

CANON INC  
Form 20-F  
March 30, 2011

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 20-F

- o REGISTRATION STATEMENT PURSUANT TO  
SECTION 12(b)  
OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934  
OR
- p ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2010  
OR
- o TRANSITION REPORT PURSUANT TO SECTION 13  
OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
OR
- o SHELL COMPANY REPORT PURSUANT TO SECTION 13  
OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
Date of event requiring this shell company report \_\_\_\_\_

Commission file number 001-15122

CANON KABUSHIKI KAISHA  
(Exact name of Registrant in Japanese as specified in its charter)  
CANON INC.

(Exact name of Registrant in English as specified in its charter)  
**JAPAN**

(Jurisdiction of incorporation or organization)  
30-2, Shimomaruko 3-chome, Ohta-ku, Tokyo 146-8501, Japan  
(Address of principal executive offices)

Shinichiro Hanabusa, +81-3-3758-2111, +81-3-5482-9680, 30-2, Shimomaruko 3-chome, Ohta-ku, Tokyo 146-8501,  
Japan

(Name, Telephone, Facsimile number and Address of Company Contact Person)  
Securities registered or to be registered pursuant to Section 12(b) of the Act.

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
(1) Common Stock (the shares )	New York Stock Exchange*
(2) American Depositary Shares ( ADSs ), each of which represents one share	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None  
(Title of Class)

Securities for which there is a reporting obligation pursuant  
to Section 15(d) of the Act.

None  
(Title of Class)

\* Not for trading, but only for technical purposes in connection with the registration of ADSs.

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2010, 1,228,467,489 shares of common stock, including 43,665,675  
ADSs, were outstanding.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued by the International Accounting Standards Board

Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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**CERTAIN DEFINED TERMS, CONVENTIONS AND PRESENTATION OF FINANCIAL INFORMATION**

All information contained in this Annual Report is as of December 31, 2010 unless otherwise specified.

References in this discussion to the Company are to Canon Inc. and, unless otherwise indicated, references to the financial condition or operating results of Canon refer to Canon Inc. and its consolidated subsidiaries.

On March 18, 2011, the noon buying rate for yen in New York City as reported by the Federal Reserve Bank of New York was ¥81.14 = U.S.\$1.

The Company's fiscal year end is December 31. In this Annual Report fiscal 2010 refers to the Company's fiscal year ended December 31, 2010, and other fiscal years of the Company are referred to in a corresponding manner.

**FORWARD-LOOKING INFORMATION**

This Annual Report contains forward-looking statements and information relating to Canon that are based on beliefs of its management as well as assumptions made by and information currently available to Canon Inc. When used in this Annual Report, the words anticipate, believe, estimate, expect, intend, may, plan, project and show expressions, as they relate to Canon or its management, are intended to identify forward-looking statements. Such statements, which include, but are not limited to, statements contained in Item 3. Key Information-Risk Factors, Item 5. Operating and Financial Review and Prospects and Item 11. Quantitative and Qualitative Disclosures about Market Risk, reflect the current views and assumptions of the Company with respect to future events and are subject to risks and uncertainties. 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 Annual Report. 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 as anticipated, believed, estimated, expected, intended, planned or projected. Canon Inc. does not intend or assume any obligation to update these forward-looking statements.



**Table of Contents****PART I****Item 1. Identity of Directors, Senior Management and Advisers**

Not applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not applicable.

**Item 3. Key Information****A. Selected financial data**

The following information should be read in conjunction with and qualified in its entirety by reference to the Consolidated Financial Statements of Canon Inc. and subsidiaries, including the notes thereto, included in this Annual Report.

<b>Selected financial data *1:</b>	<b>2010 *4</b>	<b>2009 *4</b>	<b>2008 *4</b>	<b>2007 *4</b>	<b>2006</b>
	<b>(Millions of yen, except average number of shares and per share data)</b>				
Net sales	¥3,706,901	¥3,209,201	¥4,094,161	¥4,481,346	¥4,156,759
Operating profit	387,552	217,055	496,074	756,673	707,033
Net income attributable to Canon Inc.	246,603	131,647	309,148	488,332	455,325
Advertising expenses	94,794	78,009	112,810	132,429	116,809
Research and development expenses	315,817	304,600	374,025	368,261	308,307
Depreciation of property, plant and equipment	232,327	277,399	304,622	309,815	235,804
Increase in property, plant and equipment	158,976	216,128	361,988	428,549	379,657
Long-term debt, excluding current installments	4,131	4,912	8,423	8,680	15,789
Common stock	174,762	174,762	174,762	174,698	174,603
Canon Inc. stockholders' equity	2,645,782	2,688,109	2,659,792	2,922,336	2,986,606
Total assets	3,983,820	3,847,557	3,969,934	4,512,625	4,521,915
Average number of common shares in thousands *2	1,234,818	1,234,482	1,255,626	1,293,296	1,331,542
Per share data *2:					
Net income attributable to Canon Inc. stockholders per share:					
Basic	¥ 199.71	¥ 106.64	¥ 246.21	¥ 377.59	¥ 341.95
Diluted	199.70	106.64	246.20	377.53	341.84
Cash dividends declared	120.00	110.00	110.00	110.00	83.33
Cash dividends declared (U.S.\$)*3	\$ 1.447	\$ 1.196	\$ 1.073	\$ 1.034	\$ 0.709

Notes:

1. The above financial data is prepared in accordance with U.S. generally accepted accounting principles.
2. The Company made a three-for-two stock split on July 1, 2006. The average number of common shares and the per share data for the periods prior to the stock split have been adjusted to reflect the stock split.
3. Annual cash dividends declared (U.S.\$) are translated from yen based on a weighted average of the noon buying rates for yen in New York City as reported by the Federal Reserve Bank of New York in effect on the date of each semiannual dividend payment or on the latest practicable date.
4. Effective April 1, 2007, the Company and its domestic subsidiaries elected to change the declining-balance method of depreciating machinery and equipment from the fixed-percentage-on-declining base application to the 250% declining-balance application.



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The following table provides the noon buying rates for Japanese yen in New York City as reported by the Federal Reserve Bank of New York expressed in Japanese yen per U.S.\$1 during the periods indicated and the high and low noon buying rates for Japanese yen per U.S.\$1 during the months indicated. On March 18, 2011, the noon buying rate for yen in New York City as reported by the Federal Reserve Bank of New York was ¥81.14 = U.S.\$1.

<b>Yen exchange rates per U.S. dollar:</b>	<b>Average</b>	<b>Term end</b>	<b>High</b>	<b>Low</b>
2006	115.99	119.02	119.81	110.07
2007	117.45	111.71	124.09	108.17
2008	102.85	90.79	110.48	87.84
2009	93.67	93.08	100.71	86.12
2010 -Year	87.16	81.67	94.68	80.48
- 1(st) half		88.49	94.68	88.39
- July		86.43	88.59	86.40
- August		84.10	86.42	84.10
- September		83.53	85.77	83.05
- October		80.48	83.33	80.48
- November		83.56	84.34	80.61
- December		81.67	84.23	81.67
2011 - January		81.97	83.36	81.56
- February		81.94	83.79	81.48

Note: The average exchange rates for the periods are the average of the exchange rates on the last day of each month during the period.

**B. Capitalization and indebtedness**

Not applicable.

**C. Reasons for the offer and use of proceeds**

Not applicable.

**D. Risk factors**

Canon is one of the world's leading manufacturers of plain paper copying machines, digital multifunction devices, laser printers, cameras, inkjet printers, semiconductor lithography equipment and LCD lithography equipment.

Primarily because of the nature of the business and geographic areas in which Canon operates and the highly competitive nature of the industries to which it belongs, Canon is subject to a variety of risks and uncertainties, including, but not limited to, the following:

**Risk Related to Earthquake in Northeastern Japan and its Aftermath**

The earthquake and resulting tsunami that took place in Northeastern Japan on March 11, 2011 have had and will continue to have a significant negative impact on the Japanese economy. Canon has suffered from the direct effects of the disaster, including damages to certain of its buildings and other assets. In addition, Canon has suffered and may continue to suffer indirect effects of the disaster, including disruptions of electricity and water supplies as a result of damage to infrastructure, supply shortages of components resulting from damages to its suppliers, interruption of logistics services and a general decline in demand in the Japanese market. These factors and others may lead to reduced production turnover or suspension of production, which may cause harmful effect on Canon's business operations. In the short term, this could negatively affect Canon's revenue and generate increased costs, adversely affecting Canon's operating results and financial position.

**Risks Related to Canon's Industries**

*Canon has invested and will continue to invest actively in next-generation technologies. If the market for these technologies does not develop as Canon expects, or if its competitors produce these or competing technologies in a more timely or effective manner, there could be a material adverse effect on Canon's operating results.*

Canon has made and will continue to make investments in next-generation technology research and development initiatives. Canon's competitors may achieve research and development breakthroughs in these technologies more quickly than Canon, or may achieve advances in competing technologies that render products under development by

Canon uncompetitive. For several years, Canon has continued its investments in development and manufacturing in order to keep pace with technological evolution. If Canon's business strategies diverge from market demands, Canon may not recover some or all of its investments, or may lose business opportunities, or both, which may have a material adverse effect on Canon's operating results.

In addition, Canon has sought to develop production technology and equipment to accelerate the automation of its manufacturing processes and in-house production of key devices. If Canon cannot effectively implement these techniques, it may fail to realize cost advantages or product differentiation, and consequently lose business opportunities, which may adversely affect Canon's operating results. While differentiation in technology and product development is an important part of Canon's strategy, Canon must also accurately assess the demand for and commercial acceptance of new technologies and products that it develops. If Canon pursues technologies or develops products that are not well received by the market, its operating results could be adversely affected.

Entering new business areas through the development of next-generation technologies is a focal point of Canon's corporate strategy. To the extent that Canon enters into such new business areas, Canon may not be able to establish a successful business models or may face severe competition with new competitors. If such events occur, Canon's operating results may be adversely affected.

***If Canon does not effectively manage transitions in its products and services, its operating results may decline.***

Many of the businesses areas in which Canon competes are characterized by rapid technological advances in hardware performance, software functionality and product features; frequent introduction of new products; short product life cycles; and continued qualitative improvements to current products at stable price levels. If Canon does not make effective transitions from existing products and services to new offerings, its revenue and profits may decline. Among the risks associated with the introduction of new products and services are delays in development or manufacturing, low marketability due to an improper product quality during the introductory period, variations in manufacturing costs, delays of customer purchasing decisions in anticipation of further introductions, uncertainty in predicting customer demand for new offerings and difficulty in effectively managing inventory levels in line with anticipated demand. Moreover, if Canon is unable to respond quickly to unexpected technological innovations with respects to information systems and networks, Canon's revenue may be significantly affected as a result of delays associated with the incorporation of such new information technologies into existing products and services as well as new offerings.

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Canon's revenue and gross margin also may suffer adverse effects because of the timing of product or service introductions by its competitors. This risk is exacerbated when a product has a short life cycle or when a competitor introduces a new product immediately prior to Canon's introduction of a similar product. Furthermore, sales of Canon's new products and services may replace sales of, or result in discounting of, some of its current products and services, potentially offsetting the benefits derived from the introduction of a successful new product or service. Canon must also ensure that its new products are not wholly or partially duplicative of existing products and operations. Given the competitive nature of Canon's businesses, if any of these risks materialize, future demand for its products and services could be reduced, and its operating results could decline.

***Canon's digital camera business operates in a highly competitive environment.***

The market for digital single-lens-reflex ( SLR ) cameras is a key business area for Canon. Recently, a new type of interchangeable lens camera has been developed that eliminates the mirror mechanism, one of the key components of conventional digital SLRs, allowing for a more compact and lightweight product. During 2010, so-called mirrorless digital cameras were released by a number of our competitors, and these models have competed and will continue to compete for market share with Canon's existing products. If the growth of the mirrorless digital camera market erodes the market share of standard digital SLRs, or if Canon's digital SLR offerings are otherwise unable to remain competitive with mirrorless digital cameras produced by its competitors, Canon's current leading position in the digital camera market may suffer, which would have a material adverse effect on Canon's business, financial condition and operating results.

***The markets for digital media and video recording technologies are subject to rapid technological change.***

The markets in which Canon operates are subject to rapid technological change. The video camcorder industry has almost completed a transition to digital formats, and the increase in High Definition ( HD ) television broadcasts has accelerated the shift away from the Standard Definition ( SD ) format. Similarly, recording media are also experiencing a rapid transition to flash memory and away from Mini DV tapes, DVDs, and hard disk drives. The pace of technological change has made predicting future market trends more difficult than was previously the case. If Canon is unable to forecast accurately the demand for particular new recording or media formats, this could reduce demand for its products, which would have a material adverse effect on Canon's business, financial condition and operating results.

Video camcorders are no longer the only products on the market that are capable of recording movies. Digital SLRs and compact digital cameras are now also capable of recording HD movies. Although the image quality of webcams is inferior to that of standard video camcorders, digital SLRs and compact digital cameras, the relatively low price of webcams has led to solid growth in sales volume, particularly in North America. An increase in market share of these new products and resultant contraction of the video camcorder market could have a material adverse effect on Canon's business, financial condition and operating results.

***Because the lithography equipment industry is highly cyclical, Canon may be adversely affected by any downturn in the industry.***

The lithography equipment industry is characterized by business cycles, the timing, length and volatility of which are difficult to predict. Recurring periods of oversupply of semiconductor devices and LCD panels have at times led to significantly reduced demand for capital equipment, including the semiconductor lithography equipment and LCD lithography equipment that Canon produces. Despite this cyclicity, Canon must maintain significant levels of research and development expenditures to remain competitive. A future cyclical downturn in the lithography equipment industry and related fluctuations in the demand for capital equipment could cause cash flow from sales to fall below the level necessary to offset Canon's expenditures, including those arising from research and development, and could consequently have a material adverse effect on Canon's operating results and financial condition. In addition, LCD panel manufacturers are facing demands for severe price reductions of LCD panels as a result of intense competition among makers of televisions and personal computer monitors. As a result, panel manufacturers may reduce their investment in equipment, which may adversely affect Canon's operating results.

***Downturns in the semiconductor and LCD industries have caused Canon's customers to change their operating strategies, which in turn may affect Canon's business.***

Many device manufacturers have changed their business models to focus on the design of semiconductors, while consigning the production of semiconductors to lower-cost foundries. On the other hand, an oligopoly is developing in the large-sized LCD panel production industry. Therefore, if Canon is insufficiently responsive to market trends, including market reorganization led by these manufacturers, Canon may not be able to maintain its customer base, which may result in a material adverse effect on Canon's business operations. In addition, it is difficult for Canon to predict the future effects of these trends on its business. However, as research and development, manufacturing and sales activities become increasingly globalized in response to these trends, shifting particularly to emerging markets, unexpected global developments, such as adverse regulatory or legal changes, and unanticipated events, such as natural disasters, may adversely affect Canon's business.

***The lithography equipment industry is characterized by rapid technological change. If Canon does not consistently develop new products to keep pace with technological change and meet its customers' requirements, Canon may lose customers, and its business may suffer.***

Canon's semiconductor and LCD lithography equipments are subject to rapid technological change and can quickly become obsolete. Future success in the semiconductor and LCD lithography equipments business depend on Canon's ability to enhance its existing products and develop new products using new and more advanced technologies. In particular, as semiconductor pattern sizes continue to shrink, the demand for more technologically advanced semiconductor lithography equipments are likely to increase. Canon's existing semiconductor and LCD lithography equipments could become obsolete sooner than expected because of faster than anticipated changes in one or more of the technologies related to Canon's products or in demand for products based on a particular technology. Any failure by Canon to develop the advanced technologies required by its customers at progressively lower cost or to supply sufficient quantities to its worldwide customer base could adversely affect Canon's net sales and profitability.

#### Risks Related to Canon's Business

***Economic trends in Canon's major markets may adversely affect its operating results.***

Although global economic conditions have begun to improve, prospects for global economic recovery remain uncertain, reflecting concerns about the weakening effects of stimulus policies in advanced countries, deflation in Japan and inflation in emerging countries. As a result of the economic downturn in recent periods, declines in consumption and restrained investment in Canon's major markets, including Japan, the United States, Europe and Asia, have affected both individual consumer and corporate sales, and if economic conditions do not improve, these trends may continue. Canon's operating results for products such as office and industrial equipment are affected by the financial results of its corporate customers, and deterioration of these financial results has caused and may continue to cause customers to restrain their capital investments. Demand for Canon's consumer products, such as cameras and inkjet printers, is discretionary. The rise in inventory levels, rapid price declines owing to intensifying competition and the recent decline in the level of consumer spending and corporate investment driven by the economic downturn could adversely affect Canon's operating results and financial position.

**Table of Contents*****Canon derives a significant percentage of its revenues from Hewlett-Packard.***

Canon depends on Hewlett-Packard for a significant part of its business. During fiscal 2010, approximately 20% of Canon's net sales were to Hewlett-Packard. As a result, Canon's business and operating results may be affected by the policies, business and operating results of Hewlett-Packard. Any decision by Hewlett-Packard management to limit or reduce the scope of its relationship with Canon would adversely affect Canon's business and operating results.

***Canon depends on specific outside suppliers for certain key components.***

Canon relies on specific outside suppliers that meet Canon's strict criteria for quality, efficiency and environmental friendliness for critical components and special materials used in its products. In some cases, Canon may be forced to discontinue production of some or all of its products if the specific outside suppliers that supply key components and special materials across Canon's product lines experience unforeseen difficulties, or if such parts and special materials suffer from quality problems or are in short supply. Further, the prices of components and special materials purchased from specific outside suppliers may surge, triggered by the imbalance of supply and demand along with other factors. If such risks occur as an outcome of the dependency on such specific outside vendors, Canon's operating results may be adversely affected.

***Although competition is increasing in the market for supplies and services following initial product placement, Canon maintains a high market share in such sales. As a result, Canon may be subject to antitrust-related lawsuits, investigations or proceedings, which may adversely affect its operating results or reputation.***

A portion of Canon's net sales consists of sales of supplies and the provision of services after the initial equipment placement. As these supplies and services have become more commoditized, the number of competitors in these markets has increased. Canon's success in maintaining these post-placement sales will depend on its ability to compete successfully with these competitors, some of which may offer lower-priced products or services. Despite the increase in competitors, Canon currently maintains a high market share in the market for supplies. Accordingly, Canon may be subject to lawsuits, investigations or proceedings under relevant antitrust laws and regulations. Any such lawsuits, investigations or proceedings may lead to substantial costs and have an adverse effect on Canon's operating results or reputation.

***Increases in counterfeit Canon products may adversely affect Canon's brand image and its operating results.***

In recent years, counterfeiting of Canon products has increased worldwide. Counterfeit products may diminish Canon's brand image, particularly if purchasers of such products mistakenly attribute the counterfeit products' poor quality to Canon. Canon has been taking measures to halt the spread of counterfeit products. However, there can be no assurance that such measures will be successful, and the continued manufacture and sale of such products could adversely affect Canon's brand image as well as its operating results.

***Per unit production costs are highest when a new product is introduced, and if such new products are not successful or if Canon fails to achieve cost reductions over time, Canon's gross profits may be adversely affected.***

The unit costs of Canon's products have historically been highest when products are newly introduced into production. The introduction of new products has at times had a negative impact on gross profit, operating results and cash flow. Cost reductions and enhancements are typically achieved over time through:

engineering improvements;

economies of scale;

improvements in manufacturing processes;

improved serviceability of products; and

reduced inventories of parts and products.

Initial shipments of new products adversely affect Canon's profit and cash flow, and if new products do not achieve sufficient sales volumes, Canon's gross profit, operating results and cash flow may be adversely affected.

***Cyclical patterns in sales of Canon's products make planning and inventory management difficult and future financial results less predictable.***

Canon generally experiences seasonal trends in the sales of its consumer-oriented products. Canon has little control over the various factors that produce these seasonal trends. Accordingly, it is difficult to predict short-term demand, placing pressure on Canon's inventory management and logistics systems. If product supply from Canon exceeds actual demand, excess inventory will put downward pressure on selling prices and raise inefficiency in cash management, potentially reducing Canon's revenue. Alternatively, if actual demand exceeds the supply of products, Canon's ability to fulfill orders may be limited, which could adversely affect net sales and increase the risk of unanticipated variations in its operating results.



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***Canon's business is subject to changes in the sales environment.***

A substantial portion of Canon's market share is concentrated in a relatively small number of large distributors, particularly in Europe and the United States. Canon's product sales to these distributors constitute a significant percentage of its overall sales. As a result, any disruptions in its relationships with these large distributors in specific sales territories could adversely affect Canon's ability to meet its sales targets. Any increase in the concentration of sales to these large distributors could result in a reduction of Canon's pricing power and adversely affect its profits. In addition, the rapid proliferation of Internet-based businesses may render conventional distribution channels obsolete. These and other changes in Canon's sales environment could adversely affect Canon's operating results.

***Canon is subject to financial and reputational risks owing to product quality and liability issues.***

Although Canon works to minimize risks that may arise from product quality and liability issues, such as those triggered by the individual functionality and also from the combination of hardware and software that make up Canon's products, there can be no assurance that Canon will be able to eliminate or limit these issues and the resulting damages. If such factors adversely affect Canon's operating activities, generate additional expenses such as those related to product recalls, service and compensation, or otherwise hurt its brand image, Canon's operating results or reputation for quality may be adversely affected.

***Canon's success depends in part on the value of its brand name, and if the value of the brand is diminished, Canon's operating results and prospects will be adversely affected.***

Canon's success depends in part on the value of its brand name. Any negative publicity regarding the quality of Canon's products could have an adverse impact on operations, especially negative publicity involving consumer products. There can be no assurance that such adverse publicity will not occur or that such claims will not be made in the future. Furthermore, Canon cannot predict the impact of such adverse publicity on its business and operating results. If Canon fails to maintain its overall compliance regime, especially legal or regulatory compliance, this also could result in damage to Canon's credibility and brand value.

***A substantial portion of Canon's business activity is conducted outside Japan, exposing Canon to the risks of international operations.***

A substantial portion of Canon's business activity is conducted outside Japan, including in developing and emerging markets in Asia. There are a number of risks inherent in doing business in such markets, including the following: