, we launched three products, including the Satera MF4150 which is capable of printing 20 pages per minute, as well as the Satera MF4680 which can be used on a network, and worked to expand sales of these products.

As a result of these activities, sales for this segment grew by 8.0% on a consolidated basis and by 8.5% on a non-consolidated basis, both in comparison to the first half of 2006.

Change in Sales
100 MILLIONS OF YEN
Consolidated

Non-Consolidated

Computer Peripherals

The conditions for inkjet printers remained severe, with intensifying price competition amid a market slowdown. Under these circumstances, we worked to differentiate our products through our proprietary FINE high-precision print head technology, and by pursuing beautiful design and high usability. We also worked to expand our product lineup, launching such products as the PIXUS iP2500 which offers luxurious design and high definition printing for its affordable price, the compact PIXUS iP90v into which miniaturization technologies are concentrated, and the PIXUS Pro9500 model for professionals and high-end amateurs which uses 10-color pigment ink and supports A3 wide-size paper and half-size. Additionally, amid accelerating shift from single-function to multifunction devices, our mid-level PIXUS MP600 multifunction machine has gained great popularity in the market, maintaining a high share in the Japanese market since its launch last year.

In laser beam printers, as for OEM-brand products, we enjoyed steadily growing unit sales of affordable black-and-white and color products which led to solid sales revenue. As for Canon-brand products, amid growing demand for color machines, we introduced the compact Satera LBP5100 with an automated double-sided printing function and printing capability of 10 color pages per minute, and worked to promote sales together with our high-speed Satera LBP5900/5600 capable of printing A3 paper.

As for black-and-white machines, we launched the Satera LBP3970/3920 high-speed, compact machines capable of printing A3 paper, and achieved favorable sales as well as the Satera LBP3000/2900 with double-sided printing as a standard function.

We also worked to advance our solution business by making proposals of printing environment to respond to our customer's business types and needs utilizing the MEAP-Lite function expansion system.

As a result of these activities, sales for this segment grew by 17.6% on a consolidated basis and by 11.9% on a non-consolidated basis, both in comparison to the first half of 2006.

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Change in Sales
100 MILLIONS OF YEN
Consolidated

Non-Consolidated

Business Information Products

The market for office-use document scanners has continued to grow due to the demand for businesses to digitize their documents in order to comply with various laws related to company's internal control, the management of personal information, and the management of medical related information. Under these circumstances, in the DR Scanner series handled by Canon Electronics Inc., we introduced the compact and affordable DR-2580C and DR-2050CII for which demand of such type has grown substantially, as well as the DR-2050SP which is capable of sending scanned data to a projector, and achieved strong growth in sales as a result of our efforts for sales expansion.

Regarding the calculators handled by Canon Electronics Business Machines (H.K.) Co., Ltd., we launched for the Japanese market the BP36-DTS calculator with a high-speed, quiet printer capable of printing 5.6 lines per second and worked to expand sales. Also print-capable calculators continued to enjoy a favorable reception in the U.S. market and maintained their high share. Regarding the electronic dictionaries for the Japanese market also handled by that company, the flagship wordtank V300 learner's model featuring a large full touch-screen panel, and our wordtank M300 which while compact offers a full range of learning features, were introduced and helped to increase sales.

As for servers and personal computers handled by Canon Marketing Japan Inc., single product sales fell as that Company moved ahead with its shift to the solutions business.

As a result of these activities, sales for this segment fell by 1.9% on a consolidated basis in comparison to the first half of 2006. For this segment, there were no sales on a non-consolidated basis.

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Change in Sales
100 MILLIONS OF YEN
Consolidated

n Camera Operations

In digital cameras, amid the expanding demand for SLR products, the EOS-1D Mark III launched as our flagship model in May was selected in Europe as Best Professional Digital SLR Camera and enjoyed a favorable response in the market. Also EOS 30D for high-end amateurs, and the compact, lightweight EOS Kiss Digital X launched last year maintained their strong sales, and sales of SLR products increased as a result. Consequently, sales of our EF lens series, dedicated flashes and other products also marked sound sales increases.

In the area of compact digital cameras, we have increased sales, launching three products in our stylish IXY DIGITAL series, including the IXY DIGITAL 10 featuring 3x zoom in a simple, square design, and the IXY DIGITAL 810 IS employing optical image stabilization function, both of which are equipped with a face recognition function, as well as seven products in our PowerShot series featuring broad range of shooting styles with a variety of product lineup, including the PowerShot S5 IS with 12x optical zoom, and the PowerShot A570 IS which is the first affordable camera equipped with the DIGIC III imaging processor.

Additionally, in the compact photo printers, we enhanced our product lineup in the dye sublimation SELPHY series printers with the launch of the CP750/CP740 featuring a larger color LCD monitor.

In digital video cameras, we introduced such new products as the iVIS HV20 HDV model featuring a built-in full HD CMOS sensor for even greater sensitivity and the iVIS DC50 5-megapixel DVD model featuring dual layer disk, and worked to increase sales, and as a result, increased our share in the market for HD video cameras where demand is expected to grow.

As a result of these activities, sales for this segment grew by 12.9% on a consolidated basis and by 11.6% on a non-consolidated basis, both in comparison to the first half of 2006.

Change in Sales
100 MILLIONS OF YEN
Consolidated

Non-Consolidated

n Optical and Other Products Operations

In semiconductor production equipment, unit shipments into the market have increased amid growing demand for semiconductors and aggressive capital investment by manufacturers. Under these conditions, we worked to increase sales of the FPA-6000ES5a KrF (krypton fluoride) stepper and the FPA-5500iZa i-line stepper.

Regarding mirror projection mask aligners for LCDs, the market shrunk greatly as a consequence of manufacturers continuing to restrain capital investment due to a glut in LCD panel production. Amid these circumstances, although we introduced the new MPAsp-H700 eighth-generation mirror projection mask aligner for LCDs, and worked actively to increase sales, unit sales and sales revenue both declined.

In the area of large-format inkjet printers, the market showed a strong growth due to new demand created by a wide range of applications in large-format printing such as the production of posters. In this context, we introduced the new imagePROGRAF iPF6100 capable of printing A1-plus paper, and worked to expand sales. As a result of these efforts, sales increased greatly.

Regarding broadcast-use television lenses, we introduced several new products, including the KH13×4.5 and KJ13×6B, which are compact, lightweight standard zoom lenses for affordable High Definition Television (HDTV) cameras. As a result of these enhancements to our lineup, sales grew strongly.

In medical equipment, we worked to expand sales of our CXDI-50G X-ray digital camera equipped with our own Flat Panel X-Ray Image Sensor. As a result of these efforts, we recorded strong sales.

The BESTEM series die bonder handled by Canon Machinery Inc. remained popular, and the semiconductor sputtering equipment and magnetic head film deposition equipment and other products handled by Canon ANELVA Corporation also recorded strong performance.

As a result of these activities, sales for this segment fell by 2.3% on a consolidated basis and by 23.6% on a non-consolidated basis, both in comparison to the first half of 2006.

Change in Sales

100 MILLIONS OF YEN

Consolidated

Non-Consolidated

Note:

The products mentioned above may have different names in other areas.

Consolidated Financial Statements

Canon's consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles.

Consolidated Balance Sheets

ASSETS	Millions of yen	
	As of June 30, 2007 (Unaudited)	As of Dec. 31, 2006
Current assets:		
Cash and cash equivalents	1,108,728	1,155,626
Time deposits	22,166	41,953
Marketable securities	294	10,445
Trade receivables, net	729,298	761,947
Inventories	575,036	539,057
Prepaid expenses and other current assets	282,254	273,321
Total current assets	2,717,776	2,782,349
Noncurrent receivables	14,560	14,335
Investments	116,471	110,418
Property, plant and equipment, net	1,336,716	1,266,425
Other assets	422,991	348,388
Total assets	4,608,514	4,521,915
LIABILITIES AND STOCKHOLDERS' EQUITY	Millions of yen	
	As of June 30, 2007 (Unaudited)	As of Dec. 31, 2006
Current liabilities:		
Short-term loans and current portion of long-term debt	5,301	15,362
Trade payables	506,177	493,058
Income taxes	135,090	133,745
Accrued expenses	318,330	303,353
Other current liabilities	215,850	217,789
Total current liabilities	1,180,748	1,163,307
Long-term debt, excluding current installments	16,290	15,789
Accrued pension and severance cost	49,210	83,876
Other noncurrent liabilities	63,198	55,536

Total liabilities	1,309,446	1,318,508
Minority interests	224,701	216,801
Commitment and contingent liabilities		
Stockholders equity:		
Common stock	174,674	174,603
[Authorized shares] (share)	[3,000,000,000]	[3,000,000,000]
[Issued shares] (share)	[1,333,588,114]	[1,333,445,830]
Additional paid-in capital	403,577	403,510
Legal reserve	45,730	43,600
Retained earnings	2,552,314	2,368,047
Accumulated other comprehensive income (loss)	104,169	2,718
Treasury stock	(206,097)	(5,872)
[Treasury shares] (share)	[32,993,191]	[1,794,390]
Total stockholders equity	3,074,367	2,986,606
Total liabilities and stockholders equity	4,608,514	4,521,915

Notes:

1. Allowance for doubtful receivables 16,553 million yen
2. Accumulated depreciation of property, plant and equipment 1,488,148 million yen
3. Accumulated other comprehensive income (loss) include foreign currency translation adjustments, net unrealized gains and losses on securities, net gains and losses on derivative financial instruments and pension liability adjustments.
4. Collateral assets 222 million yen
5. Guarantees of bank borrowings by employees and consolidated subsidiaries and affiliated companies 28,507 million yen
6. Number of consolidated subsidiaries and affiliated companies accounted for under equity method is 230 and 19 respectively.

Consolidated Statements of Income

	Six months ended June 30, 2007 (Unaudited)	Millions of yen Six months ended June 30, 2006 (Unaudited)
Net sales	2,166,724	1,952,255
Cost of sales	1,059,170	973,542
Gross profit	1,107,554	978,713
Operating expenses:		
Selling, general and administrative expenses	548,411	493,709
Research and development expenses	170,267	146,527
	718,678	640,236
Operating profit	388,876	338,477
Other income (deductions):		
Interest and dividend income	17,367	11,143
Interest expense	(795)	(625)
Other, net	693	(7,950)
	17,265	2,568
Income before income taxes and minority interests	406,141	341,045
Income taxes	142,836	118,814
Income before minority interests	263,305	222,231
Minority interests	8,122	8,057
Net income	255,183	214,174

Note:

Net income per share

Basic 194.38 yen

Diluted 194.33 yen

Other significant matter:

Prior to the second quarter of fiscal 2007, the Company and its domestic subsidiaries had depreciated machinery and equipment under the fixed-percentage-on-declining base method with certain salvage values. As a result of evaluation of its depreciation method, effective second quarter of 2007, the Company and its domestic subsidiaries

have changed their depreciation method to 250% declining balance method with salvage values of 1 yen. As a result of this change, income before income taxes and minority interests, and net income for the six months ended June 30, 2007 decreased by 19,330 million yen and 11,178 million yen, respectively.

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Consolidated Statements of Stockholders Equity

	Millions of yen						
	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total stockholders equity
Balance at December 31, 2006	174,603	403,510	43,600	2,368,047	2,718	(5,872)	2,986,606
Cumulative effect of a change in accounting principle adoption of EITF 06-2, net of tax				(2,204)			(2,204)
Conversion of convertible debt and other	71	63					134
Cash dividends				(66,582)			(66,582)
Transfers to legal reserve			2,130	(2,130)			-
Comprehensive income:							
Net income				255,183			255,183
Other comprehensive income (loss), net of tax							
Foreign currency translation adjustments					49,237		49,237
Net unrealized gains and losses on securities					1,438		1,438
Net gains and losses on derivative instruments					(977)		(977)
Pension liability adjustments					51,753		51,753

Total comprehensive income							356,634
Repurchase of treasury stock, net		4				(200,225)	(200,221)
Balance at June 30, 2007 (Unaudited)	174,674	403,577	45,730	2,552,314	104,169	(206,097)	3,074,367

Non-Consolidated Financial Statements
Non-Consolidated Balance Sheets

ASSETS	Millions of yen	
	As of June 30, 2007	As of Dec. 31, 2006
Current Assets	1,431,255	1,622,281
Cash and deposits	206,144	324,053
Notes receivable	267,168	295,862
Accounts receivable	566,660	621,656
Finished goods	115,155	93,685
Work in process	111,031	107,666
Raw materials and supplies	5,487	4,642
Deferred tax assets	37,201	34,124
Short-term loans receivable	20,281	19,320
Other current assets	102,147	121,295
Allowance for doubtful receivables	(19)	(22)
Fixed Assets	1,377,390	1,315,791
Property, Plant And Equipment	866,142	818,094
Buildings	434,729	418,087
Machinery	161,263	150,795
Vehicles	433	332
Tools and equipment	59,424	54,985
Land	136,472	133,522
Construction in progress	73,821	60,373

Intangibles	37,810	34,480
Software	34,317	31,999
Other intangible assets	3,493	2,481
Investments	473,438	463,217