HERZFELD CARIBBEAN BASIN FUND INC
Form POS 8C
October 29, 2015

As filed with the Securities and Exchange Commission on October 29, 2015
Securities Act File No. 333-202213
Investment Company Act File No. 811-06445

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

FORM N-2

[X] REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

[ ] Pre-Effective Amendment No. ___

[X] Post-Effective Amendment No. 3

and/or

[X] REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940

Amendment No. 12

THE HERZFELD CARIBBEAN BASIN FUND, INC.
(Exact Name of Registrant as Specified in Charter)

119 Washington Avenue, Suite 504 Miami Beach, FL 33139
(Address of Principal Executive Offices)

Registrant's Telephone Number, Including Area Code: (305) 271-1900

Thomas J. Herzfeld
The Herzfeld Caribbean Basin Fund, Inc.
119 Washington Avenue, Suite 504 Miami Beach, FL 33139

Copies to:

Thomas J. Herzfeld 119 Washington Avenue Suite 504 Miami Beach, FL 33139	Joseph V. Del Raso, Esq. Pepper Hamilton LLP 3000 Two Logan Square 18th and Arch Streets Philadelphia, PA 19103

Approximate date of proposed public offering: As soon as practicable after the effective date of this Registration Statement.

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, as amended, other than securities offered in connection with a dividend reinvestment plan, check the following box. [X]

It is proposed that this filing will become effective (check the appropriate box)

[X] when declared effective pursuant to Section 8(c)

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Amount Being Registered (1)	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee(2)(3)
Common Stock			
Subscription Rights			
		$100,000,000	$11,620

(1) There are being registered hereunder such indeterminate number of shares of common stock and such indeterminate number of subscription rights as shall have an aggregate offering price not to exceed $100 million, less the aggregate dollar amount of all securities previously issued hereunder. The securities registered hereunder also include such indeterminate number of securities of each identified class of securities, which may be offered from time to time in unspecified numbers and at indeterminate prices, and as may be issued upon conversion, redemption, repurchase, exchange or exercise of any securities registered hereunder, including under any applicable anti-dilution provisions of any of such securities. In addition, the securities being registered hereunder includes such indeterminate number of securities of each identified class of securities as may be issuable with respect to the securities being registered hereunder as a result of stock splits, stock dividends or similar transactions.

(2) Calculated pursuant to Rule 457(o) under the Securities Act based on the proposed maximum aggregate offering price of all securities listed.

(3) Previously paid.

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment that specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer and sale is not permitted.

Subject to Completion
Dated October 29, 2015

BASE PROSPECTUS

$100,000,000

THE HERZFELD CARIBBEAN BASIN FUND, INC.

Common Stock

Subscription Rights for Common Stock

The Herzfeld Caribbean Basin Fund, Inc. (the “Fund”) is a non-diversified, closed-end management investment company registered under the Investment Company Act of 1940 (the "1940 Act."). Its investment adviser is HERZFELD/CUBA, a division of Thomas J. Herzfeld Advisors, Inc. (the “Adviser”). The Fund’s investment objective is long-term capital appreciation. To achieve its objective, the Fund invests in issuers that are likely, in the Adviser’s view, to benefit from economic, political, structural and technological developments in the countries in the Caribbean Basin, which include, among others, Cuba, Jamaica, Trinidad and Tobago, the Bahamas, the Dominican Republic, Barbados, Aruba, Haiti, the former Netherlands Antilles, the Commonwealth of Puerto Rico, Mexico, Honduras, Guatemala, Belize, Costa Rica, Panama, Colombia, the United States and Venezuela, or the “Caribbean Basin Countries”. The Fund invests at least 80% of its total assets in a broad range of securities of issuers, including U.S.-based companies which engage in substantial trade with, and derive substantial revenue from, operations in the Caribbean Basin Countries. The Fund may invest more than 25% of its total assets in the securities of U.S.-based companies, which constituted approximately 60% of the Fund's total assets as of September 30, 2015. Total assets includes the amount of any borrowings for investment purposes. At such time as it becomes legally permissible for U.S. entities to invest directly in Cuba, the Fund will consider such investments. For additional information, see "Investment Objective and Policies". Equity and equity-linked securities include, but are not limited to, common stock, preferred stock, debt securities convertible into equity, warrants, options and futures. An investment in the Fund is not appropriate for all investors and should not constitute a complete investment program. No assurances can be given that the Fund’s objective will be achieved.

We may offer, from time to time, in one or more offerings of up to $100 million of our common stock, par value $0.001 per share, or subscription rights described in this prospectus of which approximately $1.6 million have been offered and sold as of October 27, 2015. We may sell our securities through underwriters or dealers, “at-the-market” to or through a market maker into an existing trading market or otherwise directly to one or more purchasers or through agents or through a combination of methods of sale. The identities of such underwriters, dealers, market makers or agents, as the case may be, will be described in one or more supplements to this prospectus. The securities may be offered at prices and on terms to be described in one or more supplements to this prospectus. In the event we offer common stock, the offering price per share of our common stock exclusive of any underwriting commissions or discounts will not be less than the net asset value, or NAV, per share of our common stock at the time we make the offering except (1) in connection with a subscription rights offering to our existing stockholders, (2) with the consent of the majority of our common stockholders and approval of our board of directors or (3) under such circumstances as the Securities and Exchange Commission (“SEC”) may permit.

Our common stock is traded on the NASDAQ Capital Market under the symbol “CUBA.” On October 27, 2015, the last reported sales price on the NASDAQ Capital Market for our common stock was $7.16 per share. We determine the NAV per share of our common stock no less frequently than monthly. Our NAV per share of our common stock as of October 27, 2015 was $6.85 (unaudited) and our total net assets were 39,812,594.52 (unaudited). As of October 27, 2015 there were 5,811,210 shares of our common stock outstanding.

Investing in the securities may be considered speculative and involves a high degree of risk, including the risk of a total loss of investment. Shares of closed-end investment companies frequently trade at a discount to their net asset value. See “Risk Factors and Special Considerations” beginning on page 18 of this prospectus to read about the risks you should carefully consider before investing in our securities.

Neither the SEC nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Investing in the Fund involves risks. See “Risk Factors and Special Considerations” on page 18 of this prospectus.

This prospectus may not be used to consummate sales of securities by us through agents, underwriters or dealers unless accompanied by a prospectus supplement.

Please carefully read this prospectus and any accompanying prospectus supplement before investing in our securities and keep each for future reference. This prospectus and any accompanying prospectus supplement will contain important information about us that a prospective investor ought to know before investing in our securities.

We are required to file with or submit to the U.S. Securities and Exchange Commission, or "SEC," annual, semi-annual and quarterly reports, proxy statements and other information about us. You may request copies of these reports and filings, including this prospectus and accompanying prospectus supplement, free of charge, make inquiries or request other information about us by contacting us by mail at 119 Washington Avenue, Suite 504 Miami Beach, FL 33139 or by telephone at (800) TJH-FUND (toll-free) or (305) 271-1900. Copies of these reports and filings are also available free of charge through our website at http://herzfeld.com/cuba. The SEC also maintains a website at http://www.sec.gov that contains this information. The inclusion of our website address above and elsewhere in this prospectus and any accompanying prospectus supplement is, in each case, intended to be an inactive textual reference only and not an active hyperlink to our website. The information contained in, or that can be accessed through, our website is not part of this prospectus or any accompanying prospectus supplement.

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained or incorporated by reference in this prospectus or any accompanying prospectus supplement. You must not rely on any unauthorized information or representations not contained in this prospectus or any accompanying prospectus supplement as if we had authorized it. We are offering to sell, and seeking offers to buy, shares of securities only in jurisdictions where offers and sales are permitted. This prospectus and any accompanying prospectus supplement does not constitute an offer to sell or the solicitation of an offer to buy any security other than the securities offered by this prospectus and any accompanying prospectus supplement, nor does this prospectus or any accompanying prospectus supplement constitute an offer to sell or the solicitation of an offer to buy securities by anyone in any jurisdiction in which such offer or solicitation would be unlawful. The information contained in this prospectus and any accompanying prospectus supplement is accurate only as of the date of this prospectus and any accompanying prospectus supplement, regardless of the time of delivery of this prospectus, any accompanying prospectus supplement or any sale of securities.

TABLE OF CONTENTS

PROSPECTUS SUMMARY

This summary highlights some information that is described more fully elsewhere in this prospectus and is qualified in its entirety by the more detailed information included elsewhere in the prospectus. The summary does not purport to be a complete discussion of all matters referred to in this prospectus and any accompanying prospectus supplement and may not contain all of the information that is important to you. To understand an offering fully you should read the entire prospectus and any accompanying prospectus supplement carefully, including the “Risk Factors and Special Consideration,” before making a decision to invest in our securities.

You should carefully read the section entitled "Risk Factors and Special Considerations " in this prospectus, any accompanying prospectus supplement, and our financial statements included in our Annual Report to stockholders for the fiscal year ended June 30, 2015, filed with the SEC on August 26, 2015. References to "fiscal year " mean our applicable fiscal year which ends on June 30th in such year.

Except where the context requires otherwise, the terms the "Fund, " "we, " "us " and "our " refer to The Herzfeld Caribbean Basin Fund, Inc. and the "Adviser" refers to HERZFELD/CUBA, a division of Thomas J. Herzfeld Advisors, Inc.

Information Regarding the Fund

The Herzfeld Caribbean Basin Fund, Inc. is a non-diversified, closed-end management investment company incorporated under the laws of the State of Maryland that has registered as an investment company under the 1940 Act. The Fund has elected and intends to continue to qualify annually to be treated as a regulated investment company under the Internal Revenue Code of 1986, as amended, or the "Code."

The Fund’s investment objective is long-term capital appreciation. To achieve its objective, the Fund invests in issuers that are likely, in the Adviser’s view, to benefit from economic, political, structural and technological developments in the countries in the Caribbean Basin, which include, among others, Cuba, Jamaica, Trinidad and Tobago, the Bahamas, the Dominican Republic, Barbados, Aruba, Haiti, the former Netherlands Antilles, the Commonwealth of Puerto Rico, Mexico, Honduras, Guatemala, Belize, Costa Rica, Panama, Colombia, the United States and Venezuela, or the “Caribbean Basin Countries.” The Fund invests at least 80% of its total assets in equity and equity-linked securities of issuers, including U.S. based companies which engage in substantial trade with, and derive substantial revenue from, operations in the Caribbean Basin Countries. The Fund may invest more than 25% of its total assets in the securities of U.S.-based companies, which constituted approximately 60% of the Fund's total assets as of September 30, 2015. Total assets includes the amount of any borrowings for investment purposes. At such time as it becomes legally permissible for U.S. entities to invest directly in Cuba, the Fund will consider such investments. See “Investment Objective and Policies.” Equity and equity-linked securities include, but are not limited to, common stock, preferred stock, debt securities convertible into equity, warrants, options and futures. An investment in the Fund is not appropriate for all investors and should not constitute a complete investment program. No assurances can be given that the Fund’s objective will be achieved.

The Offering

We may offer, from time to time, in one or more offerings, our common shares, $0.001 par value per share, or our subscription rights to purchase our common shares (the “Offer” or the “Offering”), of which approximately $1.6 million have been offered and sold as of October 27, 2015. The securities may be offered at prices and on terms to be set forth in one or more supplements to this prospectus (each a “prospectus supplement”). The offering price per common share will not be less than the net asset value per common share at the time we make the offering, exclusive of any underwriting commissions or discounts, provided that rights offerings that meet certain conditions may be offered at a price below the then current net asset value. See “Rights Offerings.” You should read this prospectus and the applicable prospectus supplement carefully before you invest in our securities. Our securities may be offered directly to one or more purchasers, through agents designated from time to time by us or to or through underwriters or dealers. The prospectus supplement relating to the offering will identify any agents, underwriters, or dealers involved in the sale of our shares or notes, and will set forth any applicable purchase price, fee, commission or discount arrangement between us and our agents or underwriters, or among our underwriters, or the basis upon which such amount may be calculated. The prospectus supplement relating to any offering of subscription rights will set forth the number of common or preferred shares issuable upon the exercise of each right and the other terms of such rights offering. We may not sell any of our shares or notes through agents, underwriters or dealers without delivery of a prospectus supplement describing the method and terms of the particular offering.

While the aggregate amount of securities we may issue pursuant to this registration statement is limited to $100 million, our board of directors may, without any action by the stockholders, amend our Articles of Incorporation, as amended, from time to time to increase or decrease the aggregate number of shares or the number of shares of any class or series that we have authority to issue.

Information Regarding the Adviser and Custodian, Transfer Agent, Dividend Disbursing Agent, and Registrar

HERZFELD/CUBA, a division of Thomas J. Herzfeld Advisors, Inc. has acted as the investment adviser to the Fund since the Fund's registration under the 1940 Act. Our Investment Advisory Agreement with the Adviser, or the "Investment Advisory Agreement," sets forth the services to be provided by the Adviser. The Investment Advisory Agreement was last approved by our board of directors (the "board of directors" or "board") on August 4, 2015, and is required to be approved annually by our board. The Adviser is entitled to an advisory fee paid by the Fund at the annual rate of 1.45% of the Fund's average weekly net assets and payable at the end of each month. That fee is higher than the advisory fee paid by most investment companies. For the fiscal years ended June 30, 2015, 2014 and 2013, the Adviser earned $558,086, $494,178, and $472,075, respectively, for investment advisory services provided to the Fund pursuant to the Investment Advisory Agreement.

See "Management of the Fund - Investment Adviser."

State Street Bank and Trust Company acts as custodian for the Fund's assets. State Street Bank and Trust Company also serves as the Fund's transfer agent, dividend/distribution disbursing agent, dividend reinvestment plan agent and as registrar for the Fund's common stock. For its services as custodian, the Fund currently pays State Street Bank and Trust Company a monthly fee of $7,000. For its services as transfer agent, dividend reinvestment plan agent and registrar for the Fund's common stock, the Fund currently pays State Street Bank and Trust Company a monthly fee of $2,000 plus related expenses.

See, "Custodian, Transfer Agent, Dividend Disbursing Agent, And Registrar".

Closed-End Fund Structure

The Fund is a non-diversified, closed-end management investment company under the 1940 Act, commonly referred to as a "closed-end fund." Closed-end management investment companies differ from open-end management investment companies (commonly referred to as "mutual funds") in that closed-end funds generally list their shares for trading on a stock exchange and do not redeem their stock at the request of the stockholder. This means that if a stockholder wishes to sell shares of a closed-end management investment company, he or she must trade them on the market, like any other stock, at the prevailing market price at that time. With respect to a mutual fund, if the stockholder wishes to sell shares of the company, the mutual fund will redeem, or buy back, the shares at NAV. Mutual funds also generally offer new shares on a continuous basis to new investors, and closed-end management investment companies generally do not. The continuous inflows and outflows of assets in a mutual fund can make it difficult to manage the company's investments. By comparison, closed-end management investment companies are generally able to stay more fully invested in securities that are consistent with their investment objectives and also have greater flexibility to make certain types of investments and to use certain investment strategies, such as investments in illiquid securities.

When shares of closed-end management investment companies are traded, they may trade at a discount to their NAV. This characteristic of shares of closed-end management investment companies is a risk separate and distinct from the risk that the closed-end management investment company's NAV may decrease as a result of investment activities. Our conversion to an open-end mutual fund would require an amendment to the Fund's articles of incorporation.

Investment Focus

The Fund's investment objective is to obtain long-term capital appreciation. This objective may not be changed without the prior approval of the holders of a majority of the Fund's outstanding voting securities. As further described below, the Fund pursues its objective by investing primarily in equity and equity-linked securities of public and private companies, including U.S.-based companies, (i) whose securities are traded principally on a stock exchange in a Caribbean Basin Country, (ii) that have at least 50% of the value of their assets in a Caribbean Basin Country or (iii) that derive at least 50% of their total revenue from a Caribbean Basin Country, which we refer to collectively as "Caribbean Basin Companies." Current income through receipt of interest or dividends from the Fund's securities is incidental to the Fund's efforts to attain its investment objective.

The Fund invests in Caribbean Basin Companies that are likely, in the opinion of the Adviser, to benefit from economic, political, structural and technological developments in the Caribbean Basin Countries. Under normal market conditions, the Fund invests at least 80% of its total assets in equity and equity-linked securities of Caribbean Basin Companies. This 80% policy may be changed without stockholder approval upon sixty days written notice to stockholders. Total assets includes the amount of any borrowings for investment purposes. The Fund may invest more than 25% of its total assets in the securities of U.S.-based companies, which constituted approximately 60% of the Fund's total assets as of September 30, 2015.

Investment in Cuban securities or any investment in Cuba directly or indirectly is currently prohibited under U.S. law. At such time as it becomes legally permissible for U.S. entities to invest directly in Cuba, the Fund will consider such investments. U.S. law currently prohibits the Fund from investing its assets in securities of companies that benefit from free trade with Cuba, which we refer to as "companies strategically linked to Cuba." Companies strategically linked to Cuba may include a company that benefits from free trade with Cuba, but does not meet the definition of Caribbean Basin Company set forth above. If permitted to make such investments upon a lifting or easing of the U.S. trade embargo against Cuba or pursuant to regulations promulgated by a department or agency of the U.S. Government, the Fund may invest up to 20% of its assets in equity and equity-linked securities of non-Caribbean Basin Companies strategically linked to Cuba.

The United States re-established diplomatic relations with Cuba and reopened the U.S. embassy in Havana on July 20, 2015. Additionally, the U.S. Department of the Treasury has implemented certain regulatory changes that may facilitate travel to Cuba by U.S. trade delegations and by U.S. citizens who engage in certain commercial activities, although the future impact that these changes may have on travel related to possible investment in Cuba or Cuban securities (if any such investment activities become legally permissible) is not yet clear. There can be no assurances that the U.S. trade embargo against Cuba will ever be lifted or eased or, if and when such lifting or easing of the embargo commences, that the Adviser will be able to identify direct investments in issuers domiciled in Cuba that are acceptable for the Fund. If investment in securities issued by companies domiciled in Cuba were to be permitted under U.S. law, certain risks and special considerations not typically associated with investing in securities of U.S. companies would be relevant to such securities. These risks include, among others, restrictions on foreign investment and on repatriation of capital invested in Cuba, unstable currency exchange and fluctuation, the absence of a capital market structure or market oriented economy, potential price volatility and lesser or lack of liquidity of shares listed on a securities market (if one is established), continued political and economic risks and other risks described in "Risk Factors and Special Considerations".

Equity securities of public and private companies that may be purchased by the Fund consist of common stock, convertible and non-convertible preferred stock (whether voting or non-voting), debt with equity warrants and unattached warrants. Debt issued with a warrant entitles the holder to purchase equity shares and differs from convertible debt because the conversion feature is in the form of a separately traded warrant. Equity-linked securities of public and private companies that may be purchased by the Fund consist of debt securities convertible into equity and securities such as warrants, options and futures, the prices of which are functions of the value of the equity securities receivable upon exercise or settlement thereof.

We may invest up to 20% of our assets in non-equity linked debt securities including foreign denominated corporate debt and sovereign debt issued by foreign governments, their agencies or instrumentalities, or other government-related entities.

For more information, see "Investment Objective and Policies".

Summary Risk Factors and Special Considerations

The value of our assets, as well as the market price of our securities, will fluctuate. Our investments may be risky, and you may lose all or part of your investment in us.. For additional information about the risks associated with investing in the Fund’s common stock, see “Risk Factors and Special Considerations.”

The Fund is a non-diversified, closed-end investment company designed primarily as a long-term investment and not as a trading tool. The Fund invests generally in a portfolio of Caribbean Basin Companies. An investment in the Fund should be considered speculative and involves a high degree of risk. The Fund’s shares do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any governmental agency.

Risks that you should carefully consider before investing in our securities include, but are not limited to, the following:

Discount From NAV	Shares of closed-end funds frequently trade at a market price that is less than the value of the net assets attributable to those shares (a “discount”). The possibility that the Fund’s shares will trade at a discount from NAV is a risk separate and distinct from the risk that the Fund’s NAV will decrease. The risk of purchasing shares of a closed-end fund that might trade at a discount or unsustainable premium is more pronounced for investors who wish to sell their shares in a relatively short period of time after purchasing them because, for those investors, realization of a gain or loss on their investments is likely to be more dependent upon the existence of a premium or discount than upon portfolio performance.
Caribbean Basin Countries	Investing in the securities of non-U.S. issuers involves certain risks and considerations not typically associated with investing in securities of U.S. issuers. These risks include currency fluctuations, political and economic risks, including nationalization and expropriation, reduced levels of publicly available information concerning issuers and reduced levels of government regulation of foreign securities markets. Also, investment in Caribbean Basin Countries may involve special considerations, such as limited liquidity and small market capitalization of the Caribbean Basin securities markets, currency devaluations, high inflation and repatriation restrictions.
Equity and Equity-Linked Securities Risk	Consistent with its objective, the Fund invests a substantial portion of its assets in equity securities of Caribbean Basin Companies. Equity securities, such as common stock, generally represent an ownership interest in a company. An adverse event, such as an unfavorable earnings report, may depress the value of a particular equity security held by the Fund. Also, the prices of equity securities, particularly common stocks, are sensitive to general movements in the stock market. The Fund’s share price can fall because of weakness in the markets in which it invests, a particular industry or specific holdings. Markets as a whole can decline for many reasons, including adverse political or economic developments, changes in investor psychology, or heavy institutional selling. The prospects for an industry or company may deteriorate because of a variety of factors, including disappointing earnings or changes in the competitive environment. Investments in futures and options, if any, are subject to additional volatility and potential losses. The Fund may also invest in preferred stock, convertible securities and other types of equity-linked securities. The market value of preferred and convertible securities and other debt securities tends to fall when prevailing interest rates rise. Preferred securities may pay fixed or adjustable rates of return. Preferred securities are subject to issuer-specific and market risks applicable generally to equity securities. In addition, a company’s preferred securities generally pay dividends only after the company makes required payments to holders of its bonds and other debt. For this reason, the value of preferred securities will usually react more strongly than bonds and other debt to actual or perceived changes in the company’s financial condition or prospects. Preferred securities of smaller companies may be more vulnerable to adverse developments than preferred stock of larger companies. The market value of a convertible security performs like that of a regular debt security; that is, if market interest rates rise, the value of a convertible security usually falls. In addition, convertible securities are subject to the risk that the issuer will not be able to pay interest or dividends when due, and their market value may change based on changes in the issuer’s credit rating or the market’s perception of the issuer’s creditworthiness. Since it derives a portion of its value from the common stock into which it may be converted, a convertible security is also subject to the same types of market and issuer risks that apply to the underlying common stock. Equity-linked securities bear the risk that, in addition to market risk and other risks of the referenced equity security, the Fund may experience a return that is different from that of the referenced equity security. Equity-linked instruments also subject the Fund to counterparty risk, including the risk that the issuing entity may not be able to honor its financial commitment, which could result in a loss of all or part of the Fund’s investment.

Cuba Specific Issues	Investment in Cuban securities or any investment in Cuba directly or indirectly is currently prohibited under U.S. law. There can be no assurances that the U.S. trade embargo against Cuba will ever be lifted or eased or, if and when such a normalization commences, that the Adviser will be able to identify direct investments in issuers domiciled in Cuba that are acceptable for the Fund. However, if investment in securities issued by companies domiciled in Cuba were to be permitted under U.S. law, certain considerations not typically associated with investing in securities of U.S. companies should be considered, including: (1) restrictions on foreign investment and on repatriation of capital invested in Cuba; (2) unstable currency exchange and fluctuation; (3) the cost of converting foreign currency into U.S. Dollars; (4) potential price volatility and lesser or lack of liquidity of shares listed on a securities market (if one is established); (5) continued political and economic risks including a new government that if not properly stabilized may lead to the risk of nationalization or expropriation of assets and the risk of civil war; (6) the absence of a developed legal structure governing private property; (7) the absence of a capital market structure or market oriented economy; and (8) the difficulty of assessing the financial status of particular companies.
"Non-diversified" Investment Company	As a "non-diversified" investment company, the Fund's investments involve greater risks than would be the case for a similar diversified investment company because the Fund is not limited by the Investment Company Act of 1940, as amended (the "1940 Act"), in the proportion of its assets that may be invested in the assets of a single issuer. Although the Fund is not diversified for the purposes of the 1940 Act, it must maintain a certain degree of diversification in order to comply with certain requirements of the Code, applicable to regulated investment companies. See "Risk Factors/Special Considerations" and "Taxation."
Management Risk	The Adviser's judgment about the attractiveness, relative value or potential appreciation of a particular security or investment strategy may prove to be incorrect.
Dividends and Distributions	The Fund distributes annually to its stockholders substantially all of its net investment income and net short-term capital gains. The Fund determines annually whether to distribute any net realized long-term capital gains in excess of net realized short-term capital losses. We paid annual distributions to our common stockholders in fiscal year 2015 of $0.64 per share and in fiscal year 2014 of $1.14 per share. See "Dividends and Distributions: Dividend Reinvestment Plan" and "Taxation."
Plan of Distribution	We may offer, from time to time, up to $100 million of our securities, on terms to be determined at the time of each such offering and set forth in a supplement to this prospectus. Securities may be offered at prices and on terms described in one or more supplements to this prospectus. We may sell our securities through underwriters or dealers, "at-the-market" to or through a market maker, into an existing trading market or otherwise directly to one or more purchasers or through agents or through a combination of methods of sale. The supplement to this prospectus relating to an offering will identify any agents or underwriters involved in the sale of our securities, and will set forth any applicable purchase price, fee and commission or discount arrangement or the basis upon which such amount may be calculated. In compliance with the guidelines of the Financial Industry Regulatory Authority, Inc., or FINRA, the compensation to the underwriters or dealers in connection with the sale of our securities pursuant to this prospectus and the accompanying supplement to this prospectus may not exceed 8% of the aggregate offering price of the securities as set forth on the cover page of the supplement to this prospectus.

	We may not sell securities pursuant to this prospectus without delivering a prospectus supplement describing the terms of the particular securities to be offered and the method of an offering of such securities. See “Plan of Distribution”.
Certain Charter Provisions	The Fund’s Articles of Incorporation, as amended, include provisions that could have the effect of: inhibiting the Fund’s possible conversion to open-end status; limiting the ability of other entities or persons to acquire control of the Fund or to change the composition of its board; and depriving stockholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging a third party from seeking to obtain control of the Fund. See “Description of Common Stock.”
Market Disruption Risk	Certain events have had a disruptive effect on the securities markets, such as terrorist attacks, war and other geopolitical events, hurricanes, droughts, floods and other disasters. The Fund cannot predict the effects of similar events in the future on the markets or economies of Caribbean Basin Countries.

The risks and special considerations discussed above apply generally to the investments and strategies that the Adviser will use under normal market conditions. The Fund and the Adviser also may use other strategies and engage in other investment practices. For more information about the risks described above and other risks, see "Risk Factors and Special Considerations" and, risks and special considerations discussed in any accompanying prospectus supplement. In addition, the other information included in this prospectus and any accompanying prospectus supplement contains a discussion of factors you should carefully consider before deciding to invest in shares of our common stock.

FEES AND EXPENSES

The following table is intended to assist you in understanding the costs and expenses that you will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever this prospectus and any accompanying prospectus supplement contains a reference to fees or expenses paid by "us" or the Fund or that "we" will pay fees or expenses, you will indirectly bear such fees or expenses as an investor in the Fund.

Fee Table

Stockholder Transaction Expenses:	
Sales load (as a percentage of the offering price) (1)	[ ]%
Offering expenses borne by us (1)	[ ]%
Dividend reinvestment plan fees	None
Total stockholder transaction expenses (as a percentage of offering price)	
Annual Expenses (as a percentage of net assets attributable to common shares):	
Management Fees	1.45%
Other expenses (estimated) (2)	1.52%
Acquired fund fees and expenses (3)	0.02%
Total Annual Expenses (estimated) (4)	2.99%

(1) To be provided by amendment. The actual amounts in connection with any offering will be set forth in the prospectus supplement if applicable.

(2) “Other Expenses” do not include expenses of the Fund incurred in connection with any Offer. However, these expenses will be borne by the holders of the shares of common stock of the Fund and result in a reduction in the net asset value, or “NAV”, of the shares of common stock.

(3) Includes fees and expenses of approximately 0.02% incurred indirectly as a result of investment in shares of one or more “Acquired Funds,” which include (i) investment companies, or (ii) companies that would be an investment company under Section 3(a) of the 1940 Act except for exceptions under Sections 3(c)(1) and 3(c)(7) under the 1940 Act.

(4) Total Annual Expenses will not correlate to the ratio of expenses to average net assets disclosed in the Fund’s annual and semi-annual reports to stockholders in the financial highlights table, which reflects operating expenses of the Fund and does not include “Acquired Fund” fees and expenses.

Example

The following example demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our common stock.

	Cumulative Expenses Paid for the Period of:			
	1 year	3 years	5 years	10 years

An investor would pay the following expenses on a $1,000 investment, assuming a 5% annual return:	$30	$92	$157	$331

The example and the expenses in the tables above should not be considered a representation of past or future expenses or annual rates of return and actual expenses or annual rates of return may be more or less than those shown. The foregoing table and example are intended to assist investors in understanding the costs and expenses that an investor in the Fund will bear directly or indirectly. "Other Expenses" are based on estimated amounts for the current fiscal year. See "Management of the Fund" for additional information.

The example assumes the reinvestment of all dividends and distributions at NAV and an expense ratio of 2.99%. The tables above and the assumption in the example of a 5% annual return are required by SEC regulations applicable to all investment companies. In addition, while the example assumes the reinvestment of all dividends and distributions at NAV, participants in the Dividend Reinvestment Plan may receive shares purchased or issued at a price or value different from NAV. See "Dividends and Distributions; Dividend Reinvestment Plan."

FINANCIAL HIGHLIGHTS

The table below sets forth selected data for a share of common stock outstanding for each period presented. The information for the fiscal years ended June 30, 2015 and June 30, 2014 have been audited by KPMG LLP, the Fund's independent registered public accounting firm. The information for the fiscal years ended June 30, 2013, 2012 and 2011 contained in the table was audited by the Fund's former independent registered public accounting firm. Audited financial statements for the Fund for the fiscal year ended June 30, 2015, are included in the Annual Report to stockholders. The Annual Report to stockholders is available without charge by calling (800) TJH-FUND.

	Year Ended June 30,			
	2015	2014	2013	20
Per Share Operating Performance (For a share of capital stock outstanding for each year)				
Net asset value, beginning of year	$ 9.12	$9.28	$7.90	$8

9

(1) Shares (continued)

Voting Rights

Classification	As of June 30, 2012 Number of shares (shares)	Number of voting rights (units)
Shares without voting rights	-	-
Shares with restricted voting rights (Treasury stock, etc.)	-	-
Shares with restricted voting rights (Others)	-	-
Shares with full voting rights (Treasury stock, etc.)	(treasury stock) 162,596,100	
	(cross shareholding) 3,700	-
Shares with full voting rights (Others)	1,169,287,100	11,692,871
Fractional unit shares (Note)	1,876,564	-
Total number of issued shares	1,333,763,464	-
Total voting rights held by all shareholders	-	11,692,871

Note:

In Fractional unit shares under Number of shares, 44 shares of treasury stock and 50 shares of cross shareholding are included.

Treasury Stock, etc.

	Number of shares owned (Number of shares)	Number of shares owned / Number of shares issued
Canon Inc.	162,596,100	12.19%
Horie Mfg. Co., Ltd.	3,700	0.00%
Total	162,599,800	12.19%

10

(2) Directors and Executive Officers

There were no changes in members of directors between the filing date of the Annual Securities Report (Yukashoken Houkokusho) for the fiscal year ended December 31, 2011 and the end of this quarter.

Changes in functions of directors are below:

Toshizo Tanaka	(Executive Vice President & CFO: Group Executive of Finance & Accounting HQ and Facility Management HQ)
Toshio Honma	(Senior Managing Director: Group Executive of Global Procurement HQ)
Hiroyuki Suematsu	(Director: Group Executive of Environment & Quality HQ)

There were no changes in members of executive officers between the filing date of the Annual Securities Report (Yukashoken Houkokusho) for the fiscal year ended December 31, 2011 and the end of this quarter.

Changes in functions of executive officers are below:

Rokus van Iperen	(Executive Officer: President of Canon Europa N.V. and Canon Europe Ltd.)
Eiji Osanai	(Executive Officer: Deputy Chief Executive of Production Engineering HQ)

IV. Financial Statements (Unaudited)

(1) <u>Consolidated Financial Statements</u>

Index of Consolidated Financial Statements of Canon Inc. and Subsidiaries:

CANON INC. AND SUBSIDIARIES

Consolidated Balance Sheets

	Millions of yen	
	June 30, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents (Note 13)	674,047	773,227
Short-term investments (Note 2)	77,548	125,517
Trade receivables, net (Note 3)	501,303	533,208
Inventories (Note 4)	542,245	476,704
Prepaid expenses and other current assets (Notes 9 and 13)	256,138	244,649
Total current assets	2,051,281	2,153,305
Noncurrent receivables (Note 10)	16,131	16,772
Investments (Note 2)	52,845	51,790
Property, plant and equipment, net (Note 5)	1,225,165	1,190,836
Intangible assets, net	134,258	138,030
Other assets (Note 13)	381,756	379,994
Total assets	3,861,436	3,930,727

CANON INC. AND SUBSIDIARIES

Consolidated Balance Sheets (continued)

	Millions of yen	
	June 30, 2012	December 31, 2011
Liabilities and equity		
Current liabilities:		
Short-term loans and current portion of long-term debt	4,780	8,343
Trade payables (Note 6)	375,617	380,532
Accrued income taxes	63,061	45,900
Accrued expenses (Note 10)	262,394	299,422
Other current liabilities (Note 9)	172,781	159,651
Total current liabilities	878,633	893,848
Long-term debt, excluding current installments	2,553	3,368
Accrued pension and severance cost	249,748	249,604
Other noncurrent liabilities	72,308	70,240
Total liabilities	1,203,242	1,217,060
Commitments and contingent liabilities (Note 10)		
Equity:		
Canon Inc. stockholders equity (Note 7):		
Common stock	174,762	174,762
(Number of authorized shares)	(3,000,000,000)	(3,000,000,000)
(Number of issued shares)	(1,333,763,464)	(1,333,763,464)
Additional paid-in capital	399,155	401,572
Legal reserve	59,982	59,004
Retained earnings	3,099,617	3,059,298
Accumulated other comprehensive income (loss)	(472,222)	(481,773)
Treasury stock, at cost	(761,677)	(661,731)
(Number of shares)	(162,596,144)	(132,231,296)
Total Canon Inc. stockholders equity	2,499,617	2,551,132
Noncontrolling interests (Note 7)	158,577	162,535
Total equity (Note 7)	2,658,194	2,713,667
Total liabilities and equity	3,861,436	3,930,727

CANON INC. AND SUBSIDIARIES

Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Consolidated Statements of Income

	Millions of yen	
	Six months ended June 30, 2012	Six months ended June 30, 2011
Net sales	1,728,445	1,675,765
Cost of sales	897,626	851,029
Gross profit	830,819	824,736
Operating expenses:		
Selling, general and administrative expenses (Note 13)	506,191	517,649
Research and development expenses	149,353	146,174
	655,544	663,823
Operating profit	175,275	160,913
Other income (deductions):		
Interest and dividend income	3,574	3,760
Interest expense	(375)	(672)
Other, net (Notes 9, 12 and 13)	(205)	(342)
	2,994	2,746
Income before income taxes	178,269	163,659
Income taxes	61,503	52,259
Consolidated net income	116,766	111,400
Less: Net income attributable to noncontrolling interests	3,514	2,077
Net income attributable to Canon Inc.	113,252	109,323

	Yen	Yen
Net income attributable to Canon Inc. stockholders per share (Note 8):		
Basic	95.26	89.16
Diluted	95.25	89.16
Cash dividends per share	60.00	60.00

Consolidated Statements of Comprehensive Income

	Millions of yen	
	Six months ended June 30, 2012	Six months ended June 30, 2011
Consolidated net income	116,766	111,400
Other comprehensive income (loss), net of tax		
Foreign currency translation adjustments	8,366	20,517
Net unrealized gains and losses on securities	989	(1,136)
Net gains and losses on derivative instruments	897	(358)
Pension liability adjustments	588	1,461
	10,840	20,484
Comprehensive income (Note 7)	127,606	131,884
Less: Comprehensive income attributable to noncontrolling interests	3,536	3,205
Comprehensive income attributable to Canon Inc.	124,070	128,679

CANON INC. AND SUBSIDIARIES

Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Consolidated Statements of Income

	Millions of yen	
	Three months ended June 30, 2012	Three months ended June 30, 2011
Net sales	899,205	836,574
Cost of sales	459,284	418,075
Gross profit	439,921	418,499
Operating expenses:		
Selling, general and administrative expenses (Note 13)	270,003	264,009
Research and development expenses	77,322	76,079
	347,325	340,088
Operating profit	92,596	78,411
Other income (deductions):		
Interest and dividend income	2,012	2,124
Interest expense	(266)	(234)
Other, net (Notes 9, 12 and 13)	(8,797)	1,326
	(7,051)	3,216
Income before income taxes	85,545	81,627
Income taxes	32,389	26,207
Consolidated net income	53,156	55,420
Less: Net income attributable to noncontrolling interests	1,442	1,559
Net income attributable to Canon Inc.	51,714	53,861

	Yen	Yen
Net income attributable to Canon Inc. stockholders per share (Note 8):		
Basic	43.71	43.99
Diluted	43.71	43.99
Cash dividends per share	60.00	60.00

Consolidated Statements of Comprehensive Income

	Millions of yen	
	Three months ended June 30, 2012	Three months ended June 30, 2011
Consolidated net income	53,156	55,420
Other comprehensive income (loss), net of tax		
Foreign currency translation adjustments	(61,992)	(19,127)
Net unrealized gains and losses on securities	(3,008)	(1,428)
Net gains and losses on derivative instruments	5,272	1,082
Pension liability adjustments	251	1,319
	(59,477)	(18,154)
Comprehensive income (loss) (Note 7)	(6,321)	37,266
Less: Comprehensive income attributable to noncontrolling interests	620	1,912
Comprehensive income (loss) attributable to Canon Inc.	(6,941)	35,354

16

CANON INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	Millions of yen	
	Six months ended June 30, 2012	Six months ended June 30, 2011
Cash flows from operating activities:		
Consolidated net income	116,766	111,400
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation and amortization	120,906	127,587
Loss on disposal of fixed assets	7,380	4,914
Deferred income taxes	(1,428)	(1,627)
Decrease in trade receivables	32,233	91,225
Increase in inventories	(63,586)	(83,978)
Decrease in trade payables	(1,273)	(9,859)
Increase (decrease) in accrued income taxes	17,231	(14,803)
Decrease in accrued expenses	(36,987)	(32,986)
Increase (decrease) in accrued (prepaid) pension and severance cost	1,763	(300)
Other, net	8,962	(748)
Net cash provided by operating activities	201,967	190,825
Cash flows from investing activities:		
Purchases of fixed assets (Note 5)	(162,481)	(104,307)
Proceeds from sale of fixed assets (Note 5)	1,287	616
Purchases of available-for-sale securities	(152)	(540)
Proceeds from sale and maturity of available-for-sale securities	189	1,469
Decrease in time deposits, net	49,998	17,729
Acquisitions of subsidiaries, net of cash acquired	(704)	17
Purchases of other investments	(259)	(127)
Other, net	345	11,835
Net cash used in investing activities	(111,777)	(73,308)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	389	593
Repayments of long-term debt	(1,181)	(2,345)
Increase (decrease) in short-term loans, net	(3,616)	6,582
Dividends paid	(72,092)	(79,850)
Repurchases of treasury stock, net	(99,970)	(49,843)
Other, net	(11,071)	(1,571)
Net cash used in financing activities	(187,541)	(126,434)
Effect of exchange rate changes on cash and cash equivalents	(1,829)	16,957

Net change in cash and cash equivalents	(99,180)	8,040
Cash and cash equivalents at beginning of period	773,227	840,579
Cash and cash equivalents at end of period	674,047	848,619
Supplemental disclosure for cash flow information:		
Cash paid during the period for:		
Interest	428	724
Income taxes	52,904	75,996

CANON INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Basis of Presentation and Significant Accounting Policies

(a) Basis of Presentation

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

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

The number of consolidated subsidiaries and affiliated companies that were accounted for by the equity method basis as of June 30, 2012 and December 31, 2011 are summarized as follows:

	June 30, 2012	December 31, 2011
Consolidated subsidiaries	278	277
Affiliated companies	10	11
Total	288	288

(b) Principles of Consolidation

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

(c) Recently Issued Accounting Guidance

In June 2011, the FASB issued an amendment which requires presentation of net income and other comprehensive income in one continuous statement or in two separate but consecutive statements, which is applied retrospectively for all periods presented. Canon adopted this amended guidance from the quarter beginning January 1, 2012. This adoption did not have a material impact on Canon s consolidated results of operations and financial condition.

CANON INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(2) Investments

The cost, gross unrealized holding gains, gross unrealized holding losses and fair value for available-for-sale securities included in short-term investments and investments by major security type at June 30, 2012 and December 31, 2011 were as follows:

	Millions of yen June 30, 2012			
	Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Current:				
Corporate bonds	30	-	-	30
Noncurrent:				
Government bonds	147	-	-	147
Corporate bonds	507	65	31	541
Fund trusts	1,814	3	21	1,796
Equity securities	14,961	4,393	1,287	18,067
	17,429	4,461	1,339	20,551

	Millions of yen December 31, 2011			
	Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Current:				
Corporate bonds	20	-	-	20
Noncurrent:				
	172	-	22	150

Government bonds				
Corporate bonds	569	73	84	558
Fund trusts	1,867	2	43	1,826
Equity securities	15,911	3,200	1,387	17,724
	18,519	3,275	1,536	20,258

CANON INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(2) Investments (continued)

Maturities of available-for-sale debt securities and fund trusts included in short-term investments and investments in the accompanying consolidated balance sheets were as follows at June 30, 2012:

	Millions of yen	
	Cost	Fair value
Due within one year	30	30
Due after one year through five years	952	938
Due after five years through ten years	1,516	1,546
	2,498	2,514

Realized gains and losses are determined using the average cost method and are reflected in earnings. The gross realized losses, including write-downs for impairments that were other than temporary, were not significant for the six and three months ended June 30, 2012 and 2011. The gross realized gains were not significant for the six and three months ended June 30, 2012 and 2011.

At June 30, 2012, substantially all of the available-for-sale securities with unrealized losses had been in a continuous unrealized loss position for less than twelve months.

Time deposits with original maturities of more than three months are ¥77,518 million and ¥125,497 million at June 30, 2012 and December 31, 2011, respectively, and are included in short-term investments in the accompanying consolidated balance sheets.

Aggregate cost of non-marketable equity securities accounted for under the cost method totaled ¥14,445 million and ¥14,583 million at June 30, 2012 and December 31, 2011, respectively. These investments were not evaluated for impairment at June 30, 2012 and December 31, 2011, respectively, because (a) Canon did not estimate the fair value of those investments as it was not practicable to estimate the fair value of the investments and (b) Canon did not identify any events or changes in circumstances that might have had significant adverse effects on the fair value of those investments.

Reclassifications from accumulated other comprehensive income (loss) for gains and losses realized in net income was not significant for the six and three months ended June 30, 2012 and 2011.

CANON INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(3) Trade Receivables

Trade receivables are summarized as follows:

	Millions of yen	
	June 30, 2012	December 31, 2011
Notes	13,999	16,739
Accounts	498,925	528,032
Less allowance for doubtful receivables	(11,621)	(11,563)
	501,303	533,208

(4) Inventories

Inventories are summarized as follows:

	Millions of yen	
	June 30, 2012	December 31, 2011
Finished goods	344,697	291,023
Work in process	177,966	166,076
Raw materials	19,582	19,605
	542,245	476,704

(5) Property, Plant and Equipment

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

	Millions of yen	
	June 30, 2012	December 31, 2011
Land	268,376	268,493
Buildings	1,391,384	1,367,187
Machinery and equipment	1,517,603	1,499,331
Construction in progress	111,848	94,507
	3,289,211	3,229,518
Less accumulated depreciation	(2,064,046)	(2,038,682)
	1,225,165	1,190,836

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

(6) Trade Payables

Trade payables are summarized as follows:

	Millions of yen	
	June 30, 2012	December 31, 2011
Notes	16,301	16,519
Accounts	359,316	364,013
	375,617	380,532

CANON INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(7) Equity

The change in the carrying amount of total equity, equity attributable to Canon Inc. stockholders and equity attributable to noncontrolling interests in the consolidated balance sheets for the six months ended June 30, 2012 and 2011 are as follows:

	Millions of yen		
	Canon Inc. stockholders equity	Noncontrolling interests	Total equity
Balance at December 31, 2011	2,551,132	162,535	2,713,667
Dividends paid to Canon Inc. stockholders	(72,092)	-	(72,092)
Dividends paid to noncontrolling interests	-	(1,327)	(1,327)
Equity transactions with noncontrolling interests and other	(3,523)	(6,167)	(9,690)
Comprehensive income:			
Net income	113,252	3,514	116,766
Other comprehensive income (loss), net of tax			
Foreign currency translation adjustments	8,429	(63)	8,366
Net unrealized gains and losses on securities	1,008	(19)	989
Net gains and losses on derivative instruments	897	0	897
Pension liability adjustments	484	104	588
Total comprehensive income	124,070	3,536	127,606
Repurchase of treasury stock, net	(99,970)	-	(99,970)
Balance at June 30, 2012	2,499,617	158,577	2,658,194
Balance at December 31, 2010	2,645,782	163,855	2,809,637
Dividends paid to Canon Inc. stockholders	(79,850)	-	(79,850)
Dividends paid to noncontrolling interests	-	(1,374)	(1,374)
Equity transactions with noncontrolling interests and other	347	(71)	276

Comprehensive income:			
Net income	109,323	2,077	111,400
Other comprehensive income (loss), net of tax			
Foreign currency translation adjustments	20,267	250	20,517
Net unrealized gains and losses on securities	(1,247)	111	(1,136)
Net gains and losses on derivative instruments	(454)	96	(358)
Pension liability adjustments	790	671	1,461
Total comprehensive income	128,679	3,205	131,884
Repurchase of treasury stock, net	(49,843)	-	(49,843)
Balance at June 30, 2011	2,645,115	165,615	2,810,730

CANON INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(8) Net Income Attributable to Canon Inc. Stockholders per Share

A reconciliation of the numerators and denominators of basic and diluted net income attributable to Canon Inc. stockholders per share computations for the six months ended June 30, 2012 and 2011 is as follows:

	Millions of yen	
	Six months ended June 30, 2012	Six months ended June 30, 2011
Net income attributable to Canon Inc.	113,252	109,323

	Number of shares	
	Six months ended June 30, 2012	Six months ended June 30, 2011
Average common shares outstanding	1,188,899,356	1,226,095,765
Effect of dilutive securities:		
Stock options	41,148	79,976
Diluted common shares outstanding	1,188,940,504	1,226,175,741

	Yen	
	Six months ended June 30, 2012	Six months ended June 30, 2011
Net income attributable to Canon Inc. stockholders per share:		
Basic	95.26	89.16
Diluted	95.25	89.16

A reconciliation of the numerators and denominators of basic and diluted net income attributable to Canon Inc. stockholders per share computations for the three months ended June 30, 2012 and 2011 is as follows:

	Millions of yen	
	Three months ended June 30, 2012	Three months ended June 30, 2011
Net income attributable to Canon Inc.	51,714	53,861

	Number of shares	
	Three months ended June 30, 2012	Three months ended June 30, 2011
Average common shares outstanding	1,183,055,213	1,224,317,625
Effect of dilutive securities:		
Stock options	29,490	44,122
Diluted common shares outstanding	1,183,084,703	1,224,361,747

	Yen	
	Three months ended June 30, 2012	Three months ended June 30, 2011
Net income attributable to Canon Inc. stockholders per share:		
Basic	43.71	43.99
Diluted	43.71	43.99

The computation of diluted net income attributable to Canon Inc. stockholders per share for the six and three months ended June 30, 2012 and 2011 excludes certain outstanding stock options because the effect would be anti-dilutive.

CANON INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(9) Derivatives and Hedging Activities

Risk management policy

Canon operates internationally, exposing it to the risk of changes in foreign currency exchange rates. Derivative financial instruments are comprised principally of foreign exchange contracts utilized by the Company and certain of its subsidiaries to reduce the risk. Canon assesses foreign currency exchange rate risk by continually monitoring changes in the exposures and by evaluating hedging opportunities. Canon does not hold or issue derivative financial instruments for trading purposes. Canon is also exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments, but it is not expected that any counterparties will fail to meet their obligations. Most of the counterparties are internationally recognized financial institutions and selected by Canon taking into account their financial condition, and contracts are diversified across a number of major financial institutions.

Foreign currency exchange rate risk management

Canon s international operations expose Canon to the risk of changes in foreign currency exchange rates. Canon uses foreign exchange contracts to manage certain foreign currency exchange exposures principally from the exchange of U.S. dollars and euros into Japanese yen. These contracts are primarily used to hedge the foreign currency exposure of forecasted intercompany sales and intercompany trade receivables that are denominated in foreign currencies. In accordance with Canon s policy, a specific portion of foreign currency exposure resulting from forecasted intercompany sales are hedged using foreign exchange contracts which principally mature within three months.

Cash flow hedge

Changes in the fair value of derivative financial instruments designated as cash flow hedges, including foreign exchange contracts associated with forecasted intercompany sales, are reported in accumulated other comprehensive income (loss). These amounts are subsequently reclassified into earnings through other income (deductions) in the same period as the hedged items affect earnings. Substantially all amounts recorded in accumulated other comprehensive income (loss) as of June 30, 2012 are expected to be recognized in earnings over the next twelve months. Canon excludes the time value component from the assessment of hedge effectiveness. Changes in the fair value of a foreign exchange contract for the period between the date that the forecasted intercompany sales occur and its maturity date are recognized in earnings and not considered hedge ineffectiveness.

Derivatives not designated as hedges

Canon has entered into certain foreign exchange contracts to primarily offset the earnings impact related to fluctuations in foreign currency exchange rates associated with certain assets denominated in foreign currencies. Although these foreign exchange contracts have not been designated as hedges as required in order to apply hedge accounting, the contracts are effective from an economic perspective. The changes in the fair value of these contracts are recorded in earnings immediately.

CANON INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(9) Derivatives and Hedging Activities (continued)

Contract amounts of foreign exchange contracts at June 30, 2012 and December 31, 2011 are set forth below:

	Millions of yen	
	June 30, 2012	December 31, 2011
To sell foreign currencies	369,593	391,455
To buy foreign currencies	72,283	75,016

Fair value of derivative instruments in the consolidated balance sheets

The following tables present Canon s derivative instruments measured at gross fair value as reflected in the consolidated balance sheets at June 30, 2012 and December 31, 2011.

Derivatives designated as hedging instruments

	Millions of yen		
	Balance sheet location	Fair value	
		June 30, 2012	December 31, 2011
Assets:			
Foreign exchange contracts	Prepaid expenses and other current assets	1,047	1,325
Liabilities:			
Foreign exchange contracts	Other current liabilities	1,105	1,270

Derivatives not designated as hedging instruments

	Millions of yen		
	Balance sheet location	Fair value	
		June 30, 2012	December 31, 2011
Assets:			
Foreign exchange contracts	Prepaid expenses and other current assets	5,351	3,393
Liabilities:			
Foreign exchange contracts	Other current liabilities	398	1,340

CANON INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(9) Derivatives and Hedging Activities (continued)

Effect of derivative instruments in the consolidated statements of income

The following tables present the effect of Canon s derivative instruments in the consolidated statements of income for the six and three months ended June 30, 2012 and 2011.

Derivatives in cash flow hedging relationships

Six months ended June 30, 2012	Millions of yen				
	Gain (loss) recognized in OCI (effective portion)	Gain (loss) reclassified from accumulated OCI into income (effective portion)		Gain (loss) recognized in income (ineffective portion and amount excluded from effectiveness testing)	
	Amount	Location	Amount	Location	Amount
Foreign exchange contracts	1,538	Other, net	(3,935)	Other, net	(145)

Six months ended June 30, 2011	Millions of yen				
	Gain (loss) recognized in OCI (effective portion)	Gain (loss) reclassified from accumulated OCI into income (effective portion)		Gain (loss) recognized in income (ineffective portion and amount excluded from effectiveness testing)	
	Amount	Location	Amount	Location	Amount
Foreign exchange contracts	(833)	Other, net	(702)	Other, net	(201)

Three months ended June 30, 2012	Millions of yen				
	Gain (loss) recognized in OCI (effective portion)	Gain (loss) reclassified from accumulated OCI into income (effective portion)		Gain (loss) recognized in income (ineffective portion and amount excluded from effectiveness testing)	
	Amount	Location	Amount	Location	Amount
Foreign exchange contracts	8,799	Other, net	(4,858)	Other, net	(60)

Three months ended	Millions of yen		
	Gain (loss)	Gain (loss) reclassified from	Gain (loss) recognized in income (ineffective portion

June 30, 2011	recognized in OCI (effective portion)	accumulated OCI into income (effective portion)		and amount excluded from effectiveness testing)	
	Amount	Location	Amount	Location	Amount
Foreign exchange contracts	1,774	Other, net	(878)	Other, net	(95)

CANON INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(9) Derivatives and Hedging Activities (continued)

Effect of derivative instruments in the consolidated statements of income (continued)

Derivatives not designated as hedging instruments

	Millions of yen	
Six months ended June 30, 2012	Gain (loss) recognized in income on derivative	
	Location	Amount
Foreign exchange contracts	Other, net	4,883

	Millions of yen	
Six months ended June 30, 2011	Gain (loss) recognized in income on derivative	
	Location	Amount
Foreign exchange contracts	Other, net	(10,504)

	Millions of yen	
Three months ended June 30, 2012	Gain (loss) recognized in income on derivative	
	Location	Amount
Foreign exchange contracts	Other, net	20,202

	Millions of yen	
Three months ended June 30, 2011	Gain (loss) recognized in income on derivative	
	Location	Amount
Foreign exchange contracts	Other, net	4,373

CANON INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(10) Commitments and Contingent Liabilities

Commitments

As of June 30, 2012, commitments outstanding for the purchase of property, plant and equipment approximated ¥46,210 million, and commitments outstanding for the purchase of parts and raw materials approximated ¥71,689 million.

Canon occupies sales offices and other facilities under lease arrangements accounted for as operating leases. Deposits made under such arrangements aggregated ¥13,276 million and ¥14,171 million at June 30, 2012 and December 31, 2011, respectively, and are included in noncurrent receivables in the accompanying consolidated balance sheets.

Future minimum lease payments required under noncancelable operating leases are ¥21,530 million (within one year) and ¥49,702 million (after one year), at June 30, 2012.

Guarantees

Canon provides guarantees for bank loans of its employees, affiliates and other companies. The guarantees for the employees are principally made for their housing loans. The guarantees of loans of its affiliates and other companies are made to ensure that those companies operate with less financial risk.

For each guarantee provided, Canon would have to perform under a guarantee if the borrower defaults on a payment within the contract periods of 1 year to 30 years, in the case of employees with housing loans, and of 1 year to 10 years, in the case of affiliates and other companies. The maximum amount of undiscounted payments Canon would have had to make in the event of default is ¥13,704 million at June 30, 2012. The carrying amounts of the liabilities recognized for Canon s obligations as a guarantor under those guarantees at June 30, 2012 were not significant.

Canon also issues contractual product warranties under which it generally guarantees the performance of products delivered and services rendered for a certain period or term. Estimated product warranty costs are recorded at the time revenue is recognized and are included in selling, general and administrative expenses. Estimates for accrued product warranty costs are based on historical experience. Changes in accrued product warranty cost for the six months ended June 30, 2012 and 2011 is summarized as follows:

Six months ended June 30, 2012

	Millions of yen
Balance at December 31, 2011	11,691
Addition	8,576
Utilization	(7,291)
Other	(1,566)
Balance at June 30, 2012	11,410

Six months ended June 30, 2011

	Millions of yen
Balance at December 31, 2010	13,343
Addition	7,921
Utilization	(7,839)
Other	(559)
Balance at June 30, 2011	12,866

CANON INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(10) Commitments and Contingent Liabilities (continued)

Legal proceedings

Canon is involved in various claims and legal actions arising in the ordinary course of business. Canon has recorded provisions for liabilities when it is probable that liabilities have been incurred and the amount of loss can be reasonably estimated. Canon reviews these provisions at least quarterly and adjusts these provisions to reflect the impact of the negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case. Based on its experience, although litigation is inherently unpredictable, Canon believes that any damage amounts claimed in outstanding matters are not a meaningful indicator of Canon s potential liability. In the opinion of management, any reasonably possible range of losses from outstanding matters would not have a material adverse effect on Canon s consolidated financial position, results of operations, or cash flows.

CANON INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(11) Disclosures about the Fair Value of Financial Instruments and Concentrations of Credit Risk

Fair value of financial instruments

The estimated fair values of Canon s financial instruments at June 30, 2012 and December 31, 2011 are set forth below. The following summary excludes cash and cash equivalents, trade receivables, finance receivables, noncurrent receivables, short-term loans, trade payables and accrued expenses for which fair values approximate their carrying amounts. The summary also excludes investments which are disclosed in Note 2.

	Millions of yen			
	June 30, 2012		December 31, 2011	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Long-term debt, including current installments	(5,638)	(5,624)	(7,070)	(7,053)
Foreign exchange contracts:				
Assets	6,398	6,398	4,718	4,718
Liabilities	(1,503)	(1,503)	(2,610)	(2,610)

The following methods and assumptions are used to estimate the fair value in the above table.

Long-term debt

Canon s long-term debt instruments are classified as Level 2 instruments and valued based on the present value of future cash flows associated with each instrument discounted using current market borrowing rates for similar debt instruments of comparable maturity. The levels are more fully described in Note 12.

Foreign exchange contracts

The fair values of foreign exchange contracts are measured based on the market price obtained from financial institutions.

Limitations of fair value estimates

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Concentrations of credit risk

At June 30, 2012 and December 31, 2011, one customer accounted for approximately 17% of consolidated trade receivables, respectively. Although Canon does not expect that the customer will fail to meet its obligations, Canon is potentially exposed to concentrations of credit risk if the customer failed to perform according to the terms of the contracts.

CANON INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(12) Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. A three-level fair value hierarchy that prioritizes the inputs used to measure fair value is as follows:

Level 1 - Inputs are quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs are quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable, which reflect the reporting entity s own assumptions about the assumptions that market participants would use in establishing a price.

Assets and liabilities measured at fair value on a recurring basis

The following tables present Canon s assets and liabilities that are measured at fair value on a recurring basis consistent with the fair value hierarchy at June 30, 2012 and December 31, 2011.

	Millions of yen June 30, 2012			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	-	169,508	-	169,508
Available-for-sale (current):				
Corporate bonds	30	-	-	30
Available-for-sale (noncurrent):				
Government bonds	147	-	-	147
Corporate bonds	-	106	435	541
Fund trusts	152	1,644	-	1,796
Equity securities	18,067	-	-	18,067
Derivatives	-	6,398	-	6,398
Total assets	18,396	177,656	435	196,487
Liabilities:				
Derivatives	-	1,503	-	1,503
Total liabilities	-	1,503	-	1,503

CANON INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(12) Fair Value Measurements (continued)

	Millions of yen December 31, 2011			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	-	204,307	-	204,307
Available-for-sale (current):				
Corporate bonds	20	-	-	20
Available-for-sale (noncurrent):				
Government bonds	150	-	-	150
Corporate bonds	-	104	454	558
Fund trusts	151	1,675	-	1,826
Equity securities	17,724	-	-	17,724
Derivatives	-	4,718	-	4,718
Total assets	18,045	210,804	454	229,303
Liabilities:				
Derivatives	-	2,610	-	2,610
Total liabilities	-	2,610	-	2,610

Level 1 investments are comprised principally of Japanese equity securities, which are valued using an unadjusted quoted market price in active markets with sufficient volume and frequency of transactions. Level 2 cash and cash equivalents are valued based on market approach, using quoted prices for identical assets in markets that are not active. Level 3 investments are mainly comprised of corporate bonds, which are valued based on cost approach, using unobservable inputs as the market for the assets was not active at the measurement date.

Derivative financial instruments are comprised of foreign exchange contracts. Level 2 derivatives are valued using quotes obtained from counterparties or third parties, which are periodically validated by pricing models using observable market inputs, such as foreign currency exchange rates and interest rates, based on market approach.

The following table presents the changes in Level 3 assets measured on a recurring basis, consisting primarily of corporate bonds, for the six months ended June 30, 2012 and 2011.

Six months ended June 30, 2012

	Millions of yen
Balance at December 31, 2011	454
Total gains or losses (realized or unrealized):	
Included in earnings	2
Included in other comprehensive income (loss)	1

Purchases, issuances and settlements	(22)
Balance at June 30, 2012	435

CANON INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(12) Fair Value Measurements (continued)
Six months ended June 30, 2011

	Millions of yen
Balance at December 31, 2010	1,950
Total gains or losses (realized or unrealized):	
Included in earnings	(2)
Included in other comprehensive income (loss)	(9)
Purchases, issuances and settlements	(1,489)
Balance at June 30, 2011	450

The following table presents the changes in Level 3 assets measured on a recurring basis, consisting primarily of corporate bonds, for the three months ended June 30, 2012 and 2011.

Three months ended June 30, 2012

	Millions of yen
Balance at March 31, 2012	445
Total gains or losses (realized or unrealized):	
Included in earnings	4
Included in other comprehensive income (loss)	(11)
Purchases, issuances and settlements	(3)
Balance at June 30, 2012	435

Three months ended June 30, 2011

	Millions of yen
Balance at March 31, 2011	219
Total gains or losses (realized or unrealized):	
Included in earnings	-
Included in other comprehensive income (loss)	(13)
Purchases, issuances and settlements	244
Balance at June 30, 2011	450

Gains and losses included in earnings are mainly related to corporate bonds still held at June 30, 2012 and 2011, and are reported in Other, net in the consolidated statements of income.

Assets and liabilities measured at fair value on a nonrecurring basis

During the six and three months ended June 30, 2012 and 2011, there were no circumstances that required any significant assets or liabilities to be measured at fair value on a nonrecurring basis.

(13) Supplemental Information

Gains and losses resulting from foreign currency transactions, including foreign exchange contracts, and translation of assets and liabilities denominated in foreign currencies are included in other income (deductions) in the consolidated statements of income. Foreign currency exchange gains and losses were net losses of ¥3,333 million and gains of ¥837 million for the six months ended June 30, 2012 and 2011, respectively, and were ¥12,640 million and ¥2,056 million losses, for the three months ended June 30, 2012, and 2011, respectively.

Advertising costs are expensed as incurred. Advertising expenses were ¥40,994 million and ¥32,317 million for the six months ended June 30, 2012 and 2011, respectively, and were ¥26,562 million and ¥16,501 million for the three months ended June 30, 2012 and 2011, respectively.

Shipping and handling costs totaled ¥19,131 million and ¥22,858 million for the six months ended June 30, 2012 and 2011, respectively, and ¥9,778 million and ¥11,566 million for the three months ended June 30, 2012 and 2011, respectively, and are included in selling, general and administrative expenses in the consolidated statements of income.

Certain debt securities with original maturities of less than three months classified as available-for-sale securities of ¥169,508 million and ¥204,307 million at June 30, 2012 and December 31, 2011, respectively, are included in cash and cash equivalents in the consolidated balance sheets. Fair value for these securities approximates their cost.

CANON INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(13) Supplemental Information (continued)

Finance receivables represent financing leases which consist of sales-type leases and direct-financing leases resulting from the marketing of Canon s and complementary third-party products primarily in foreign countries. These receivables typically have terms ranging from 1 year to 8 years. Finance receivables are ¥185,005 million and ¥197,933 million at June 30, 2012 and 2011, respectively. Finance receivables which are individually evaluated for impairment at June 30, 2012 and 2011 are not significant.

The activity in the allowance for credit losses is as follows:

Six months ended June 30, 2012

	Millions of yen
Balance at December 31, 2011	7,039
Charge-offs	(759)
Provision	669
Other	(669)
Balance at June 30, 2012	6,280

Six months ended June 30, 2011

	Millions of yen
Balance at December 31, 2010	7,983
Charge-offs	(1,219)
Provision	1,053
Other	297
Balance at June 30, 2011	8,114

Canon has policies in place to ensure that its products are sold to customers with an appropriate credit history, and continuously monitors its customers credit quality based on information including length of period in arrears, macroeconomic conditions, initiation of legal proceedings against customers and bankruptcy filings. The allowance for credit losses of finance receivables are evaluated collectively based on historical experience of credit losses. An additional reserve for individual accounts is recorded when Canon becomes aware of a customer s inability to meet its financial obligations, such as in the case of bankruptcy filings. Finance receivables which are past due at June 30, 2012 and December 31, 2011 are not significant.

CANON INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(14) Segment Information

Canon operates its business in three segments: the Office Business Unit, the Imaging System Business Unit, and the Industry and Others Business Unit, which are based on the organizational structure and information reviewed by Canon s management to evaluate results and allocate resources.

The primary products included in each segment are as follows:

Office Business Unit: Office multifunction devices (MFDs) / Office copying machines / Personal-use copying machines / Laser MFDs / Laser printers /

Digital production printing systems / High speed continuous feed printers /

Wide-format printers / Document solution

Imaging System Business Unit*: Interchangeable-lens digital cameras / Compact digital cameras / Digital camcorders / Digital cinema cameras / Interchangeable lenses /

Inkjet printers / Large-format inkjet printers / Commercial photo printers /

Image scanners / Broadcast equipment / Calculators

Industry and Others Business Unit: Semiconductor lithography equipment / Flat-panel-display lithography equipment / Digital radiography systems /

Ophthalmic equipment / Vacuum thin-film deposition equipment/

Organic LED panel manufacturing equipment/ Micromotors /

Computers /Handy terminals / Document scanners

*The Consumer Business Unit has been renamed the Imaging System Business Unit to be more consistent with its strategy to expand the business. This change in segment description has no impact on any financial information of this segment.

The accounting policies of the segments are substantially the same as the accounting policies used in Canon s consolidated financial statements. Canon evaluates performance of, and allocates resources to, each segment based on operating profit.

CANON INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(14) Segment Information (continued)

Information about operating results for each segment for the six months ended June 30, 2012 and 2011 is as follows:

	Office	**Imaging System**	**Industry and Others**	**Corporate and eliminations**	**Consolidated**
			(Millions of yen)		
2012:					
Net sales:					
External customers	**889,608**	**672,314**	**166,523**		**1,728,445**
Intersegment	**2,293**	**896**	**41,607**	**(44,796)**	
Total	**891,901**	**673,210**	**208,130**	**(44,796)**	**1,728,445**
Operating cost and expenses	**780,743**	**570,463**	**197,805**	**4,159**	**1,553,170**
Operating profit	**111,158**	**102,747**	**10,325**	**(48,955)**	**175,275**
2011:					
Net sales:					
External customers	943,352	591,361	141,052		1,675,765
Intersegment	3,309	476	41,997	(45,782)	
Total	946,661	591,837	183,049	(45,782)	1,675,765
Operating cost and expenses	823,767	506,613	171,612	12,860	1,514,852
Operating profit	122,894	85,224	11,437	(58,642)	160,913

Information about operating results for each segment for the three months ended June 30, 2012 and 2011 is as follows:

	Office	**Imaging System**	**Industry and Others**	**Corporate and eliminations**	**Consolidated**
			(Millions of yen)		
2012:					

Net sales:					
External customers	**452,682**	**369,297**	**77,226**		**899,205**
Intersegment	**1,180**	**437**	**21,122**	**(22,739)**	
Total	**453,862**	**369,734**	**98,348**	**(22,739)**	**899,205**
Operating cost and expenses	**395,550**	**313,721**	**92,016**	**5,322**	**806,609**
Operating profit	**58,312**	**56,013**	**6,332**	**(28,061)**	**92,596**
2011:					
Net sales:					
External customers	464,301	301,993	70,280		836,574
Intersegment	1,498	223	20,976	(22,697)	
Total	465,799	302,216	91,256	(22,697)	836,574
Operating cost and expenses	405,957	256,901	86,422	8,883	758,163
Operating profit	59,842	45,315	4,834	(31,580)	78,411

Intersegment sales are recorded at the same prices used in transactions with third parties. Expenses not directly associated with specific segments are allocated based on the most reasonable measures applicable. Corporate expenses include certain corporate research and development expenses.

CANON INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(14) Segment Information (continued)

Information by major geographic area for the six months ended June 30, 2012 and 2011 is as follows:

	Japan	**Americas**	**Europe**	**Asia and Oceania**	**Total**
			(Millions of yen)		
2012:					
Net sales:	**355,724**	**453,528**	**503,389**	**415,804**	**1,728,445**
2011:					
Net sales:	323,604	447,053	548,594	356,514	1,675,765

Information by major geographic area for the three months ended June 30, 2012 and 2011 is as follows:

	Japan	**Americas**	**Europe**	**Asia and Oceania**	**Total**
			(Millions of yen)		
2012:					
Net sales:	**178,849**	**243,180**	**258,936**	**218,240**	**899,205**
2011:					
Net sales:	165,556	230,519	268,641	171,858	836,574

Net sales are attributed to areas based on the location where the product is shipped to the customers.

CANON INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(14) Segment Information (continued)

The following information is based on the location of the Company and its subsidiaries. In addition to the disclosure requirements under U.S. GAAP, Canon discloses this information in order to provide financial statements users with useful information.

Information by the location of the Company and its subsidiaries for the six months ended June 30, 2012 and 2011.

	Japan	Americas	Europe	Asia and Oceania	Corporate and eliminations	Consolidated
			(Millions of yen)			
2012:						
Net sales:						
External customers	**413,794**	**448,099**	**502,481**	**364,071**		**1,728,445**
Intersegment	**935,009**	**12,089**	**3,053**	**406,227**	**(1,356,378)**	
Total	**1,348,803**	**460,188**	**505,534**	**770,298**	**(1,356,378)**	**1,728,445**
Operating cost and expenses	**1,175,625**	**451,630**	**488,851**	**738,234**	**(1,301,170)**	**1,553,170**
Operating profit	**173,178**	**8,558**	**16,683**	**32,064**	**(55,208)**	**175,275**
2011:						
Net sales:						
External customers	358,894	444,415	545,489	326,967		1,675,765
Intersegment	878,099	7,061	2,011	335,430	(1,222,601)	
Total	1,236,993	451,476	547,500	662,397	(1,222,601)	1,675,765
Operating cost and expenses	1,054,653	447,066	528,857	638,212	(1,153,936)	1,514,852
Operating profit	182,340	4,410	18,643	24,185	(68,665)	160,913

Information by the location of the Company and its subsidiaries for the three months ended June 30, 2012 and 2011.

	Japan	Americas	Europe	Asia and Oceania	Corporate and eliminations	Consolidated
				(Millions of yen)		
2012:						
Net sales:						
External customers	**204,579**	**241,097**	**258,445**	**195,084**		**899,205**
Intersegment	**474,836**	**6,871**	**1,527**	**209,021**	**(692,255)**	
Total	**679,415**	**247,968**	**259,972**	**404,105**	**(692,255)**	**899,205**
Operating cost and expenses	**578,793**	**243,642**	**254,182**	**392,890**	**(662,898)**	**806,609**
Operating profit	**100,622**	**4,326**	**5,790**	**11,215**	**(29,357)**	**92,596**
2011:						
Net sales:						
External customers	181,418	228,738	267,776	158,642		836,574
Intersegment	435,167	3,948	1,129	149,572	(589,816)	
Total	616,585	232,686	268,905	308,214	(589,816)	836,574
Operating cost and expenses	520,779	229,321	261,581	298,305	(551,823)	758,163
Operating profit	95,806	3,365	7,324	9,909	(37,993)	78,411

CANON INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(15) Subsequent Event

On July 30, 2012, the Board of Directors of the Company approved a plan to repurchase its own shares under Article 156, as applied pursuant to paragraph 3, Article 165, of the Corporation Law of Japan, as follows.

1. Reason for repurchase:	The Company decided to acquire its own shares with the aim of improving capital efficiency and ensuring a flexible capital strategy that provides for such future transactions as share exchanges.
2. Method of repurchase:	Market trade
3. Total number of shares to be repurchased:	Up to 21.0 million shares of the Company s common stock
4. Total cost of repurchase:	Up to ¥50.0 billion
5. Period of repurchase:	From July 31, 2012 to September 10, 2012.

(2) Other Information

The Board of Directors approved an interim cash dividend at the meeting held on July 25, 2012 as below:

1. Total amount of interim cash dividends:

70,270 million yen

2. Amount of an interim cash dividend per share:

60 yen

3. Payment date:

August 27, 2012

Note:

The interim dividend is paid to registered shareholders as of June 30, 2012.