EXHIBIT A

SEAN E. REGAN, ESQ. – 045651991
GIORDANO, HALLERAN & CIESLA, P.C.
125 Half Mile Road, Suite 300
Red Bank, N.J. 07701-6777
(732) 741-3900
Attorneys for Plaintiff, Hunter Business Systems of Delaware, LLC

HUNTER BUSINESS SYSTEMS OF DELAWARE, LLC Claimant, v. CANON U.S.A, INC. Respondents.	SUPERIOR COURT OF NEW JERSEY LAW DIVISION MIDDLESEX COUNTY DOCKET NO. MID-C-141-21 Civil Action **CERTIFICATION OF SERVICE**

I, **SEAN E. REGAN**, of full age, do hereby certify as follows:

1. I am attorney at law of the State of New Jersey, and shareholder of the law firm of Giordano, Halleran & Ciesla, P.C. ("GH&C"), attorneys for Plaintiff, Hunter Business Systems of Delaware, LLC ("Plaintiff").

2. On this 5th day of October, 2021, I served the marked filed Verified Complaint, Order to Show Cause with Temporary Restraints, Brief in Support of Order to Show Cause, and Certification of Steve Martin (filed via JEDS Trans ID: CHC2021195926 on October 4, 2021 docketed on October 5, 2021) via email upon the following:

Richard H. Silberberg, Esq.
DORSEY & WHITNEY LLP
51 West 52nd Street
New York, NY 10019-6119
Silberberg.Richard@dorsey.com

3. On October 5, 2021, I caused a copy of the Order to Show Cause granting temporary restraints signed by the Hon. Vincent Le Blon, P.J. Ch. via email upon the following:

Richard H. Silberberg, Esq.
DORSEY & WHITNEY LLP
51 West 52nd Street
New York, NY 10019-6119
Silberberg.Richard@dorsey.com

4. Mr. Richard H. Silberberg, Esq. advised he is counsel for Defendant Canon U.S.A., Inc., and would accept service.

I hereby certify that the foregoing statements made by me are true. I am aware that if any of the foregoing statements made by me are willfully false, I am subject to punishment.

SEAN E. REGAN, ESQ.

Dated: October 7, 2021

Docs #5343541-v1

SEAN E. REGAN, ESQ. – 045651991
GIORDANO, HALLERAN & CIESLA, P.C.
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Attorneys for Plaintiff, Hunter Business Systems of Delaware, LLC

HUNTER BUSINESS SYSTEMS OF DELAWARE, LLC Plaintiff, v. CANON U.S.A, INC. Defendant.	SUPERIOR COURT OF NEW JERSEY LAW DIVISION MIDDLESEX COUNTY DOCKET NO. MID-C-__141__-21 Civil Action **VERIFIED COMPLAINT, R. 4:25-4** **TRIAL COUNSEL** **DESIGNATION, R. 4:5-1** **CERTIFICATION**

Plaintiff, Hunter Business Systems, LLC ("*Plaintiff*" or "*Hunter*"), by way of Verified Complaint against Defendant Canon USA, Inc. ("*Defendant*" or "*Canon*") hereby says as follows:

GENERAL ALLEGATIONS

VENUE AND JURISDICTION

1. Venue is laid in the Superior Court of New Jersey, pursuant to and in accordance with R. 4:3-1(a)(1) and 4:3-2(a)(3), and applicable statutory and case law.

2. Jurisdiction is predicated upon the principal relief sought being equitable, with the Court requested to adjudicate any legal claims via the doctrine of ancillary jurisdiction.

PARTIES

3. Plaintiff is a limited liability company formed under the laws of the State of Delaware with a principal place of business located at 307 Gravel Hill Road, Monroe Township, Middlesex County, New Jersey.

4. Defendant is a New York company and wholly owned subsidiary corporation of Canon, Inc., with a principal place of business in New Jersey at 100 Ridge Road, Monroe Township, Middlesex County, New Jersey.

SPECIFIC ALLEGATIONS

5. In December 2012 Hunter/Plaintiff entered into an agreement captioned, "Office Imaging Dealer Agreement" (the "*Agreement*" or "*Dealer Agreement*"). A copy of the 2012 Agreement is attached hereto as **Exhibit "A"**.

6. Pursuant to the Agreement Plaintiff was granted a non-exclusive license to purchase imaging equipment, i.e., copiers, and other products from Canon to promote, sell, and install and maintain as an "authorized dealer."

7. The Agreement renewed continuously per its terms.

8. In addition, under the Agreement, Plaintiff was granted a non-exclusive, limited license to use the Defendant's Trademark and Logo in connection with the promotion, sale, use and installation of the products, and was encourage to use such to the point of being mandatory.

9. Minimum purchasing and training, along with other requirements were imposed upon Plaintiff.

10. In reliance upon its agreements with Canon, Plaintiff made a substantial investment of time and money to promote, sell and install the Canon products throughout New Jersey, and to build up the Canon name and products line with Plaintiff's main sale focus.

11. Yearly, Defendant requested initial inventory purchases, and net sales and purchasing minimums required by Plaintiff.

12. Using the Canon Trademark and Logo, as it was licensed to do, Hunter built up the Hunter's and the Canon's name in Central New Jersey, and throughout the state at substantial cost and expense to it. Hunter successfully marketed the Defendant's name using marketing materials it obtained from Defendant.

13. As its business grew, Plaintiff expanded its operations to include a warehouse, trucks, cars and the like.

14. Plaintiff purchased an office/warehouse which has been used almost exclusively for the Canon inventory.

15. Hunter has trucks and cars affixed with Defendant's Logo.

16. As a result of its success with Canon as an authorized dealer, in 2008 Hunter's principal was awarded another Canon dealership in Delaware, and it opened as Laser Tone, LLC.

17. Laser Tone is the sole authorized Canon dealer in Delaware.

18. In consideration for getting this additional Territory, Laser Tone agreed to the same office agency dealer Agreement.

19. In reliance upon the notion that if they purchased and sold the minimum required they would continue as authorized dealers, Hunter and Laser Tone continued to promote, market and sell Defendant's products in accordance with the licenses granted to it under the Agreements. In the more than twenty-five (25) years since Defendant entered into the Agreement with Hunter. Plaintiff has made the monetary investments in equipment in excess of $10,000,000 in the past five to six years alone, and for competitive pricing is required to purchase a minimum inventory of $2,000,000 per year (in conjunction with Laser Tone).

20. In reliance upon the length of time, Plaintiff has been in business with Defendant, Plaintiff has incurred costs of millions of dollars in developing, promoting, and marketing the Defendant's name, and selling Defendant's products. It has incurred these costs, and built up the Defendant name throughout Plaintiff's sales area, in reliance upon its rights to continue to utilize the licenses granted to it under the Agreements, and its right to conduct its business without termination unless it has failed to substantially comply with the material terms of the Agreements.

21. As set forth more fully below (and in the Certification of Steve Martin filed herewith), Plaintiff has operated as a franchisee of Defendant since the 1995, and is entitled to the protections afforded New Jersey franchisees under the New Jersey Franchise Practices Act, N.J.S.A. 56:10-1, *et seq*. ("*F.P.A.*").

22. Canon is obligated to act at all times in good faith.

23. On August 30, 2021 Canon sent Plaintiff a letter purporting to terminate the exclusive dealership with Canon (the "*Wrongful Termination Letter*"). A copy of the Wrongful Termination Letter is attached as **Exhibit B**.

24. The Wrongful Termination Letter seeks to terminate the "Office Imaging Retail Dealership Agreement" with Plaintiff which, if allowed, would cause Plaintiff to lose its business, and to forfeit its business and investment of time and money over the past 25 years of more than $10,000,000.

25. The purported termination in the Wrongful Termination Letter is invalid and ineffective, and Plaintiff should be enabled to retain its franchise and its license to sell the Defendant's products in New Jersey.

26. In response to the Wrongful Termination Letter was contacted, and requested to stay the termination pending mediation per Section 15 of the Agreement.

27. Canon refused to stay the termination.

28. In the Wrongful Termination Letter Canon did not set forth any specific acts of Plaintiff which constitute the failure to comply fully with the terms of any of the Agreements.

29. The Wrongful Termination Letter alleges falsely that the basis for termination was that Plaintiff breached by:

> 1. By failing and refusing to comply with an audit as set forth in Section 13 which requires that you "furnish, from time to time when requested by Canon USA, a full and detailed statement of Dealer's business and operations…and afford[ing] access… to enable Canon USA to audit Dealer… and verify any Dealer statements or remittances sent to Canon USA"; and
>
> 2. By selling aftermarket products at wholesale in violation of Section 1.1 which provides in pertinent part that "Dealer agrees to perform a retain function only (that is, marketing the Products solely to end-users who are unaffiliated with Dealer and who acquire Products solely for their own use) and Dealer shall not sell any Products to other dealers or other remarketers."

30. Plaintiff, in response to Defendant Cannon's earlier inquiries from July 28, 2021, had actually provided the required information pursuant to Sec. 13 of the Agreement.

31. Additionally, Hunter advised that in pertinent part Sec. 13 of the Agreement was did not entitled Canon to customer information, but nevertheless, Plaintiff offered to provide such.

32. Plaintiff also denied it breached the Agreement by selling "aftermarket products at wholesale," and requested specifics as none were provided. Canon still has not provided any factual specifics.

33. The purported termination as set forth in the Wrongful Termination Letter is a breach of the F.P.A. as well as the duty of good faith and fair dealing owed by Canon to Plaintiff.

34. Plaintiff qualifies as a franchise under the F.P.A. and is entitled to the protections afforded New Jersey franchisees under the F.P.A.

35. A "franchise" is defined in N.J.S.A. 56:10-3(a):

> a. 'Franchise' means a written arrangement for a definite or indefinite period, in which a person grants to another person a license to use a trade name, trademark, service mark, or related characteristics, and in which there is a community of interest in the marketing of goods or services at wholesale, retail, by lease, agreement or otherwise.

36. Under the above definition, Plaintiff is a franchise under the F.P.A.

(a) The Agreement is a written arrangements for a definite or indefinite period.

(b) In the Agreement, and all renewals grants to Plaintiff a license to use its Trademark and Logo to purchase, promote, sell and install the Defendant products.

(c) There is a community of interest between Canon and Plaintiff in the marketing of the Canon Products since Plaintiff uses the Defendant's name in its name and it was granted by Canon a license to purchase, promote, sell, use and install the Defendant products.

37. In addition to providing Plaintiff with a license to promote and sell the Defendant Products, Plaintiff was encouraged not to sell any competitors' products, and Plaintiff has not as its sales are approximately 95% Canon. (Plaintiff only sells other equipment to customers whose needs are not supported by Canon.)

38. Plaintiff's 25 year and more than $10,000,000 investment in Canon has been exclusively for the purpose of being a Canon dealer, and continuing that business of purchasing, marketing, distributing, selling and installing the Defendant's products. In doing so Plaintiff has utilized the Defendant Logo and Trademark in all of its marketing materials, on its trucks and cars, and on the sign outside its leased office and warehouse space just to name a few examples.

39. Pursuant to N.J.S.A. 56:10-4, the F.P.A. applies:

> a. To a franchise (1) the performance of which contemplates or requires a franchisee to establish or maintain a place of business within the state of New Jersey; (2) where gross sales of products or services between a franchisor and franchisee covered by such franchise shall have exceeded $35,000.00 for the 12 months next preceding the institution of suit pursuant to this act; and (3) where more than 20% of the franchisee's gross sales are intended to be or are derived from such franchise.

40. Here, Plaintiff satisfies each of the three statutory criteria.

1. It maintained a place of business in Monroe New Jersey a few miles from Canon's New Jersey offices and distribution center.

2. The gross sales of Canon products between Defendant and Plaintiff was well in excess of $35,000 in the past 12 months. Plaintiff purchased in excess of $2,000,000 in 2018 and 2019, and $1,700,000 in 2020 and 2021.

FILED

October 5, 2021

Judge Vincent Le Blon

SEAN E. REGAN, ESQ. – 045651991
GIORDANO, HALLERAN & CIESLA, P.C.
125 Half Mile Road, Suite 300
Red Bank, N.J. 07701-6777
(732) 741-3900
Attorneys for Plaintiff, Hunter Business Systems of Delaware, LLC

HUNTER BUSINESS SYSTEMS OF DELAWARE, LLC, Plaintiff, v. CANON U.S.A, INC, Defendant.	SUPERIOR COURT OF NEW JERSEY CHANCERY DIVISION: GEN. EQ. MIDDLESEX COUNTY DOCKET NO. C-141-21 Civil Action **ORDER TO SHOW CAUSE WITH TEMPORARY RESTRAINTS SEEKING PRELIMINARY INJUNCTION PURSUANT TO R. 4:52-1**

This matter having been brought before the Court by Giordano Halleran & Ciesla, P.C., attorneys for Plaintiff, Hunter Business Systems, LLC ("*Plaintiff*" or "*Hunter*"), seeking relief by way of preliminary interlocutory relief pursuant to R. 4:52-1, and based upon the facts set in the Verified Complaint and Certification of Steven Martin, and the exhibits thereto, and brief in support filed herewith; and it appearing that defendant Canon U.S.A., Inc. ("*Canon"* or "*Defendant*") has notice of this application; and for good cause shown.

It is on this 5th day of October **ORDERED** that Defendant appear and show cause before the Superior Court of New Jersey at the Middlesex County Courthouse, at 56 Paterson Street, PO Box 964, 3rd Floor, New Brunswick, New Jersey, 08903-0964 at 2:00 p.m., or as soon thereafter as counsel can be heard, on the 28th day of October, 2021, why an Order should not be entered as follows:

A. Temporarily and Preliminarily enjoining and restraining Defendant from terminating Plaintiff's rights as a dealer to purchase, sell, and service Defendant's

products pursuant to the Office Imaging Dealer Agreement (described in the Verified Complaint "Agreement" or "Dealer Agreement");

B. Temporarily and Preliminarily enjoining and restraining Defendant from not fulfilling its obligations per the Agreement, and requiring Defendant to fill all purchase orders for products, equipment and parts;

C. Temporarily and Preliminarily enjoining and restraining Defendant from removing Plaintiff from any lists, publications and website, and from denying Plaintiff access to ordering, and emails relating to the purchasing marketing, sale and installation of Defendant products;

D. Declaring and affirming that Plaintiff is not in default under the Dealer Agreement, and that Defendant is not entitled to terminate Plaintiff under any of the Dealer Agreement;

E. Declaring that Plaintiff is a franchise entitled to the protection of the New Jersey Franchise Practices Act, N.J.S.A. 56:10-1, *et seq.* and declaring further that the purported termination of the franchise was not for good cause and did not otherwise comply with the provisions of N.J.S.A. 56:10-5 thereby rendering the purported termination null and void; and

F. Awarding compensatory, consequential and punitive damages, attorneys' fees and such other relief as the Court deems fair, equitable and just.

And it is further **ORDERED** that pending the return date herein, Defendant is temporarily enjoined and restrained from:

A. Terminating Plaintiff's rights as a dealer to purchase, sell, and service Defendant's products pursuant to the Agreement;

B. Not fulfilling its obligations per the Agreement, and requiring Defendant to fill all purchase orders for products, equipment and parts; and

C. Removing Plaintiff from any lists, publications and website, and from denying Plaintiff access to ordering, and emails relating to the purchasing marketing, sale and installation of Defendant products.

And it is further **ORDERED** that:

1. Defendant may move to dissolve or modify the temporary restraints herein contained on two (2) days' notice to Plaintiff's attorney.

2. A copy of this Order to Show Cause, Verified Complaint, legal memorandum and any supporting Affidavits or Certifications submitted in support of this application be served upon the defendant within 3 days of the date hereof, in accordance with R. 4:4-3 and R. 4:4-4, this being original process.

3. Plaintiff must file with the court its proof of service of the pleadings on Defendant no later than three (3) days before the return date.

4. Defendant shall file and serve a written response to this Order to Show Cause and the request for entry of injunctive relief and proof of service by October 13, 2021. The original documents must be filed with the Clerk of the Superior Court in the county listed above. A list of these offices is provided and is available online at http://www.judiciary.state.nj.us/prose/1053_deptyclerklawref.pdf. You must send a copy of your opposition papers directly to Judge Lisa M. Vignuolo, J.S.C. via email to her law clerk at krista.ebbert@njcourts.gov. You must also send a copy of your opposition papers to Plaintiff's attorney whose name and address appear above, or to Plaintiff, if no attorney is named above. A telephone call will not protect your rights; you must file your opposition and pay the required fee

and serve your opposition on your adversary, if you want the Court to hear your opposition to the injunctive relief Plaintiff is seeking.

5. Plaintiff must file and serve any written reply to Defendant's Order to Show Cause opposition by October 20, 2021. The reply papers must be filed with the Clerk of the Superior Court in the county listed above and a copy of the reply papers must be sent directly to the chambers of Judge Lisa M. Vignuolo, J.S.C. via email to her law clerk at krista.ebbert@njcourts.gov.

6. If Defendant does not file and serve opposition to this Order to Show Cause, the application will be decided on the papers on the return date and relief may be granted by default, providing that Plaintiff files a proof of service and a proposed form of order at least three (3) days prior to the return date.

7. If Plaintiff has not already done so, a proposed form of Order addressing the relief sought on the return date (along with a self-addressed return envelope with a return address and postage) must be submitted to the Court no later than one (1) day before the return date.

8. Defendant take notice that Plaintiff has filed a lawsuit against you in the Superior Court of New Jersey. The Verified Complaint attached to this Order to Show Cause states the basis of the lawsuit. If you dispute this complaint, you, or your attorney, must file a written Answer to the Complaint and proof of service within 35 days from the date of service of this Order to Show Cause, not counting the day you received it.

These documents must be filed with the Clerk of the Superior Court in the county listed above. A list of these offices is provided. Include the filing fee payable to the "Treasurer State of New Jersey." You must also send a copy of your Answer to the Plaintiff's attorney whose name and address appear above, or to the plaintiff, if no attorney is named above. A telephone call will

not protect your rights; you must file and serve your Answer (with the fee) or judgment may be entered against you by default. Please note: Opposition to the Order to Show Cause is not an Answer and you must file both. Please note further: if you do not file and serve an Answer within 35 days of this Order, the Court may enter default against you for the relief Plaintiffs demand.

9. If you cannot afford an attorney, you may call the Legal Services office in the county in which you live. A list of these offices is provided. If you do not have an attorney and are not eligible for free legal assistance, you may obtain a referral to an attorney by calling one of the Lawyer Referral Services. A list of these numbers is also provided.

10. The Court will entertain argument, but not testimony, on the return date of the Order to Show Cause, unless the Court and parties are advised to the contrary no later than 3 days before the return date.

/s/ Vincent Le Blon

Hon. Vincent Le Blon, P.J. Ch.

ATLANTIC COUNTY: Deputy Clerk of the Superior Court LAWYER REFERRAL Civil Division, Direct Filing (609) 345-3444 1201 Bacharach Blvd., First Fl. LEGAL SERVICES Atlantic City, NJ 08401 (609) 348-4200	**BERGEN COUNTY:** Deputy Clerk of the Superior Court LAWYER REFERRAL Case Processing Section, Room 119 (201) 488-0044 Justice Center, 10 Main St. LEGAL SERVICES Hackensack, NJ 07601-0769 (201) 487-2166
BURLINGTON COUNTY: Deputy Clerk of the Superior Court LAWYER REFERRAL Central Processing Office (609) 261-4862 Attn: Judicial Intake LEGAL SERVICES First Fl., Courts Facility (609) 261-1088 49 Rancocas Rd. Mt. Holly, NJ 08060	**CAMDEN COUNTY:** Deputy Clerk of the Superior Court LAWYER REFERRAL Civil Processing Office (856) 964-4520 1st Fl., Hall of Records LEGAL SERVICES 101 S. Fifth St (856) 964-2010 Camden, NJ 08103
CAPE MAY COUNTY: Deputy Clerk of the Superior Court LAWYER REFERRAL 9 N. Main Street (609) 463-0313 Box DN-209 LEGAL SERVICES Cape May Court House, NJ 08210 (609) 465-3001	**CUMBERLAND COUNTY:** Deputy Clerk of the Superior Court LAWYER REFERRAL Civil Case Management Office (856) 692-6207 Broad & Fayette Sts., P.O. Box 615 LEGAL SERVICES Bridgeton, NJ 08302 (856) 451-0003
ESSEX COUNTY: Deputy Clerk of the Superior Court LAWYER REFERRAL 50 West Market Street (973) 622-6207 Room 131 LEGAL SERVICES Newark, NJ 07102 (973) 624-4500	**GLOUCESTER COUNTY:** Deputy Clerk of the Superior Court LAWYER REFERRAL Civil Case Management Office (856) 848-4589 Attn: Intake LEGAL SERVICES First Fl., Court House (856) 848-5360 1 North Broad Street., P.O. Box 129 Woodbury, NJ 08096
HUDSON COUNTY: Deputy Clerk of the Superior Court LAWYER REFERRAL Superior Court, Civil Records Dept. (201) 798-2727 Brennan Court House - 1st Floor LEGAL SERVICES 583 Newark Ave. (201) 792-6363 Jersey City, NJ 07306	**HUNTERDON COUNTY:** Deputy Clerk of the Superior Court LAWYER REFERRAL Civil Division (908) 735-2611 65 Park Avenue LEGAL SERVICES Flemington, NJ 08822 (908) 782-7979
MERCER COUNTY: Deputy Clerk of the Superior Court LAWYER REFERRAL Local Filing Office, Courthouse (609) 585-6200 175 South Broad St., P.O. Box 8068 LEGAL SERVICES Trenton, NJ 08650 (609) 695-6249	**MIDDLESEX COUNTY:** Deputy Clerk of the Superior Court LAWYER REFERRAL Administration Building (732) 828-0053 Third Floor LEGAL SERVICES 1 Kennedy Sq., P.O. Box 2633 (732) 249-7600 New Brunswick, NJ 08903-2633

MONMOUTH COUNTY: Deputy Clerk of the Superior Court LAWYER REFERRAL 71 Monument Park (732) 431-5544 P.O. Box 1269 LEGAL SERVICES Freehold, NJ 07728-1269 (732) 866-0020	**MORRIS COUNTY:** Deputy Clerk of the Superior Court LAWYER REFERRAL Civil Division (973) 267-5882 30 Schuyler Pl., P.O. Box 910 LEGAL SERVICES Morristown, NJ 07960-0910 (973) 285-6911
OCEAN COUNTY: Deputy Clerk of the Superior Court LAWYER REFERRAL Court House, Room 119 (732) 240-3666 118 Washington Street LEGAL SERVICES Toms River, NJ 08754 (732) 341-2727	**PASSAIC COUNTY:** Deputy Clerk of the Superior Court LAWYER REFERRAL Civil Division (973) 278-9223 Court House LEGAL SERVICES 77 Hamilton St. (973) 345-7171 Paterson, NJ 07505
SALEM COUNTY: Deputy Clerk of the Superior Court LAWYER REFERRAL 92 Market St., P.O. Box 18 (856) 935-5628 Salem, NJ 08079 LEGAL SERVICES (856) 451-0003	**SOMERSET COUNTY** Deputy Clerk of the Superior Court LAWYER REFERRAL Civil Division Office (908) 685-2323 New Court House, 3rd Fl. LEGAL SERVICES P.O. Box 3000 (908) 231-0840 Somerville, NJ 08876
SUSSEX COUNTY Deputy Clerk of the Superior Court LAWYER REFERRAL Sussex County Judicial Center (973) 267-5882 43-47 High Street LEGAL SERVICES Newton, NJ 07860 (973) 383-7400	**UNION COUNTY** Deputy Clerk of the Superior Court LAWYER REFERRAL 1st Fl., Court House (908) 353-4715 2 Broad Street LEGAL SERVICES Elizabeth, NJ 07207-6073 (908) 354-4340
WARREN COUNTY Deputy Clerk of the Superior Court LAWYER REFERRAL Civil Division Office (973) 267-5882 Court House LEGAL SERVICES 413 Second Street (973) 475-2010 Belvidere, NJ 07823-1500	

Docs #5337188-v1

3. Plaintiff derives 95%, more than 20%, of its gross sales from its sale and installation of Defendant Products. Plaintiff derived over $3,000,000 in sales in 2018 and 2019 from the sale, installation, and servicing of Canon products, and lower but comparable amounts in 2020 and 2021.

41. Under N.J.S.A. 56:10-5, it is a violation of the F.P.A. for a franchisor to terminate a franchise without good cause. "Good cause" for terminating a franchise is limited to the "failure by the franchisee to substantially comply with those requirements imposed upon him by the franchise."

42. Here, the sole-stated reasons for the termination of Plaintiff's franchise are:

1. Plaintiff refused and "audit." Plaintiff did not refuse the audit, and did not refuse to give Defendant any information required by the 2012 Agreement. In fact Plaintiff offered information not required.

2. Plaintiff sold "aftermarket products at wholesale." No definition of "wholesale" is provided in the Agreement, nor is any customer or specific products identified in the Wrongful Termination Letter. Plaintiff did not sell at wholesale and all sales were approved by Canon.

43. Canon failed to give Plaintiff the required statutory 60 day statutory notice and opportunity to cure any deficiency.

44. To the extent the August 30, 2021 letter is considered to be a notice of termination, it fails to comply with N.J.S.A. 56:10-5 as it failed to provide Plaintiff with the requisite 60 day notice, but rather gives "30 days."

45. The Wrongful Termination Letter is likewise procedurally defective under N.J.S.A. 56:10-5 to terminate the franchise as it did not provide the requisite 60 day notice with opportunity to cure, but rather unilaterally concludes that there is no cure.

46. Plaintiff will be irreparably harmed if Canon is allowed to terminate the business relationship with Plaintiff. All of Plaintiff's investment of time effort and loss of other opportunity over the past twenty-five (25) years, and financial investment in excess of $15,000,000, which has been for the purchasing, marketing, sale, maintenance and installation of the Defendant products, will be forfeited.

47. Plaintiff has invested almost exclusively in selling Canon products over any other competitors' products, essentially all of its revenues are derived from the sale of the Defendant products; and if it loses the Defendant products, it will have no other products to sell, and its business will be irreparably damaged and destroyed. Plaintiff has 18 seasonal employees, each of which will lose their jobs if Canon is allowed to terminate the Dealer Agreements with Plaintiff.

FIRST COUNT

VIOLATION OF THE NEW JERSEY FRANCHISE PRACTICES ACT

48. Plaintiff repeats and re-alleges each and every allegation contained within this Verified Complaint as if more fully set forth herein.

49. Plaintiff is a franchise under the F.P.A., and is entitled to the protections of the F.P.A.

50. Defendant has violated N.J.S.A. 56:10-5 in purporting to terminate the franchise without providing the statutorily required 60-day written notice of termination, or opportunity to cure.

51. Defendant has further violated N.J.S.A. 56:10-5 in purporting to terminate the franchise without good cause as defined in the F.P.A.

52. As a result of the Defendant's violation of the F.P.A., Plaintiff has been and will continue to be irreparably harmed.

WHEREFORE, Plaintiff demands judgment:

A. Preliminarily enjoining and restraining Defendant from terminating Plaintiff's rights as a dealer to purchase, sell, and service Defendant products pursuant to the Agreement;

B. Temporarily and Preliminarily enjoining and restraining Defendant from not fulfilling its obligations per the Agreement, and requiring Defendant to fill all purchase orders for products, equipment and parts;

C. Temporarily and preliminarily enjoining and restraining Defendant from removing Plaintiff from any lists, publications and website, and from denying Plaintiff access to ordering, and emails relating to the purchasing marketing, sale and installation of Defendant products;

D. Declaring and affirming that Plaintiff is not in default under any of the Dealer Agreement and that Defendant is not entitled to terminate Plaintiff under any of the Dealer Agreement;

E. Declaring that Plaintiff is a franchise entitled to the protection of the New Jersey Franchise Practices Act, N.J.S.A. 56:10-1, *et seq.* and declaring further that the purported termination of the franchise was not for good cause and did not otherwise comply with the provisions of N.J.S.A. 56:10-5 thereby rendering the purported termination null and void; and

F. Awarding compensatory, consequential and punitive damages, attorneys' fees and such other relief as the Court deems fair, equitable and just.

SECOND COUNT

BREACH OF CONTRACT

53. Plaintiff repeats and re-alleges each and every allegation contained within this Verified Complaint as if more fully set forth herein.

54. Defendant has breached the Agreement by purporting to terminate the Dealer Agreement based upon a false predicate, and without providing the required notice and opportunity to cure.

55. Defendant has further breached the Dealer Agreements by terminating the Agreement in violation of the terms and provisions of such Agreements.

56. As a result of Defendant's breach of contract as aforesaid, Plaintiff has suffered and will continue to suffer irreparable harm, and damages.

WHEREFORE, Plaintiff demands judgment:

A. Awarding compensatory, consequential and punitive damages, attorneys' fees and such other relief as the Court deems fair, equitable and just;

B. Preliminarily enjoining and restraining Defendant from terminating Plaintiff's rights as a dealer to purchase, sell, and service Defendant products pursuant to the Agreement;

C. Temporarily and Preliminarily enjoining and restraining Defendant from not fulfilling its obligations per the Agreement, and requiring

Defendant to fill all purchase orders for products, equipment and parts;

D. Temporarily and preliminarily enjoining and restraining Defendant from removing Plaintiff from any lists, publications and website, and from denying Plaintiff access to ordering, and emails relating to the purchasing marketing, sale and installation of Defendant products;

E. Declaring and affirming that Plaintiff is not in default under any of the Dealer Agreement and that Defendant is not entitled to terminate Plaintiff under any of the Dealer Agreement; and

F. Declaring that Plaintiff is a franchise entitled to the protection of the New Jersey Franchise Practices Act, N.J.S.A. 56:10-1, *et seq.* and declaring further that the purported termination of the franchise was not for good cause and did not otherwise comply with the provisions of N.J.S.A. 56:10-5 thereby rendering the purported termination null and void.

THIRD COUNT

BREACH OF DUTY OF GOOD FAITH AND FAIR DEALING

57. Plaintiff repeats and re-alleges each and every allegation contained within this Verified Complaint as if more fully set forth herein.

58. The covenant of good faith and fair dealing is an implied term of the Dealer Agreements.

59. Under the Agreement Canon was required to act in good faith and make all efforts to ensure that it continue to sell and support Plaintiff's franchise and allow Plaintiff to purchase, sell, and maintain Canon products as an authorized dealer.

60. Defendant has breached the duty of good faith and fair dealing in an attempt to deny Plaintiff its valuable contract and franchise protected rights, and by purporting to terminate the Dealer Agreements at a time when Plaintiff has substantially complied with the material terms of the Dealer Agreement as Defendant has been aware at all times of Plaintiff's substantial investment and reliance has upon its continued Dealership Agreement with Canon.

61. Plaintiff has invested millions of dollars in purchasing, marketing, promoting and selling the Defendant's products in reliance upon its right to continue to serve as a dealer for the Defendant's products in New Jersey.

62. Defendant has breached the implied duty of good faith and fair dealing by purporting to terminate the Dealer Agreement.

63. Defendant has breached the express duty of good faith in the Agreement by terminating the Agreement by participating in, encouraging, and approving the now complained of sale(s), and without giving an opportunity to cure or making any efforts to ensure that any non-compliance issues were rectified.

64. As a result of Defendant's actions as aforesaid, Plaintiff has suffered and will continue to suffer irreparable harm and damages.

WHEREFORE, Plaintiff demands judgment:

A. Awarding compensatory, consequential and punitive damages, attorneys' fees and such other relief as the Court deems fair, equitable and just.

COUNT FOUR

DECLARATORY JUDGMENT

65. Plaintiff repeats and re-alleges each and every allegation contained within this Verified Complaint as if more fully set forth herein.

66. Pursuant to the Declaratory Judgment Act, N.J.S.A. 2A:16-52, the court has the power "to declare rights, status and other legal relations, whether or not relief is or could be claimed…."

67. A person, such as Plaintiff, interested under a written contract, such as the exclusive Dealer Agreements, may have determined any question or construction or validity arising under the contract and obtain a declaration of rights, status or other legal relations thereunder. N.J.S.A. 2A:16-53.

68. The existence of a material default under the Dealer Agreements by Plaintiff and the validity of Defendant's purported termination of the Dealer Agreements is in dispute.

69. Plaintiff has substantially complied with the material obligations imposed upon it under the Dealer Agreements.

70. Defendant has failed to provide Plaintiff with the required notice required to effect a lawful termination of the Dealer Agreements.

71. Defendant cannot terminate the Dealer Agreements so long as Plaintiff has substantially complied with the material obligations imposed upon it under the Dealer Agreements.

72. Plaintiff has suffered, and will continue to suffer, irreparable harm as a result of Defendant's purported termination of the Dealer Agreements.

73. Plaintiff is entitled to a declaration that it has substantially complied with the material terms of the obligations imposed upon it under the Dealer Agreements and that Defendant is precluded from terminating the Dealer Agreements.

74. Plaintiff is entitled to a declaration that it was not required to provide to Defendant Canon customer information, and other proprietary information not required by the Dealer Agreement.

75. Plaintiff is entitled to a declaration that Plaintiff did not sell "wholesale", and as to the definitions in the agreement which is not provide a definition of "wholesale" , and that Plaintiff did not improperly sell "aftermarket products at wholesale," in violation of the Agreement.

76. Plaintiff is further entitled to a declaration that it is a franchise as defined under the F.P.A. and that it is therefore entitled to the protections of the F.P.A.

77. As a franchise under the F.P.A., Plaintiff's franchise can only be terminated on 60 days' notice and for good cause as set forth in N.J.S.A. 56:10-5.

78. Plaintiff has suffered, and will continue to suffer, irreparable harm as a result of Defendant's violation of N.J.S.A. 56:10-5.

79. Plaintiff is entitled to the declarations as aforesaid, and that it is a protected franchise under the F.P.A. and that Defendant's purported termination violates Plaintiff's rights under the F.P.A. to which it is entitled to the injunctive and other relief it seeks.

WHEREFORE, Plaintiff demands judgment:

A. Finding and declaring, among other things, that the Agreement: does not require Plaintiff to provide to Defendant Canon customer information, and other proprietary information; does not provide a definition of "wholesale", applying one, and that Plaintiff did not improperly sell "aftermarket products at wholesale" in violation of the agreement; and Plaintiff is not in violation of the Agreement;

B. Declaring that Plaintiff is a franchise entitled to the protection of the New Jersey Franchise Practices Act, N.J.S.A. 56:10-1, *et seq.* and declaring further that the purported termination of the franchise was not for good cause and did not otherwise comply with the provisions of N.J.S.A. 56:10-5 thereby rendering the purported termination null and void; and

C. Awarding compensatory, consequential and punitive damages, attorneys' fees and such other relief as the Court deems fair, equitable and just.

DESIGNATION OF TRIAL COUNSEL

Pursuant to R. 4:25-4, Sean E. Regan, Esq. is hereby designated as trial counsel.

CERTIFICATION PURSUANT TO R. 4:5-1

The undersigned herby certifies that this matter is not the subject of any other action pending in any court or arbitration proceeding, and no other action or arbitration proceeding is contemplated. Mediation is in progress with the American Arbitration Association. The undersigned hereby certifies that he knows of no other parties who should be joined in the action at this time.

GIORDANO, HALLERAN & CIESLA
A Professional Corporation
Attorneys for Plaintiff, Hunter Business Systems of Delaware, LLC

By: _____
SEAN E. REGAN, ESQ.

Dated: October 4, 2021

VERIFICATION

I, STEVEN MARTIN, hereby state:

1. I am the managing member of Plaintiff, Hunter Business Systems of Delaware, LLC. I am fully familiar with the facts of this matter;

2. The allegations of the Verified Complaint are true to the best of my knowledge, information and belief;

3. This Complaint is made in truth and in good faith and without collusion for the causes set forth therein.

I certify that the foregoing statements made by me are true. I am aware that if any of the foregoing statements made by me are willfully false, I am subject to punishment.

STEVEN MARTIN

Dated: October 4 , 2021

Docs #5321259-v1

EXHIBIT "A"

Canon

CANON U.S.A, INC.
Business Imaging Solutions Group
Cust. Code _____
Dept. Code _____

Office Imaging Retail Dealer Agreement

THIS AGREEMENT made and entered into as of the 17 day of December by and between:

(1) CANON U.S.A., INC., a New York Corporation ("Canon USA") having its principal office at One Canon Plaza, Lake Success, New York 11042-9979; and

(2) Hunter Business Systems of Delaware LLC
(full legal name of Dealer)

a Delaware Corporation. ("Dealer")
(specify type of entity and state of organization)

having its principal place of business at
K64 Applegarth Road Monroe NJ 08831
(principal business address)

1. APPOINTMENT

1.1 Appointment as Retail Dealer. Canon USA hereby appoints Dealer as an authorized retail dealer of the CANON® brand office imaging products listed in Schedule A hereto, as the same may hereafter be amended pursuant to the provisions of this Agreement, together with accessories, supplies and spare parts for the Products listed in dealer brochures, catalogues and manuals published by Canon USA from time to time (the "Products"). Dealer agrees to perform a retail function only (that is, marketing the Products solely to end-users who are unaffiliated with Dealer and who acquire Products solely for their own use), and Dealer shall not sell any Products to other dealers or other remarketers.

1.2 Full-Line Dealer. Dealer acknowledges that its appointment hereunder is as a full-line CANON Office Imaging Products Retail Dealer, and Dealer agrees at all times to use its best efforts to market all of the CANON® brand office imaging products which are designated as "Products" for purposes hereof. Dealer further acknowledges that the Products are technically complex office imaging products that, in most cases, are intended to be integrated with CANON and third-party products as part of a systems architecture, and that Dealer's appointment, in addition to its specific responsibilities under paragraphs 2 and 3 below, is based on its commitment to devote its best efforts to effectively market the Products as integrated office solutions to all appropriate end-user markets and on its continuing ability to achieve and maintain high satisfaction by its end-user customers.

1.3 Authorized Sales and Service Locations. Dealer shall sell the Products only from the sales locations listed in Schedule B hereto ("Authorized Sales Locations"), and shall maintain facilities for servicing the Products only at the locations listed in Schedule B hereto ("Authorized Service Locations"). Dealer may delete, or request the addition of, an Authorized Sales Location or an Authorized Service Location at any time on written notice to Canon USA. Canon USA reserves the right to withhold approval of any request by Dealer for addition of a new Authorized Sales or Service Location and to terminate for purposes hereof any Authorized Sales or Service Location's status as such, if in Canon USA's reasonable belief such location is not in compliance with the requirements therefor hereunder or established by Canon USA from time to time pursuant hereto. Upon addition, deletion or termination of a new Authorized Sales or Service Location Canon USA shall submit to Dealer a new Schedule B reflecting such change.

1.4 Dealer as Marketing and Service Representative for Canon USA. Dealer shall act as a marketing and servicing representative for Canon USA under its Strategic Account, Government Account and/or Special Account Programs in effect from time to time, and Dealer agrees to comply with all policies and procedures (including those involving compensation) established by Canon USA from time to time governing participation in and eligibility for such Programs (including, in the case of the Government Account Program, the terms of Canon USA's Federal Supply Schedule Contract in effect from time to time). Customers eligible to participate in the Government Account Program shall be federal, state and local government agencies, public educational and health care institutions and government contractors. Customers in the Strategic Account and Special Account Programs shall consist of such accounts as Canon USA may designate from time to time. Canon USA shall have the right to allocate Strategic Account, Government Account and/or Special Account business among some or all of its dealers for the Products on a reasonable basis.

1.5 Used Products. Canon USA may, from time to time, make available for sale to Dealer used Products returned to Canon USA by end-users under Strategic Account, Government Account or other sales or rental programs. Such used Products shall be considered "Products" for all purposes of this Agreement and the terms of this Agreement shall apply in all respects to Dealer's purchases and marketing of used Products, except as otherwise provided by the terms of Canon USA's used equipment sales programs as may be in effect from time to time.

1.6 Changes in Product Models. Canon USA shall have the right at any time to add or eliminate any Product, each such change to be reflected by deletion of a then-effective Schedule A by substitution of a new Schedule A for the one then in effect, and to make changes in the specifications and design of any Product model. No CANON product model shall be deemed a "Product" for purposes of this Agreement unless and until Canon USA shall have provided Dealer with a Schedule A for such product model. Canon USA shall determine the date on which it will commence accepting orders for new Product models and the date on which it will no longer accept orders for current Product models.

1.7 Non-Exclusive Appointment. Dealer's appointment hereunder is limited to the United States of America. Dealer shall neither export any Products from the United States of America nor, directly or indirectly, sell

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sell any Products to customers located outside of the United States of America. Dealer acknowledges that its appointment hereunder as an authorized Canon retail dealer of the Products is NON-EXCLUSIVE as to all states and other geographical areas within the United States of America and as to types of customers and other market segments within all such areas, and that Canon USA reserves the right, without cause or notice to Dealer and without payment of commission or other compensation to Dealer, to make direct sales of any Products, and to appoint other dealers, value-added resellers, systems integrators or other resellers, and to appoint sales representatives, for sales of the Products, to any and all customers within all such areas. Dealer further acknowledges that Canon USA has made no representation, under this Agreement or otherwise, as to the terms on which Canon USA may appoint other retail dealers for the Products within any part of the United States of America for any market segment therein.

2. DEALER SALES RESPONSIBILITIES

2.1 Best Efforts Obligation. Dealer shall, at its own cost and expense, use its best efforts to promote and market each of the Products from each of its Authorized Sales Locations, and to promote and maintain the goodwill and reputation of Canon USA and the Products, which efforts shall include, but not be limited to, the following:

2.1.1 maintaining an inventory of each Product model which is sufficient to meet reasonably anticipated demand therefor from Dealer's current and prospective customers;

2.1.2 displaying prominently in an appropriate environment at each Authorized Sales Location at least one (1) demonstrator unit of each model of the Products;

2.1.3 advertising and promoting the Products on a reasonable basis;

2.1.4 providing at all times during reasonable business hours one or more qualified sales persons at each Authorized Sales Location to market and demonstrate each Product model, each such person to be knowledgeable of the functional and performance specifications of each Product model and to be trained and qualified as provided in paragraph 4 below;

2.1.5 utilizing, to the extent appropriate for more effective marketing of the Products, leasing programs and sales promotion programs (programs offered by or through Canon USA and/or programs developed by Dealer);

2.1.6 developing and maintaining, using programs for which its personnel are trained pursuant to paragraph 4 below, records and information relating to sales performance, market analysis and market trends;

2.1.7 working with potential customers, Canon USA and third-party vendors in the marketing and/or development of value-added applications for the Products and systems incorporating the Products, and reporting to Canon USA from time to time as to applications utilized or suggested for the Products by Dealer, Dealer's customers and third-party vendors;

2.1.8 participating, if and to the extent requested by Canon USA from time to time, in preliminary or test marketing programs; and

2.1.9 assisting and cooperating with Canon USA in the distribution of Product information (including marketing-related and service-related information) to Dealer's customers and potential customers.

2.2 Minimum Performance Standard. Dealer's minimum quarter-annual purchase requirement (which shall be pro-rated for the period from the date hereof until the end of the current calendar quarter) is set forth in Schedule C hereto. Canon USA shall have the right to change such minimum purchase requirement for the Products for any quarter-annual period by substituting a new Schedule C for the one then in effect upon written notice given to Dealer at least ten (10) days prior to the commencement of the calendar quarter in which such changed minimum purchase requirement is to be effective. If Dealer's Product purchase payments to Canon USA are less than the minimum quarter-annual purchase requirement specified in the then-effective Schedule C hereto for each of any two (2) successive calendar quarters, Canon USA may give Dealer notice of its deficiency and thirty (30) days in which to rectify the same. If the deficiency is not cured within such time period, Canon USA may, at its discretion, and in addition to all other rights and remedies available to it, terminate this Agreement by providing Dealer with thirty (30) days' notice of termination (or such longer notice period as may be required by applicable law). Product purchases credited against a deficiency for a prior calendar quarter or quarters shall not be credited against the minimum quarter annual purchase requirement in the calendar quarter in which such purchases are made.

3. DEALER SERVICE RESPONSIBILITIES

3.1 Dealer's Service Obligations. Dealer shall, at its own cost and expense, except as provided in paragraphs 4 and 6.4 below, maintain during the term of this Agreement (and thereafter, as provided in paragraph 14.5 below), a service organization for the installation, maintenance and repair of the Products from each of the Authorized Service Locations, which organization shall provide a high level of service consistent with the technically-sophisticated nature of the Products and the attainment of high end-user satisfaction consistent with the quality assurance standards established by Canon USA from time to time. Without limiting the foregoing, Dealer agrees as follows:

3.1.1 Dealer shall not sell any Product to any customer unless Dealer is able to provide service for such Product to such Customer which complies in all respects with Dealer's service obligations in this paragraph 3 and elsewhere in this Agreement;

3.1.2 Dealer shall provide installation, maintenance and repair services for all Products in accordance in all respects with the standards (including without limitation minimum service response times, maintenance of remote diagnostic systems, periodic customer-site quality assurance service and customer-site warranty service) set forth in the "Service Requirements" in Schedule D hereto, as the said Schedule D may be modified from time to time by Canon USA on written notice to Dealer, and in accordance with all other service procedures published by Canon USA from time to time;

3.1.3 Dealer shall (a) maintain at all times at each Authorized Service Location (i) a parts inventory adequate to provide prompt and efficient service at Dealer's normally experienced usage rates or as may be reasonably prescribed by Canon USA from time to time and (ii) such test and other equipment as may be required by Canon USA from time to time; and (b) employ at all times at each Authorized Service Location for each Product model such number of service technicians (but in any event not less than one) as shall be adequate in view of Dealer's service commitments, which service technicians shall have been trained pursuant to paragraph 4 below for each Product model and shall otherwise be fully qualified and competent to service each Product model;

3.1.4 Dealer shall maintain service records and inventory information at each Authorized Service Location, and shall permit Canon USA service personnel to inspect Dealer's service records at reasonable times to ensure compliance with Dealer's obligations under this paragraph 3.1 and to acquire data for the purpose of improving standard service procedures and reliability;

3.1.5 Dealer, at its expense and without charge to the end-users except as may be specified by Canon USA, shall cooperate with Canon USA in providing retrofits to end-users and with such other Product-modification programs as Canon USA may establish from time to time to enhance performance and capabilities of Products; and,

3.1.6 when Dealer maintains, repairs or otherwise services any Products, it shall use only spare parts supplied to it by Canon USA pursuant to this Agreement, or other spare parts which are compatible with the Products and which, when used to repair or service the Products, do not result in significant reliability or performance problems.

Dealer's obligations under this paragraph 3.1 shall apply to all Products sold by it, to all Products serviced by it as Canon USA's marketing representative, and to all other Products with respect to which Dealer may from time to time provide installation, maintenance and/or repair services. Service provided by Dealer as Canon USA's servicing representative shall be pursuant to, and in accordance with the policies and procedures established by Canon USA from time to time for, its Government Account, Strategic Account and Special Account Programs in effect from time to time, and Dealer's compensation for such services shall be as provided by the terms of such programs. Service provided by Dealer to end-users covered by Canon USA's applicable end-user limited warranty shall be provided at no charge to the end-user, Dealer's sole compensation therefor being as provided pursuant to paragraph 6.4 below.

3.2 Authorized Service Providers. Notwithstanding subparagraph 3.1.1 above, Dealer may arrange for other dealers, independent service organizations or other third parties to provide for Products sold by Dealer the service otherwise required to be provided directly by Dealer pursuant to this paragraph 3, but only if such third parties are authorized by Canon USA to service the Products. As between Canon USA and Dealer, Dealer shall be solely responsible for any failure by any such third party to provide service in accordance with the requirements of this Agreement. Canon USA, irrespective of whether it from time to time authorizes independent service organizations or establishes a voluntary program for allocation of responsibilities and compensation between selling dealers and servicing dealers, makes no representation that any such third party shall be available or willing to provide service for Products sold by Dealer, and shall have no liability to Dealer whatsoever for any such third party's performance of, or failure to perform, service for Products sold by Dealer.

3.3 Corrective Actions. Dealer agrees that if a customer complains to Canon USA about Dealer's performance of service, Canon USA may conduct an investigation to determine the legitimacy of the customer's complaint and Dealer's compliance with the standards set forth in or pursuant to this Agreement. Dealer agrees to take such corrective action as may be reasonably requested by Canon USA as a result of any such investigation, and acknowledges that Dealer shall be liable to Canon USA for all costs and expenses that Canon USA may incur in assisting Dealer to rectify the service problem.

3.4 Service Provided by Canon USA. Canon USA reserves the right to provide, or to arrange for the provision of, (i) warranty or out-of-warranty service, pursuant to maintenance agreements or otherwise, to any end-users of Products, and (ii) service training to any end-users of Products, service and other personnel attend such training programs and to attend follow-up programs which Canon USA may offer from time to time. To the extent that Canon USA makes available "train-the-trainers" programs. Dealer's personnel who have successfully completed such programs shall, at Dealer's expense and at its premises, provide the follow-up training to such of Dealer's other personnel as is appropriate in accordance with Canon USA's requirements.

4. TRAINING

4.1 Training Programs. Canon USA, to the extent it deems appropriate for effective sales, marketing and servicing of the Products, may from time to time develop and make available training programs for the sales and service personnel of Dealer and Canon USA's other authorized dealers of the Products. Separate training programs may be held to develop expertise in the use, demonstration and functional and performance specifications of the Products, and expertise in networking and compatibility of the Products with CANON brand and third-party hardware and software, and to provide training in account management and sales strategy techniques. Canon USA may require Dealer, as a condition of continuation of its dealership with respect to particular Product models and/or its eligibility for certain marketing incentives that Canon USA may make available to its dealers from time to time, to have certain of its sales, service and other personnel attend such training programs and to attend follow-up programs which Canon USA may offer from time to time. To the extent that Canon USA makes available "train-the-trainers" programs, Dealer's personnel who have successfully completed such programs shall, at Dealer's expense and at its premises, provide the follow-up training to such of Dealer's other personnel as is appropriate in accordance with Canon USA's requirements.

4.2 Training: Attendance, Costs, etc. Enrollment in training courses shall be limited to a reasonable number of persons who are employed at Authorized Sales or Service Locations and, in Canon USA's sole judgment, are sufficiently qualified to take courses. Canon USA may discontinue training of any person whom Canon USA deems to be unqualified. In the case of scheduled training programs at locations specified by Canon USA, Canon USA's expenditures shall be limited to paying the reasonable costs of materials and instruction for a reasonable training period, and Dealer shall pay the salaries and all travel and lodging expenses and subsistence of its employees, unless Canon USA agrees otherwise in writing. In lieu of, or in addition to, scheduled training programs, Canon USA may make available personal computer-based initial and/or follow-up training, in which event Dealer, at its own cost and expense, shall make available to its personnel at each Service Location such computer hardware and software (for example, CD-ROM units) as Canon USA may require or recommend.

5. PROMOTIONAL ACTIVITIES

5.1 Advertising. Canon USA agrees to advertise and promote the Products on a nationwide basis to the extent it deems appropriate and will furnish Dealer from time to time with promotional and advertising material. Dealer agrees to coordinate its promotional advertising with that of Canon USA. Dealer acknowledges that Canon USA's cooperative advertising policies may be modified by Canon USA from time to time and that Canon USA may establish and modify from time to time requirements for Dealer to participate therein; and that in any event, promotional material, to be eligible for reimbursement under such cooperative advertising policies, must be submitted to Canon USA in advance of the publication's closing date, and may be used only if Canon USA consents thereto under the terms of such cooperative advertising policies.

5.2 Trademarks. Dealer agrees that it has no right, title or interest in and to the name CANON or any Canon USA logo or trademark. Dealer shall not use the name CANON as part of its corporate or business name, but Dealer may describe itself (but only with respect to its Authorized Sales and Service Locations) as an "Authorized CANON Office Imaging Products Dealer" and an "Authorized CANON Office Imaging Products Service Facility." Dealer may use the name CANON and Canon USA's logos and trademarks only in connection with its marketing of the Products purchased by Dealer from Canon USA pursuant to this Agreement and only if such usage complies in all respects with such trademark use policies as may be published by Canon USA from time to time. From time to time as requested by Canon USA, Dealer shall submit to Canon USA in writing full particulars (including representative samples) of its use of the CANON name and Canon USA's logos and trademarks on stationery, invoices, promotional material or otherwise. In any event, each and every use by Dealer of the CANON name or of any Canon USA logo or trademark in connection with any marketing materials for the Products shall be of a quality that is acceptable to Canon USA. Canon USA shall be the sole judge as to whether Dealer has met or is meeting the required quality standards.

5.3 Used, Etc. Products. Dealer shall not sell any new Products as "used" or any used Products as "new." If Dealer displays or advertises any used Products, the word "used" shall be placed in a prominent position in such displays and advertisements. If remanufactured, refurbished or reconditioned Products are sold by Canon USA to Dealer, Dealer shall promote such Products in the manner prescribed by Canon USA. Dealer shall not publish any advertising or engage in any selling practice relating to any Products that is contrary to any applicable laws or regulations, or that is likely to mislead or deceive the public or to impair the good will or reputation of Canon USA or any of its products.

5.4 No Removal, etc. of CANON Logo. Dealer shall not, under any circumstances, remove, alter or cover the CANON® logo or trademark, Canon USA's insignia, or any serial numbers or lettering on the Products or the original packaging at the time of delivery, or add to the Products or their packaging any name, brand, trademark or service mark.

5.5 Original Packaging and Documentation. Dealer agrees that it shall sell Product supplies and accessories in the original packaging in which such supplies and accessories were delivered to Dealer by Canon USA. All Products, when resold or rented by Dealer to end-users, must include the original documentation supplied for such Products by Canon USA.

6. WARRANTY

6.1 End-user Limited Warranty. All Products (other than certain used Products and other than Products to the extent they are or contain software) are sold with a Canon USA limited warranty, which is set forth in full in the Limited Warranty Statement enclosed with each Product. Dealer acknowledges that such limited warranty is only for the benefit of, and is only enforceable by, the original end-user purchaser or lessee of the Product (including Dealer where the Product is purchased by it for demonstration purposes or otherwise for its own use). Dealer shall make available to each customer the Limited Warranty Statement for a Product prior to the customer's purchase or lease thereof. Dealer shall not mis-represent the performance, capabilities or other characteristics of the Products or the use of the Products in any system or as integrated with any other hardware or software products, nor shall Dealer purport to make any warranty as to any Product on behalf of Canon USA other than as set forth in such Product's Limited Warranty Statement. Any warranties made by Canon USA with respect to any Products are made only to end-users; all Products are sold by Canon USA to Dealer "AS IS," "WHERE IS," WITHOUT WARRANTY OF ANY KIND BY CANON USA, INCLUDING ANY IMPLIED WARRANTY REGARDING MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.

6.2 Warranty Disclaimer. NO EXPRESS WARRANTIES, AND NO IMPLIED WARRANTIES, INCLUDING ANY REGARDING MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, ARE MADE BY CANON USA WITH RESPECT TO THE PRODUCTS, EITHER TO DEALER OR (except for the express warranties in Canon USA's Limited Warranty Statements) THE END-USER CUSTOMER. CANON USA SHALL NOT BE LIABLE FOR PERSONAL INJURY OR PROPERTY DAMAGE (UNLESS CAUSED SOLELY BY CANON USA'S NEGLIGENCE), LOSS OF PROFIT OR OTHER INCIDENTAL, CONSEQUENTIAL OR SPECIAL DAMAGES ARISING OUT OF THE USE OF, OR INABILITY TO USE, THE PRODUCTS. IN NO EVENT SHALL CANON USA BE LIABLE FOR ANY DAMAGES (REGARDLESS OF THEIR NATURE) CAUSED BY DEALER'S FAILURE TO FULFILL ITS RESPONSIBILITIES AS SET FORTH HEREIN. CANON USA SHALL HAVE THE RIGHT AT ANY TIME TO MODIFY ANY PRODUCT'S LIMITED WARRANTY.

6.3 Use of the Products with other Hardware and Software. This Agreement provides only for the sale of the Products, and Dealer or the end-user shall be solely responsible for providing all software, computers and peripheral equipment that may be required or desirable in connection with end-users' use of the Products. Canon USA shall have no responsibility with respect to such software, computers and peripheral equipment (other than CANON brand peripheral equipment which Canon USA expressly recommends for use with the Products) or the Product's performance therewith even if Dealer discusses the same from time to time with employees or agents of Canon USA. Without limiting the foregoing, Dealer acknowledges that the limited warranty provided in the Limited Warranty Statements enclosed with the Products contain exclusions relating to use of the Products with non-compatible software, computers and peripheral equipment. NON-CANON BRAND SOFTWARE,COMPUTERS AND PERIPHERAL EQUIPMENT WHICH MAY BE DISTRIBUTED BY CANON USA WITH THE PRODUCTS ARE SOLD "AS IS," WITHOUT WARRANTY OF ANY KIND BY CANON USA, INCLUDING ANY IMPLIED WARRANTY REGARDING MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. The sole warranty with respect to such non-CANON brand items is given by the manufacturer or developer thereof, and such manufacturer or developer shall be solely responsible for providing, or arranging for the provision of, support and service for such items.

6.4 Warranty Service. With respect to all repair and replacement services provided by Dealer at no charge to end-users for Products covered by Canon USA's limited warranty to end-users, Canon USA agrees that it shall, as its sole and exclusive liability to Dealer, repair or replace, or grant a credit with respect to, such defective parts or subassemblies, as the case may be, (a) which are returned to Canon USA with all necessary documentation, shipping and handling charges prepaid by Dealer and (b) which are proven to be defective upon Canon USA's inspection; provided, that if the claim for warranty service is not made by Dealer to Canon USA within the prescribed time period of Canon USA's end-user limited warranty, or if the defect is otherwise not covered by, or is excluded from, Canon USA's end-user limited warranty for any reason, the cost of Canon USA's service and parts shall be at Dealer's expense at Canon USA's rates then in effect. Replaced parts and subassemblies shall become Canon USA's property. REPAIR REPLACEMENT PARTS AND SUBASSEMBLIES ARE SUPPLIED TO DEALER "AS IS" AND WITHOUT WARRANTY TO DEALER OF ANY KIND, AND WHEN SUPPLIED BY DEALER TO END-USERS ARE ONLY WARRANTED, IF AT ALL, BY CANON USA TO THE EXTENT PROVIDED IN THE LIMITED WARRANTY STATEMENT FOR THE RELEVANT PRODUCT. Dealer's cost of labor to inspect, remove and replace defective parts or subassemblies, to adjust mechanical alignments where necessary, and to perform any other service required under Canon USA's end-user limited warranty, shall be borne solely by Dealer and shall not be reimbursable by Canon USA under any circumstances. Notwithstanding the foregoing, Canon USA may, at its option, with respect to certain Product models, (a) grant Dealer a flat rate Product credit (instead of a credit for returned defective parts)

pursuant to Canon USA's Warranty Administration Reduction Program, or such other warranty programs as may be in effect from time to time, or (b) provide a flat rate labor reimbursement credit to Dealer for providing on-site warranty service.

7. PRODUCT PRICES AND DELIVERY

7.1 Product Prices. Canon USA shall sell the Products to Dealer at the prices published by Canon USA from time to time. Canon USA may modify these prices upon notice to Dealer. Price changes shall not apply to orders accepted, shipped and invoiced by Canon USA prior to the effective date of the price change. There shall be added to the price of each unit the amount of any sales or use tax applicable to the sale by Canon USA to Dealer, unless Dealer shall furnish to Canon USA a resale or other exemption certificate that is valid in the State where the delivery of the Products is made.

7.2 Delivery: Acceptance. Prices are F.O.B. from the nearest Canon USA warehouse where the Products ordered are then available, and all risk of loss or damage to the Products shall cease upon delivery to the carrier selected by Canon USA or designated by Dealer in its order. Dealer shall inspect all Products upon delivery and shall be deemed to have accepted the same if Canon USA does not receive written notice of rejection within ten (10) days of such delivery.

8. ORDERS

8.1 Purchase Orders. Dealer's orders for the purchase of the Products shall be submitted by formal purchase order in form and substance acceptable to Canon USA. Canon USA may, in its sole discretion: accept orders via telephone or facsimile. A purchase order shall not be deemed binding on Canon USA unless and until Canon USA accepts the same (a) by sending written confirmation thereof to Dealer, or (b) in lieu of such confirmation, by shipping the units covered by the order. The terms of Dealer's orders shall be of no force and effect in the event they conflict with or supplement the terms of this Agreement or of Canon USA's confirmation, if any.

8.2 Delivery of Ordered Units. Canon USA shall use reasonable efforts to ship Products to meet delivery dates requested by Dealer in its orders. Since Canon USA itself will be subject from time to time to manufacturer production or shipping delays, or both, Dealer agrees that Canon USA may, in its sole discretion, allocate distribution even though this may effectively limit delivery of ordered Products. Canon USA also reserves the right to limit its sales of Products to Dealer to quantities which Canon USA believes, in its sole discretion, are sufficient to satisfy Dealer's retail sales requirements. Any portion of an order which is not shipped within six (6) months after confirmation thereof by Canon USA may, at Canon USA's option, be declared null and void.

9. PAYMENT

Dealer shall be required to pay for the Products in accordance with the terms of Canon USA's invoices therefor, without any setoff or counterclaim, except for the amount of any written credit memorandum which has been issued by Canon USA to Dealer prior to the due date of the outstanding invoice. Canon USA reserves the right to modify such terms at any time. Without limiting any other rights it may have under this Agreement and applicable law, Canon USA may, if Dealer's account is not kept current, or its credit standing deteriorates (as determined by Canon USA in its sole discretion), discontinue shipments, reduce Dealer's credit line (if any) or place Dealer on a cash basis (that is, certified check with order). Dealer acknowledges and agrees that no such modification of payment terms, cessation of shipments or reduction or elimination of credit terms shall constitute a termination of this Agreement or a substantial change in the competitive circumstances of this Agreement.

10. SECURITY INTEREST

Dealer hereby grants to Canon USA a security interest in all Products now owned or hereafter acquired by Dealer, and in any proceeds therefrom. This security interest shall secure the payment by Dealer of all amounts owing for Products purchased by Dealer from Canon USA, all other sums due hereunder and all other obligations of Dealer hereunder, and upon any default by Dealer in making any such payment or performing any such obligation, Canon USA shall be entitled to exercise any and all rights and remedies of a secured party provided herein and under applicable law, including the Uniform Commercial Code of the State of New York. Dealer further agrees and does hereby grant and authorize Canon USA to execute, and to file with the appropriate governmental authority any and all financing statements (and other documents) on behalf of Dealer necessary to perfect Canon USA's security interest in the Products and, for this purpose only, hereby appoints Canon USA, its representatives and designees, as attorneys-in-fact, agents and authorized signatories of Dealer for such financing statements. In addition to any other remedy available to it, Canon USA may, upon Dealer's default in payment, or in its performance of its other obligations hereunder, enter upon Dealer's premises peaceably to take possession of the Products during normal business hours. If Canon USA shall be required to obtain possession by judicial process, Dealer expressly waives any right to require Canon USA to post any security as a precondition to securing a judicial order granting immediate repossession.

11. RELATIONSHIP OF THE PARTIES

11.1 Independent Contractor. Nothing contained in this Agreement shall be construed to make Dealer the agent of Canon USA for any purpose, and neither party shall have any right whatsoever to incur any liabilities or obligations on behalf of or binding upon the other party. Dealer specifically agrees that it shall have no power or authority to represent Canon USA in any manner; that it will remarket Products as an independent contractor in accordance with the terms and conditions of this Agreement; and that it shall not at any time represent orally or in writing to any person or corporation or other business entity that it has any right, power or authority not expressly granted by this Agreement.

11.2 No Franchise. The relationship created by this Agreement is not intended by the parties to constitute the granting of a franchise to Dealer by Canon USA, and no federal or state law, regulation or rule relating to franchises is intended to be applicable to such relationship or to this Agreement.

11.3 No Employment, etc. of Canon USA Employees.

11.3.1 Except as otherwise disclosed in writing by Dealer to Canon USA prior to the date of execution of this Agreement, Dealer represents and warrants that if Dealer is a corporation, limited liability company or other legal entity, no shareholder, partner, member, officer, manager or director (or the equivalent of any of the foregoing) of Dealer is, or during the period of six (6) months prior to the date of execution of this Agreement was, an employee of Canon USA or of an affiliate of Canon USA or is the spouse, parent, brother, sister or child of any such employee. Dealer shall give Canon USA notice of any such proposed relationship during the term of this Agreement at least sixty (60) days prior to the creation of any such proposed relationship, which notice shall indicate the name(s) of the person(s) involved and the nature of the proposed relationship.

11.3.2 Except as may be consented to in writing by Canon USA, which consent shall not be unreasonably withheld, Dealer shall not employ or other wise contract for the services of any employee of Canon USA until one (1) year after the earlier of (a) the termination of such employee's employment by Canon USA, or (b) the termination of this Agreement. No offer or other form of solicitation of employment shall be made at any time when the employment of such a person is prohibited by this Agreement.

11.4 Change in Control. Dealer shall give Canon USA notice of any proposed change in its control or management during the term of this Agreement at least sixty (60) days prior to the effectiveness of any such proposed change, which notice shall indicate the name(s) of the person(s) involved and the background and experience of the person(s) to be substituted for (or added to) the current parties in control of, or in the management of, Dealer.

11.5 No Reliance. Dealer acknowledges that it has experience and expertise in the retail sale of office imaging products similar to the Products, and that it has made its own independent analysis of the prospects of the dealership created by this Agreement. In connection with Dealer's acceptance of the dealership created hereby and Dealer's activities as a retail dealer of the Products, Dealer (i) expressly disclaims having relied upon any representation or statement made at any time by Canon USA or by any of its officers, employees or representatives regarding the capability, condition, operation, performance or specifications of the Products, the profit potential of the dealership created hereby, or the duration of the dealership created hereby, and (ii) agrees that neither any such representation or statement nor any other representation or statement of whatsoever nature shall be binding upon Canon USA as a warranty or in any other way unless expressly set forth in the original counterpart of this Agreement as executed on Canon USA's behalf by the General Manager of its Business Imaging Solutions Group or the General Manager of the Business Imaging Solutions Group's Dealer Sales Division.

11.6 No Assignment by Dealer. This Agreement constitutes a personal contract and is not assignable by Dealer in whole or in part without Canon USA's written consent, which consent may be withheld by Canon USA in its sole discretion.

12. INDEMNIFICATION; INSURANCE

12.1 Indemnification. Dealer agrees to indemnify and hold Canon USA free and harmless from any loss, damage or cost, including legal expenses and reasonable counsel fees, that Canon USA becomes liable for by reason of, arising out of, or relating to, any acts, obligations, or omissions of Dealer or of Dealer's employees, representatives, or agents, in connection with Dealer's marketing, sales and service of the Products under this Agreement, including, without limitation, any of the following:

12.1.1 acts of Dealer in marketing the Products including, but not limited to, (a) misrepresenting the terms of Canon USA's limited warranty to end-users or failing to give Canon USA's Limited Warranty Statement to end- users and (b) any breach of an express warranty made by Dealer's personnel or agents regarding the Products or the use or performance of the same either on a stand-alone basis or together with other hardware or software products, if such express warranty is not covered by Canon USA's applicable Limited Warranty Statement;

12.1.2 acts of Dealer in servicing the Products, including, but not limited to, acts of Dealer in providing, or failing to provide in a satisfactory manner service to end-users under rental or lease programs and under Canon USA's Government Account, Strategic Account and Special Account Programs;

12.1.3 Dealer's failure to pay outstanding invoices upon termination of this Agreement in accordance with its terms; and

12.1.4 acts of third parties, such as the execution of liens and security interests, in relation to Products sold to Dealer under this Agreement.

12.2 Insurance. Dealer agrees to maintain in full force and effect during the term of this Agreement a comprehensive general liability insurance policy with a combined single limit for bodily injury and property damage of at least $2 million. Such policy shall protect Dealer and Canon USA and their officers and employees against any loss, liability or expense due to personal injury, death or property damage arising out of Dealer's business. Canon USA shall be named as an additional insured in such policy, and Dealer shall promptly provide Canon USA with adequate proof of coverage at Canon USA's request.

13. DEALER'S FINANCIAL CONDITION

Dealer agrees to furnish, from time to time when requested by Canon USA, a full and detailed statement of Dealer's business and operations (but only to the extent it relates to the dealership created hereby), and certified (or verified) copies of Dealer's then current balance sheet and profit and loss statement. Dealer also agrees to maintain such net working capital, net worth and financial resources as may be required to assure proper and complete performance of its obligations under this Agreement. Further, upon at least five (5) days prior written notice to Dealer, Canon USA shall be afforded access to Dealer's premises during normal business hours to enable Canon USA to audit Dealer's Product inventory and verify any Dealer statements or remittances sent to Canon USA.

14. DURATION OF AGREEMENT AND TERMINATION

14.1 Term. The term of this Agreement shall begin on the date it is signed by the General Manager of Canon USA's Business Imaging Solutions Group or by the General Manager of the Business Imaging Solutions Group's Dealer Sales Division, and shall continue thereafter until expiration thereof or until terminated as herein provided. The initial term of this Agreement shall expire on December 31 of the second calendar year after the year in which this Agreement first becomes effective (by way of illustration, the initial term of an Agreement which became effective on January 15, 1999 shall expire on December 31, 2001). Upon expiration of the initial term of this Agreement or of any renewal term, this Agreement shall be automatically renewed for an additional two (2) year term unless either party gives to the other party, not later than September 30 (or such earlier date as may be required by applicable law) of the year in which the initial or renewal term is to expire, written notice of its election not to renew.

14.2 Termination. In addition to paragraph 2.2 above, this Agreement may be terminated by Canon USA prior to the expiration of its initial term or of any renewal term:

14.2.1 for breach of any provision of this Agreement by Dealer, provided that written notice has been given to Dealer of the alleged breach and Dealer has not cured the breach within thirty (30) days (or such longer period as may be required by applicable law) after delivery of such notice;

14.2.2 if there is a change in the management or control of Dealer which is unacceptable to Canon USA in its sole discretion,

termination to be effective thirty (30) days after delivery of notice to such effect to Dealer or such longer period as may be required by applicable law;

14.2.3 automatically and without notice if Dealer ceases to function as a going concern, becomes insolvent, makes an assignment for the benefit of creditors, files a petition in bankruptcy, permits a petition in bankruptcy to be filed against it, or admits in writing its inability to pay its debts as they mature or if a receiver is appointed for all or a substantial part of its assets; or

14.2.4 upon Canon USA's failure to receive timely payment from Dealer of any Canon USA invoice, such termination to be effective thirty (30) days after delivery of notice to such effect to Dealer, or such longer period as may be required by applicable law, unless Dealer pays in full the invoice amount, and any applicable late charges, within such period.

14.3 Obligations upon Termination. In the event that the Agreement shall be terminated for any cause whatsoever or the term hereof expires without renewal, Dealer agrees that it shall immediately:

14.3.1 cease holding itself out as an authorized retail dealer of the Products and, at Canon USA's option, resell all or any portion of its inventory of the Products to Canon USA at the net price paid therefor, less a reasonable allowance for depreciation and handling fees to be determined by Canon USA;

14.3.2 refrain from exercising or attempting to exercise any right or privilege granted to it under this Agreement, and cease to act for Canon USA with respect to any Strategic Account, Government Account, and/or Special Account customers;

14.3.3 discontinue its use of and relinquish any and all rights to any name, trade name or trademark which Canon USA has authorized or permitted it to use under this Agreement or in connection with the retail dealership created hereby;

14.3.4 remove all signs, names, insignias, logotypes, telephone directory listings and advertisements and any other material which identify it as an authorized Canon retail dealer of the Products; and

14.3.5 at Canon USA's election, return or destroy any promotional, advertising or technical material bearing such designations, and Canon USA's service manuals, parts lists and other material furnished to Dealer free of charge for Dealer's use during the term of this Agreement.

14.4 Post-Termination Product Deliveries. Termination or expiration of the term hereof without renewal shall automatically operate as a cancellation of any deliveries of Products to Dealer which are scheduled to be made subsequent there-to, whether or not any orders for the Products were previously confirmed by Canon USA. If Canon USA elects to fill any of Dealer's orders after notice of termination has been given, all such sales and deliveries made to Dealer prior to the expiration of the applicable cure period shall be upon a cash-on-delivery basis.

14.5 Post-Termination Service Obligations. Effective upon termination of this Agreement, Dealer shall not describe itself as an authorized service facility for the Products. However, notwithstanding paragraph 14.3 above, Dealer's obligations under paragraph 3.1 above shall survive the termination of this Agreement as to Products sold or rented by it pursuant to this Agreement and as to Products for which Dealer continues to act as a service representative under Canon USA's Federal Supply Contract and its Government Account, Strategic Account and Special Account Programs. For so long as such obligations shall survive, Canon USA shall sell to Dealer, at Canon USA's prices in effect from time to time (but without giving effect to special pricing or other promotional programs available only to authorized dealers) and on such credit terms as Canon USA may establish for Dealer from time to time, such types and quantities of supplies, spare parts and service tools as Canon USA deems necessary for Dealer to perform such service obligations. Dealer's obligations to service such Products, and its authorization under this paragraph 14.5 to perform such servicing, may be terminated at any time by Canon USA in its sole discretion upon written notice to Dealer, and Canon USA may then notify Dealer's end-user customers of alternative authorized service facilities.

14.6 Survival. Neither expiration without renewal of any term hereof nor termination hereof shall relieve either party of obligations incurred prior thereto or of any obligation which by its terms is to take effect upon termination.

15. CHOICE OF LAW; DISPUTE RESOLUTION

15.1 Choice of Law. THIS AGREEMENT IS MADE WITHIN THE STATE OF NEW YORK AND SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO ITS CONFLICT OF LAWS PRINCIPLES.

15.2 Mediation of Certain Disputes. IF A DISPUTE ARISES AS A RESULT OF THE TERMINATION OR NON-RENEWAL OF THIS AGREEMENT PURSUANT TO PARAGRAPHS 2.2 OR 14 ABOVE, AND IF SUCH DISPUTE CANNOT BE SETTLED THROUGH NEGOTIATION, THE PARTIES AGREE FIRST TO ATTEMPT IN GOOD FAITH TO RESOLVE THE DISPUTE BY MEDIATION IN NEW YORK ADMINISTERED BY THE AMERICAN ARBITRATION ASSOCIATION UNDER ITS COMMERCIAL MEDIATION RULES, BEFORE RESORTING TO LITIGATION. THE COSTS OF SUCH MEDIATION SHALL BE BORNE EQUALLY BY CANON USA AND DEALER.

15.3 Exclusive Jurisdiction and Venue. DEALER HEREBY IRREVOCABLY AND UNCONDITIONALLY:

(a) AGREES THAT ANY AND ALL ACTIONS, SUITS OR OTHER LEGAL PROCEEDINGS, WHETHER OR NOT ARISING UNDER THIS AGREEMENT AND REGARDLESS OF THE LEGAL THEORY UPON WHICH THE CLAIMS ARE BASED, MAY BE BROUGHT BY DEALER AGAINST CANON USA ONLY IN A STATE OR FEDERAL COURT SITUATED WITHIN THE STATE OF NEW YORK, AND CONSENTS TO THE EXCLUSIVE JURISDICTION OF SUCH COURTS IN ANY SUCH LEGAL PROCEEDING,

(b) CONSENTS TO THE NON-EXCLUSIVE JURISDICTION OF THE STATE AND FEDERAL COURTS SITUATED WITHIN THE STATE OF NEW YORK IN ANY AND ALL ACTIONS, SUITS OR OTHER LEGAL PROCEEDINGS BROUGHT AGAINST IT BY CANON USA, AND AGREES THAT SERVICE OF PROCESS IN ANY SUCH LEGAL PROCEEDING MAY BE EFFECTED IN ACCORDANCE WITH THE STATUTES OF NEW YORK AND THE UNITED STATES, AS APPROPRIATE, AND

(c) WAIVES ANY OBJECTION IT MAY NOW OR HEREAFTER HAVE TO THE VENUE OF ANY SUCH LEGAL PROCEEDING IN ANY SUCH COURT.

15.4 Limitations Period. DEALER AGREES THAT ANY SUIT BETWEEN THE PARTIES, OTHER THAN FOR PAYMENT OF THE PURCHASE PRICE OF THE PRODUCTS OR FOR INDEMNIFICATION UNDER PARAGRAPH 12 OF THIS AGREEMENT, SHALL BE COMMENCED, IF AT ALL, WITHIN ONE (1) YEAR OF THE DATE THAT THE CAUSE OF ACTION ACCRUES.

15.5 Waiver of Jury Trial. EACH PARTY HERETO HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES TRIAL BY JURY IN ANY ACTION, SUIT OR OTHER LEGAL PROCEEDING BETWEEN THEM, WHETHER OR NOT ARISING UNDERTHIS AGREEMENT AND REGARDLESS OF THE LEGAL THEORY UPON WHICH THE CLAIMS ARE BASED.

16. GENERAL

16.1 Force Majeure. Neither Canon USA nor Dealer shall be in default of any obligation under this Agreement due to circumstances beyond its reasonable control, including but not limited to governmental acts or directives (official or unofficial), strikes (legal or illegal), acts of God, war (declared or undeclared), insurrection, riot or civil commotion, fires, flooding or water damage, explosions, embargoes, or delays in manufacturer's or supplier's furnishing of products or materials.

16.2 Compliance with Applicable Laws. Nothing contained in this Agreement shall be construed to permit or require either party to do any act or thing in contravention of any law or regulation of the United States or of any agency or instrumentality of the United States or any of the various states. Canon USA and Dealer mutually agree to comply with all laws and regulations applicable to it in connection with the sale and marketing of Products contemplated by this Agreement, and to do all things reasonably necessary in order to enable both or either of them to comply with all such laws and regulations.

16.3 Severability. A judicial determination that any paragraph or subpart of this Agreement is, in whole or in part, invalid shall not affect the enforceability ability of those provisions found not to be invalid. Nor shall a judicial determination that such clauses are not enforceable in a particular jurisdiction preclude Canon USA from seeking to enforce them in another jurisdiction.

16.4 Notices. All notices to be sent pursuant to the terms of this Agreement relating to disputes arising under, or to non-renewal or termination of, this Agreement shall either be sent by registered or certified mail, return receipt requested, or delivered personally to the attention of (a) the General Manager of the Dealer Sales Division of Canon USA's Business Imaging Solutions Group or (b) the President or duly authorized representative of Dealer, at their respective addresses on the first page of this Agreement. All other notices or communications required or permitted to be sent pursuant to the terms of this Agreement shall be ineffective unless in writing and signed by the party sending such notice or communication.

16.5 Limitation of Damages. Under no circumstances shall either party have any liability to the other party for any lost profits or for any indirect, special or consequential damages, however caused and whether arising under contract, tort or other theory of liability.

16.6 Entire Agreement. This Agreement constitutes the entire agreement between the parties, superseding all previous proposals, oral or written. This Agreement shall not be modified or amended unless in writing and signed by the General Manager of Canon USA's Business Imaging Solutions Group or the General Manager of the Business Imaging Solutions Group's Dealer Sales Division.

IN WITNESS WHEREOF, the parties have caused this Agreement to be signed by their duly authorized and empowered officers or representatives as of the respective dates set forth below.

Hunter Business System of Delaware LLC (Dealer Name)	**Canon U.S.A., Inc., Business Imaging Solutions Group**
Signature [signature] MM 12/27/12	Signature [signature]
Please print name Steve Martin	Please print name Junichi Yoshitake
Title President	Title Sr. Vice President
Date 12/27/2012	Date 12-28-2012

EXHIBIT "B"

Canon

Canon U.S.A., Inc.
One Canon Park
Melville, NY 11747
Tel: 631.330.5000

DIRECT DIAL: (631) 330-5631

August 30, 2021

Via Certified Mail, Return Receipt Requested

Steve Martin
President
Hunter Business Systems of Delaware LLC
307 Gravel Hill Road
Monroe, NJ 08831

Re: Notice of Termination of Office Imaging Retail Dealer Agreement between Canon U.S.A., Inc. and Hunter Business Systems of Delaware LLC

Dear Mr. Martin:

Please be advised that Canon U.S.A., Inc. (Canon USA") hereby provides notice that it is exercising its contractual right to terminate of the Office Imaging Retail Dealer Agreement between Canon USA and Hunter Business Systems of Delaware LLC ("Dealer") dated December 28, 2012 (the " Retail Dealer Agreement") pursuant to Section 14.2 thereof. You have materially breached the Retail Dealer Agreement:

1. By failing and refusing to comply with an audit as set forth in Section 13 which requires that you "furnish, from time to time when requested by Canon USA, a full and detailed statement of Dealer's business and operations...and afford[ing] access...to enable Canon USA to audit Dealer... and verify any Dealer statements or remittances sent to Canon USA"; and
2. By selling aftermarket products at wholesale in violation of Section 1.1 which provides in pertinent part that "Dealer agrees to perform a retail function only (that is, marketing the Products solely to end-users who are unaffiliated with Dealer and who acquire Products solely for their own use) and Dealer shall not sell any Products to other dealers or other remarketers."

Termination of the Retail Dealer Agreement is effective immediately (the "Termination Date") since the material breach referenced in point 2 above is not curable.

Canon USA further informs Dealer that as of the Termination Date, Canon USA shall cease:

(i) Its sale to Dealer of Canon-brand business equipment and accessories, spare parts, and supplies for such equipment;

(ii) Its provision to Dealer of support, including technical support, training, and access to online service and support portals offered to its authorized retail dealers; and

(iii) Its provision to Dealer of the ability to participate in promotional marketing, pricing, and other programs offered to its authorized retail dealers.

To be clear, the cessation of such sales, support, service, and participation in promotional programs shall be effective as of the Termination Date. Accordingly, any obligations that Dealer may have pursuant to Sections 2.1 and 3.1 of the Retail Dealer Agreement, including, without limitation, (i) any obligation to provide service for products sold, rented, or serviced by it, and (ii) any obligation to adhere to certain service standards, shall be terminated, effective as of the Termination Date. Canon certifications for any and all service representatives, technicians and/or system consultants shall likewise be terminated as of the Termination Date.

B

In accordance with the terms and conditions of the Retail Dealer Agreement, Canon USA reminds Dealer that it must immediately, as of the Termination Date:

(i) Cease holding itself out as an authorized Canon retail dealer of, and/or authorized service provider for, Canon-brand business equipment;

(ii) Refrain from exercising or attempting to exercise any right or privilege granted to it under the Retail Dealer Agreement, including, if applicable, purporting to act on behalf of Canon USA with respect to any Canon USA Strategic Account, Government Account, and/or Special Account customers;

(iii) Cease its use of, and relinquish any and all rights to, any name, trade name, or trademark which Canon USA has authorized or permitted Dealer to use in connection with its authorized retail dealership;

(iv) Remove all names, marks, logos, insignias, signs, telephone directory listings, advertisements, statements on websites, and any other material that identifies Dealer as an authorized Canon retail dealer of, and/or authorized service provider for, Canon-brand business equipment;

(v) Destroy any and all materials provided to Dealer by Canon USA, including, but not limited to, any confidential information of Canon USA, promotional materials, technical materials, service manuals, product literature, reseller price lists, customer sales lists, and/or sales leads; and

(vi) Return all demonstration and/or loaner units previously provided by Canon USA to Dealer free of charge, if any.

To the extent that Dealer wishes to dispute any of the matters addressed in this letter, or any other matters arising from its termination as an authorized retail dealer, Section 15.2 of the Retail Dealer Agreement obligates Dealer to refrain from commencing litigation prior to seeking to resolve any such dispute by engaging in mediation in the State of New York under the auspices of the American Arbitration Association.

The statements in this letter are made without prejudice to any and all of Canon USA's rights pursuant to the Retail Dealer Agreement and/or under applicable law. Canon USA expressly reserves all such rights.

Sincerely,

CANON U.S.A., INC.

M.O.

Shinichi (Sam) Yoshida
Executive Vice President and General Manager
Business Information Communications Group

SEAN E. REGAN, ESQ. – 045651991
GIORDANO, HALLERAN & CIESLA, P.C.
125 Half Mile Road, Suite 300
Red Bank, N.J. 07701-6777
(732) 741-3900
Attorneys for Plaintiff, Hunter Business Systems of Delaware, LLC

HUNTER BUSINESS SYSTEMS OF DELAWARE, LLC, Plaintiff, v. CANON U.S.A, INC, Defendant.	SUPERIOR COURT OF NEW JERSEY CHANCERY DIVISION: GEN. EQ. MIDDLESEX COUNTY DOCKET NO. ~~MON-C~~ MID - C - 141 - 21 Civil Action **ORDER TO SHOW CAUSE WITH TEMPORARY RESTRAINTS SEEKING PRELIMINARY INJUNCTION PURSUANT TO R. 4:52-1**

This matter having been brought before the Court by Giordano Halleran & Ciesla, P.C., attorneys for Plaintiff, Hunter Business Systems, LLC ("*Plaintiff*" or "*Hunter*"), seeking relief by way of preliminary interlocutory relief pursuant to R. 4:52-1, and based upon the facts set in the Verified Complaint and Certification of Steven Martin, and the exhibits thereto, and brief in support filed herewith; and it appearing that defendant Canon U.S.A., Inc. ("*Canon"* or "*Defendant*") has notice of this application; and for good cause shown.

It is on this _____ day of _____ *ORDERED* that Defendant appear and show cause before the Superior Court of New Jersey at the Middlesex County Courthouse, at 56 Paterson Street, PO Box 964, 3rd Floor, New Brunswick, New Jersey, 08903-0964 at _____ o'clock in the _____ noon, or as soon thereafter as counsel can be heard, on the ____ day of October, 2021, why an Order should not be entered as follows:

A. Temporarily and Preliminarily enjoining and restraining Defendant from terminating Plaintiff's rights as a dealer to purchase, sell, and service Defendant's

products pursuant to the Office Imaging Dealer Agreement (described in the Verified Complaint "Agreement" or "Dealer Agreement");

B. Temporarily and Preliminarily enjoining and restraining Defendant from not fulfilling its obligations per the Agreement, and requiring Defendant to fill all purchase orders for products, equipment and parts;

C. Temporarily and Preliminarily enjoining and restraining Defendant from removing Plaintiff from any lists, publications and website, and from denying Plaintiff access to ordering, and emails relating to the purchasing marketing, sale and installation of Defendant products;

D. Declaring and affirming that Plaintiff is not in default under the Dealer Agreement, and that Defendant is not entitled to terminate Plaintiff under any of the Dealer Agreement;

E. Declaring that Plaintiff is a franchise entitled to the protection of the New Jersey Franchise Practices Act, N.J.S.A. 56:10-1, *et seq.* and declaring further that the purported termination of the franchise was not for good cause and did not otherwise comply with the provisions of N.J.S.A. 56:10-5 thereby rendering the purported termination null and void; and

F. Awarding compensatory, consequential and punitive damages, attorneys' fees and such other relief as the Court deems fair, equitable and just.

And it is further *ORDERED* that pending the return date herein, Defendant is temporarily enjoined and restrained from:

A. Terminating Plaintiff's rights as a dealer to purchase, sell, and service Defendant's products pursuant to the Agreement;

B. Not fulfilling its obligations per the Agreement, and requiring Defendant to fill all purchase orders for products, equipment and parts; and

C. Removing Plaintiff from any lists, publications and website, and from denying Plaintiff access to ordering, and emails relating to the purchasing marketing, sale and installation of Defendant products.

And it is further *ORDERED* that:

1. Defendant may move to dissolve or modify the temporary restraints herein contained on two (2) days' notice to Plaintiff's attorney.

2. A copy of this Order to Show Cause, Verified Complaint, legal memorandum and any supporting Affidavits or Certifications submitted in support of this application be served upon the defendant within ___ days of the date hereof, in accordance with R. 4:4-3 and R. 4:4-4, this being original process.

3. Plaintiff must file with the court its proof of service of the pleadings on Defendant no later than three (3) days before the return date.

4. Defendant shall file and serve a written response to this Order to Show Cause and the request for entry of injunctive relief and proof of service by _____, 2021. The original documents must be filed with the Clerk of the Superior Court in the county listed above. A list of these offices is provided and is available online at http://www.judiciary.state.nj.us/prose/1053_deptyclerklawref.pdf. You must send a copy of your opposition papers directly to Judge _____, whose address is _____, New Jersey. You must also send a copy of your opposition papers to Plaintiff's attorney whose name and address appear above, or to Plaintiff, if no attorney is named above. A telephone call will not protect your rights; you must file your opposition and pay the

required fee of $____ and serve your opposition on your adversary, if you want the Court to hear your opposition to the injunctive relief Plaintiff is seeking.

5. Plaintiff must file and serve any written reply to Defendant's Order to Show Cause opposition by _____, 2021. The reply papers must be filed with the Clerk of the Superior Court in the county listed above and a copy of the reply papers must be sent directly to the chambers of Judge _____.

6. If Defendant does not file and serve opposition to this Order to Show Cause, the application will be decided on the papers on the return date and relief may be granted by default, providing that Plaintiff files a proof of service and a proposed form of order at least three (3) days prior to the return date.

7. If Plaintiff has not already done so, a proposed form of Order addressing the relief sought on the return date (along with a self-addressed return envelope with a return address and postage) must be submitted to the Court no later than three (3) days before the return date.

8. Defendant take notice that Plaintiff has filed a lawsuit against you in the Superior Court of New Jersey. The Verified Complaint attached to this Order to Show Cause states the basis of the lawsuit. If you dispute this complaint, you, or your attorney, must file a written Answer to the Complaint and proof of service within 35 days from the date of service of this Order to Show Cause, not counting the day you received it.

These documents must be filed with the Clerk of the Superior Court in the county listed above. A list of these offices is provided. Include a $_____ filing fee payable to the "Treasurer State of New Jersey." You must also send a copy of your Answer to the Plaintiff's attorney whose name and address appear above, or to the plaintiff, if no attorney is named above. A telephone call will not protect your rights; you must file and serve your Answer (with the fee) or judgment

may be entered against you by default. Please note: Opposition to the Order to Show Cause is not an Answer and you must file both. Please note further: if you do not file and serve an Answer within 35 days of this Order, the Court may enter default against you for the relief Plaintiffs demand.

9. If you cannot afford an attorney, you may call the Legal Services office in the county in which you live. A list of these offices is provided. If you do not have an attorney and are not eligible for free legal assistance, you may obtain a referral to an attorney by calling one of the Lawyer Referral Services. A list of these numbers is also provided.

10. The Court will entertain argument, but not testimony, on the return date of the Order to Show Cause, unless the Court and parties are advised to the contrary no later than ___ days before the return date.

_____
HON.

ATLANTIC COUNTY: Deputy Clerk of the Superior Court LAWYER REFERRAL Civil Division, Direct Filing (609) 345-3444 1201 Bacharach Blvd., First Fl. LEGAL SERVICES Atlantic City, NJ 08401 (609) 348-4200	**BERGEN COUNTY:** Deputy Clerk of the Superior Court LAWYER REFERRAL Case Processing Section, Room 119 (201) 488-0044 Justice Center, 10 Main St. LEGAL SERVICES Hackensack, NJ 07601-0769 (201) 487-2166
BURLINGTON COUNTY: Deputy Clerk of the Superior Court LAWYER REFERRAL Central Processing Office (609) 261-4862 Attn: Judicial Intake LEGAL SERVICES First Fl., Courts Facility (609) 261-1088 49 Rancocas Rd. Mt. Holly, NJ 08060	**CAMDEN COUNTY:** Deputy Clerk of the Superior Court LAWYER REFERRAL Civil Processing Office (856) 964-4520 1st Fl., Hall of Records LEGAL SERVICES 101 S. Fifth St (856) 964-2010 Camden, NJ 08103
CAPE MAY COUNTY: Deputy Clerk of the Superior Court LAWYER REFERRAL 9 N. Main Street (609) 463-0313 Box DN-209 LEGAL SERVICES Cape May Court House, NJ 08210 (609) 465-3001	**CUMBERLAND COUNTY:** Deputy Clerk of the Superior Court LAWYER REFERRAL Civil Case Management Office (856) 692-6207 Broad & Fayette Sts., P.O. Box 615 LEGAL SERVICES Bridgeton, NJ 08302 (856) 451-0003
ESSEX COUNTY: Deputy Clerk of the Superior Court LAWYER REFERRAL 50 West Market Street (973) 622-6207 Room 131 LEGAL SERVICES Newark, NJ 07102 (973) 624-4500	**GLOUCESTER COUNTY:** Deputy Clerk of the Superior Court LAWYER REFERRAL Civil Case Management Office (856) 848-4589 Attn: Intake LEGAL SERVICES First Fl., Court House (856) 848-5360 1 North Broad Street., P.O. Box 129 Woodbury, NJ 08096
HUDSON COUNTY: Deputy Clerk of the Superior Court LAWYER REFERRAL Superior Court, Civil Records Dept. (201) 798-2727 Brennan Court House - 1st Floor LEGAL SERVICES 583 Newark Ave. (201) 792-6363 Jersey City, NJ 07306	**HUNTERDON COUNTY:** Deputy Clerk of the Superior Court LAWYER REFERRAL Civil Division (908) 735-2611 65 Park Avenue LEGAL SERVICES Flemington, NJ 08822 (908) 782-7979
MERCER COUNTY: Deputy Clerk of the Superior Court LAWYER REFERRAL Local Filing Office, Courthouse (609) 585-6200 175 South Broad St., P.O. Box 8068 LEGAL SERVICES Trenton, NJ 08650 (609) 695-6249	**MIDDLESEX COUNTY:** Deputy Clerk of the Superior Court LAWYER REFERRAL Administration Building (732) 828-0053 Third Floor LEGAL SERVICES 1 Kennedy Sq., P.O. Box 2633 (732) 249-7600 New Brunswick, NJ 08903-2633

MONMOUTH COUNTY: Deputy Clerk of the Superior Court LAWYER REFERRAL 71 Monument Park (732) 431-5544 P.O. Box 1269 LEGAL SERVICES Freehold, NJ 07728-1269 (732) 866-0020	**MORRIS COUNTY:** Deputy Clerk of the Superior Court LAWYER REFERRAL Civil Division (973) 267-5882 30 Schuyler Pl., P.O. Box 910 LEGAL SERVICES Morristown, NJ 07960-0910 (973) 285-6911
OCEAN COUNTY: Deputy Clerk of the Superior Court LAWYER REFERRAL Court House, Room 119 (732) 240-3666 118 Washington Street LEGAL SERVICES Toms River, NJ 08754 (732) 341-2727	**PASSAIC COUNTY:** Deputy Clerk of the Superior Court LAWYER REFERRAL Civil Division (973) 278-9223 Court House LEGAL SERVICES 77 Hamilton St. (973) 345-7171 Paterson, NJ 07505
SALEM COUNTY: Deputy Clerk of the Superior Court LAWYER REFERRAL 92 Market St., P.O. Box 18 (856) 935-5628 Salem, NJ 08079 LEGAL SERVICES (856) 451-0003	**SOMERSET COUNTY** Deputy Clerk of the Superior Court LAWYER REFERRAL Civil Division Office (908) 685-2323 New Court House, 3rd Fl. LEGAL SERVICES P.O. Box 3000 (908) 231-0840 Somerville, NJ 08876
SUSSEX COUNTY Deputy Clerk of the Superior Court LAWYER REFERRAL Sussex County Judicial Center (973) 267-5882 43-47 High Street LEGAL SERVICES Newton, NJ 07860 (973) 383-7400	**UNION COUNTY** Deputy Clerk of the Superior Court LAWYER REFERRAL 1st Fl., Court House (908) 353-4715 2 Broad Street LEGAL SERVICES Elizabeth, NJ 07207-6073 (908) 354-4340
WARREN COUNTY Deputy Clerk of the Superior Court LAWYER REFERRAL Civil Division Office (973) 267-5882 Court House LEGAL SERVICES 413 Second Street (973) 475-2010 Belvidere, NJ 07823-1500	

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Attorneys for Plaintiff, Hunter Business Systems of Delaware, LLC

HUNTER BUSINESS SYSTEMS OF DELAWARE, LLC Claimant, v. CANON U.S.A, INC. Respondents.	SUPERIOR COURT OF NEW JERSEY LAW DIVISION MIDDLESEX COUNTY DOCKET NO. MID-C-141-21 Civil Action **CERTIFICATION OF STEVEN MARTIN**

I, **STEVEN MARTIN,** do hereby certify in lieu of affidavit as follows:

1. I am the managing member and 99% owner of Hunter Business Systems of Delaware, LLC ("Hunter"), and Laser Tone, LLC ("Laser Tone").

2. Hunter and Laser Tone both hold Office Imaging Retail Dealer Agreements ("Agreement(s)," "Dealer Agreement" or "Franchise(s)") with Canon U.S.A. ("Canon"). **See** Hunter Agreement attached as **Exhibit A**.

3. Canon is 100% owned by Canon Inc., a Japanese based international multi-billion dollar a year company.

4. On July 15, 2021 Canon requested an "audit," and Hunter complied. **See Exhibit B** (actual financials are redacted).

5. Nevertheless, on August 31, 2021, Canon terminated Hunter's and Laser Tone's franchises as a Canon dealers. **See Exhibits C and D**, termination letters.

6. Hunter previously did business with Canon as Hunter Office Systems, LLC having been granted a dealer agreement in 1995. I began doing business as Hunter after an ownership

change at HOS, and I did a recapitalization of sorts in 2005. (Collectively HOS and Hunter are referred to as "Hunter").

7. Hunter's first dealer agreement with Canon was in 1995. Overall, I have been a Canon franchisee for over 25 years.

8. Hunter's business is in New Jersey.

9. In the 25 years that I have been in business I have invested through Hunter in the Canon brand, and my franchise has flourished. So much have I succeeded on behalf of Canon that in 2008 when I requested another franchise for Laser Tone to cover the State of Delaware it was given to me. Laser Tone is the only authorized dealer in the state.

10. Hunter has won numerous awards from Canon, and was, among other things a "Top Dealer" in 2016, and was recognized as an "Outstanding Partner" in 2013, 2014 and 2017. These awards are given to the best Canon Dealers, and those who make Canon the most money. I strive to make Hunter that Top Dealer, and "Outstanding Partner" every year. **See Exhibit E.**

11. Very early on I used to sell fax machines to ships that were located in the New York harbor in route to Red Hook Staten Island or Port Elizabeth. One thing led to another, and through hard work, and investment of millions of dollars, my business grew to a multimillion-dollar Canon sales and service business with 18 employees.

12. The fax machine business is now essentially gone. But from those early years I developed a good book of business, and grew and grew it so that Hunter now sells on average approximately $3,000,000 and more worth of equipment and services a year, over 95% of which is Canon.

13. Hunter sells other products for customers that have computer systems incompatible with Canon equipment, or have needs that are not able to be filled with Canon products. Copiers and printers are now networked into office computer systems and software, and Canon does not

support certain software. Thus, I sell Lexmark to customers who have different software needs, and Ricoh equipment is sold mostly to engineering type of customers. This makes up less than 5% of Hunter's sales.

14. Since 1995 I have invested my entire profession full time work into my Canon franchises.

15. Through Hunter I have also invested in computers, and sales software that Canon requires "eauomate," required Canon marketing materials, manuals, and service training. Hunter has purchased millions of dollars' worth of parts and supplies since 1995, and have a parts of inventory of approximately $500,000.

16. Significantly, since 1995 Hunter likely purchased directly from Canon over $10,000,000 in the past five or six years alone, equipment and parts for inventory to resell to customers. Even in 2020 and 2021 during the COVID-19 pandemic we were required to purchase $1,700,000 as minimums just to get competitive pricing.

17. Being a Canon franchisee and dealer is not easy. Yes, they have a superior product that is easy to maintain, and they provide national advertising. But, Canon's products are more expensive than other brands, they require franchisee's to purchase higher minimums to get competitive pricing, and Cannon does not offer much support. Pricing is important because Canon has its own sales arm that I have to compete with in the marketplace. At times Canon threatens both franchisees and their own sales managers with retribution to protect its sales arm, or if you ask any questions, provide any suggestions, or go slightly outside of the box of "the Canon way things are done."

18. Canon requires that dealers like Hunter buy minimum amounts of certain copier products each year in order to move them from Canon's warehouse to the "sold" column on Canon's ledger sheet. These copiers are "sold" to me, Hunter, before I even have a customer.

Canon produces no sales leads, nor customer referrals. Therefore, the equipment and products Hunter purchases sit in my facility until I get a sales order from a customer. This is costly because Canon sells to Hunter FOB Canon's dock, meaning I must pick-up the products in my own truck or hire a trucking company to pick-up, and then put it in my own warehouse inventory. Canon does not deliver, and Hunter has to pay a third-party an additional delivery cost if it does not pick-up the equipment itself. The necessity to by large quantities of good, and pay for delivery leads to higher costs of sale.

19. Because my customers only have the need for one or two items at a time I do not have a tractor trailer. Hunter has a step van. To reduce the pickup costs, I invested in business real estate in Monroe Township, the same town the Canon is located in. Hunter has a building with combined warehouse and office space only a few miles from the Canon distribution center on the corner of Ridge Road and Cranberry Road in Monroe, New Jersey. That investment cost over $700,000.

20. Canon's advertisement is right up there on the marque sign of my old building. Hunter has since moved a mile or two down the road to a new bigger facility in Monroe, New Jersey. I was planning on a new sign at the new facility as well.

21. Canon sets annual minimum purchase and sales requirement for Hunter, and other franchisees. Hunter (which is treated as one purchasing unit with Laser Tone) is required to purchase a minimum of $2,000,000 from Canon each year. The consequences of not doing so are: you do not get competitive pricing, i.e., you pay more for the product to the point where you are unable to compete in the marketplace.

22. Hunter purchased its minimum requirements for the past few years as follows:

a. 2018 $2,000,000.

b. 2019 $2,000,000.

c. 2020 $1,700,000 (with a COVID reduction, and additional COVID exceptions applied).

d. 2021 $1,700,000 (with a COVID reduction).

This means Hunter paid to Canon the above minimum amounts, $7.4 million.

23. This is a big commitment every year, and became increasing difficult during the COVID pandemic.

24. Canon's sales in early 2020 are reported to have dropped 25%. See **Exhibit F** Canon 10K and news articles. Sales for Hunter in 2020 dropped approximately 15% or more from 2018 and 2019 totals. Yet, Hunter still had high minimum purchase requirement in 2020 and 2021.

25. Hunter and I are first and foremost known in the marketplace as a Canon copier sales franchisee.

26. My company vehicles all have lettering that states: "Canon Authorized Dealer", or some notation of being a Canon Dealer. See **Exhibit G**.

27. All of my employees wear "Canon" golf shirts and T-shirts at times.

28. Canon does not provided these or any promotional items to me. Canon allows me to purchase them from "Canon," or create the same at my cost so I can advertise for them.

29. For marketing purposes, I used to be required to purchase from Canon product, brochures, and glossy pamphlets and inserts, and product information. Now Hunter has to down load it and print it at its own cost.

30. Canon also assigns a Sales Manager to Hunter and Laser Tone. His job is to update Hunter as to pricing, new products, etc., and work with Hunter to meet its minimum purchase requirements, and increase Canon sales. He has not visited my office for the entire year of 2020, and I have yet to have him visit my office this year.

31. Canon's sales manager did advise that only serial coded numbered equipment and products should not be sold wholesale. Toner is not a serial coded item, and in any event I did not sell wholesale.

32. Hunter is also required to get training as to each and every piece of equipment Canon offers for sale, otherwise I am not entitled to sell that product. These training sessions are costly, and cover everything from sales to maintenance. I have to pay my employees to attend these training sessions during which time they are out of the field not billing a client. Not only do I have to pay my employees for attending, but Canon does not provide any travel or lodging expenses. Many times these trainings schools are located in outside of New Jersey. It costs thousands of dollars to have one employee attend any one session.

33. If Hunter does not send an employee to attend the Canon training, then Hunter does not get to sell that piece of equipment.

34. Once trained on equipment, any piece sold by Hunter requires Hunter to provide Canon's warranty service free of charge for 90 days. This too is costly as Hunter, not Canon, pays my maintenance and repair employees.

35. The COVID crisis hurt Hunter, and Canon. Imagine you are in the office equipment business, and your livelihood depends upon selling equipment to offices. But, all offices in the state of New Jersey were closed. Customers were not using, and did not need new office equipment. Canon and Hunter were in the same dilemma. Yet, Canon required that Hunter purchased $1,700,000 of equipment, and it has.

36. I pay attention to Canon's overall performance as my and Hunter's livelihood depends upon it. Canon, Inc.'s annual 10K, and other reports note that United States sales are reported to have dropped 25% in the first quarter of 2020. It is also reported that in 2020 sales

revenue fell in the U.S. by 17.2%, and imaging (the product at issue), 11.8%. **See Exhibit F,** portions of Canon, Inc. 10K, and articles.

37. Several of my employees came down with COVID 2020. All of my employees and salespeople worked from home for several months during the COVID-19 pandemic of 2020, or were furloughed. When they could, particularly maintenance personal who had to come to the office to get parts and supplies, they came to the office only when others were not present. But, for the most part sales employees were remote.

38. Things looked desperate in 2020. In about May 2020 an employee of Hunter, who was working remotely, sold toner to a customer. This sale was specifically approved by Canon, and was drop shipped to the customer.

39. When a question came up as to certain toner sales I communicated with Canon. In May, 2020 I communicated with Saji "Brad" Yoshihito, and Jerry Hsiao, Canon's Sr. Manager, Business Planning Enterprise & Desktop Solution Division. They communicated with me about orders of toner. We talked through email and on the telephone. I understood that Canon and was also concerned about dropping sales numbers. See **Exhibit H email chain**.

40. I told Brad by email on May 21, 2020, after an inquiry from him: "I have most of my company employees on furlough. My wife has been furloughed and the kids are home from college, and everyone is helping to keep the doors open. I have orders in and can fill and my customers have been supportive. At this time, my company needs to survive in any way possible. **If that is selling copiers, toner, printer etc., I have to do it. I order product and need them, and can deliver them and keep my doors open. If you can use the business, fill the orders, if you can't I will cancel the POs tomorrow at 12."** Id., page 2.

41. Brad filled the orders. He filled the order by drop shipping it directly to the customer(s). Hunter never took possession. Canon knew all along the customer's name, and where the product was being shipped.

42. Over a year later, despite the transparency of the above-referenced order and Canon's express approval, Canon requested an "audit". **See Exhibits B** and **I**, email dated July 15, 2021 and letter dated July 28, 2021.

43. The franchisee agreement states in pertinent part: in Section 13 of the Dealer Agreement titled "Dealer's Financial Condition":

> Dealer agrees to furnish, from time to time when requested by Canon, U.S.A., a full and **detailed statement of Dealer's business and operations** (but only to the extent it relates to the dealership created hereby), and certified (or verified) copies of Dealer's then **current balance sheet and Profit and Loss Statement**. Dealer also agrees to work to maintain such net working capital, net worth and financial resources as may be required to assure proper and complete performance of its operations under this agreement. Further, upon at least five (5) days prior written notice to Dealer, Canon, U.S.A. shall be **afforded access to Dealer's premises** during normal business hours to enable Canon to **audit Dealer's product inventory and verify any dealer's statements or remittances sent to Canon U.S.A. (See Exhibit A.)**

44. In its email and letter of July 28, 2021 (part of the email was attached to the letter) Canon asked for more than the Dealer Agreement required in Section 13. Section 13 allows Canon to request a "**detailed statement of Dealer's business and operations** (but only to the extent it relates to the dealership created hereby), and certified (or verified) copies of Dealer's then **current balance sheet and Profit and Loss Statement**." Canon asked, however, for more than the current balance sheet and Profit and Loss Statement. Canon asked for customer information, customer lists and customer contracts.

45. I provided the information required by the Dealer Agreement, i.e., the current balance sheet and the Profit and Loss Statement, and invited Canon to come to my office and perform the inventory audit as stated in Section 13 of the Dealer Agreement. **See Exhibit B**.

46. Hunter also offered Canon the opportunity to set an appointment upon at least five (5) days prior written notice to Hunter in order to "audit Dealer's product inventory and verify any dealer statements or remittances sent to Canon" at Hunter's premises per the Agreement.

47. No one came, and Canon did not respond to my invitation.

48. Canon asked for "customer" information by requesting:

> …
> 2. System generated report of all Canon sales. This report should include fields such as (but not limited to), customer name, customer address, merchandise item number, merchandise item description, sales amount, etc.
> 3. System generate[d] report of all Canon machines that are currently and have been serviced by either Hunter Business Systems or Laser Tone for the last 4 years with serial numbers, customer address locations.
> - From this report, we will select a sample of signed and executed contracts between with Hunter Business Systems/Laser Tone System and the customer.

See Exhibits B and **I.**

49. While under no obligation to give Canon customer information Hunter still offered to give the requested information upon executing a Non-Disclosure Agreement ("NDA"). See **Exhibits B** and **J,** emails to Canon.

50. To be clear, Hunter did not ever refuse to give the customer information to Canon. Hunter offered to provide the requested customer information if Canon provide an NDA. Canon refused.

51. An NDA was necessary because of the direct competition from Canon's sales arm, Canon Solutions America ("CSA").

52. Canon directly competes in the marketplace with Hunter for the same clients. CSA is a direct competitor in the marketplace for the sale of Canon equipment to end uses, and also provides service and supplies to customers. Canon properly has not requested customers' names, addresses and contracts in the past so as to not interfere in this marketplace competition. Hunter is not required by the Dealer Agreement to disclose its confidential and business proprietary trade secrets, nor to give up its contractual and business advantage and relationships related to any customer, or potential customer.

53. On or about September 3-7, 2021 I received a letter dated August 30, 2021, terminating Hunter, and alleging:

> 2. By failing and refusing to comply with an audit as set forth in Section 13 which requires that you "furnish, from time to time when requested by Canon USA, a full and detailed statement of Dealer's business and operations…and afford[ing] access… to enable Canon USA to audit Dealer… and verify any Dealer statements or remittances sent to Canon USA"; and
>
> 3. By selling aftermarket products at wholesale in violation of Section 1.1 which provides in pertinent part that "Dealer agrees to perform a retain function only (that is, marketing the Products solely to end-users who are unaffiliated with Dealer and who acquire Products solely for their own use) and Dealer shall not sell any Products to other dealers or other remarketers."

54. As set forth herein the above claims are untrue. Canon authorized the sales complained of (to the extent I even know what they are referencing because Canon will not even state the exact facts,) and Hunter did not fail to provide or offer the document requested pursuant to the Dealer Agreement. Hunter did not sell "aftermarket Product at wholesale", and made all sales at high retail business to business margins of 15% or more. In this industry the typical business to business retail markups range from as low as 5% to as high as 50% over any costs to Canon.

55. Hunter is primarily a "business to business" seller, and sells Canon products almost exclusively to small business users. Hunter does have some larger institutional customers as well.

Thus, the "Office Imaging Retail Dealer Agreement" is confusing. Retail is not defined. The term "retail function" is defined as "(marketing the Products solely to end-users who are unaffiliated with Dealer and who acquired Products solely for their own use), and Dealer shall not sell any Products to other dealers or remarketers." See, Agreement Sec. 1.1. Thus, the sale of several pieces at a time to a hospital, doctors group, company or school with multiple divisions while not traditionally considered "retail," i.e., like going to Staples, is a "retail" business sale per the Agreement. The word wholesale is not used or defined in Sec. 1.1, and is not defined in the Agreement.

56. Hunter need to preserve the status quo of being able to purchase, sell, service, and maintain Canon office equipment as I have done for the past 25 years. I have 18 employees all of whom rely upon me, and Hunter's business for their livelihood. Health insurance is also provided to 10 employees and their families. Their livelihoods and health insurance are now in jeopardy if Hunter cannot continue as a franchise of Canon, and they will be left without any means of income or health insurance if Hunter cannot continue with its business

57. Hunter as a Canon franchisee will be out of business if Canon is allowed to run rough-shot over the New Jersey Franchisee Protection Act, and the harm to Hunter, and my employees will be irreparable.

I hereby certify that the foregoing statements made by me are true. I am aware that if any of the foregoing statements made by me are willingly false, I am subject to punishment.

STEVEN MARTIN

Dated: October_4__, 2021

Docs #5321032-v1

EXHIBIT "A"

Canon

CANON U.S.A, INC.
Business Imaging Solutions Group
Cust. Code _____
Dept. Code _____

Office Imaging Retail Dealer Agreement

THIS AGREEMENT made and entered into as of the 17 day of December by and between:

(1) CANON U.S.A., INC., a New York Corporation ("Canon USA") having its principal office at One Canon Plaza, Lake Success, New York 11042-9979; and

(2) Hunter Business Systems of Delaware LLC
(full legal name of Dealer)

a Delaware Corporation. ("Dealer")
(specify type of entity and state of organization)

having its principal place of business at
164 Applegarth Road Monroe NJ 08831
(principal business address)

1. APPOINTMENT

1.1 Appointment as Retail Dealer. Canon USA hereby appoints Dealer as an authorized retail dealer of the CANON® brand office imaging products listed in Schedule A hereto, as the same may hereafter be amended pursuant to the provisions of this Agreement, together with accessories, supplies and spare parts for the Products listed in dealer brochures, catalogues and manuals published by Canon USA from time to time (the "Products"). Dealer agrees to perform a retail function only (that is, marketing the Products solely to end-users who are unaffiliated with Dealer and who acquire Products solely for their own use), and Dealer shall not sell any Products to other dealers or other remarketers.

1.2 Full-Line Dealer. Dealer acknowledges that its appointment hereunder is as a full-line CANON Office Imaging Products Retail Dealer, and Dealer agrees at all times to use its best efforts to market all of the CANON® brand office imaging products which are designated as "Products" for purposes hereof. Dealer further acknowledges that the Products are technically complex office imaging products that, in most cases, are intended to be integrated with CANON and third-party products as part of a systems architecture, and that Dealer's appointment, in addition to its specific responsibilities under paragraphs 2 and 3 below, is based on its commitment to devote its best efforts to effectively market the Products as integrated office solutions to all appropriate end-user markets and on its continuing ability to achieve and maintain high satisfaction by its end-user customers.

1.3 Authorized Sales and Service Locations. Dealer shall sell the Products only from the sales locations listed in Schedule B hereto ("Authorized Sales Locations"), and shall maintain facilities for servicing the Products only at the locations listed in Schedule B hereto ("Authorized Service Locations"). Dealer may delete, or request the addition of, an Authorized Sales Location or an Authorized Service Location at any time on written notice to Canon USA. Canon USA reserves the right to withhold approval of any request by Dealer for addition of a new Authorized Sales or Service Location and to terminate for purposes hereof any Authorized Sales or Service Location's status as such, if in Canon USA's reasonable belief such location is not in compliance with the requirements therefor hereunder or established by Canon USA from time to time pursuant hereto. Upon addition, deletion or termination of a new Authorized Sales or Service Location Canon USA shall submit to Dealer a new Schedule B reflecting such change.

1.4 Dealer as Marketing and Service Representative for Canon USA. Dealer shall act as a marketing and servicing representative for Canon USA under its Strategic Account, Government Account and/or Special Account Programs in effect from time to time, and Dealer agrees to comply with all policies and procedures (including those involving compensation) established by Canon USA from time to time governing participation in and eligibility for such Programs (including, in the case of the Government Account Program, the terms of Canon USA's Federal Supply Schedule Contract in effect from time to time). Customers eligible to participate in the Government Account Program shall be federal, state and local government agencies, public educational and health care institutions and government contractors. Customers in the Strategic Account and Special Account Programs shall consist of such accounts as Canon USA may designate from time to time. Canon USA shall have the right to allocate Strategic Account, Government Account and/or Special Account business among some or all of its dealers for the Products on a reasonable basis.

1.5 Used Products. Canon USA may, from time to time, make available for sale to Dealer used Products returned to Canon USA by end-users under Strategic Account, Government Account or other sales or rental programs. Such used Products shall be considered "Products" for all purposes of this Agreement and the terms of this Agreement shall apply in all respects to Dealer's purchases and marketing of used Products, except as otherwise provided by the terms of Canon USA's used equipment sales programs as may be in effect from time to time.

1.6 Changes in Product Models. Canon USA shall have the right at any time to add or eliminate any Product, each such change to be reflected by deletion of a then-effective Schedule A by substitution of a new Schedule A for the one then in effect, and to make changes in the specifications and design of any Product model. No CANON product model shall be deemed a "Product" for purposes of this Agreement unless and until Canon USA shall have provided Dealer with a Schedule A for such product model. Canon USA shall determine the date on which it will commence accepting orders for new Product models and the date on which it will no longer accept orders for current Product models.

1.7 Non-Exclusive Appointment. Dealer's appointment hereunder is limited to the United States of America. Dealer shall neither export any Products from the United States of America nor, directly or indirectly, sell

A

sell any Products to customers located outside of the United States of America. Dealer acknowledges that its appointment hereunder as an authorized Canon retail dealer of the Products is NON-EXCLUSIVE as to all states and other geographical areas within the United States of America and as to types of customers and other market segments within all such areas, and that Canon USA reserves the right, without cause or notice to Dealer and without payment of commission or other compensation to Dealer, to make direct sales of any Products, and to appoint other dealers, value-added resellers, systems integrators or other resellers, and to appoint sales representatives, for sales of the Products, to any and all customers within all such areas. Dealer further acknowledges that Canon USA has made no representation, under this Agreement or otherwise, as to the terms on which Canon USA may appoint other retail dealers for the Products within any part of the United States of America for any market segment therein.

2. DEALER SALES RESPONSIBILITIES

2.1 Best Efforts Obligation. Dealer shall, at its own cost and expense, use its best efforts to promote and market each of the Products from each of its Authorized Sales Locations, and to promote and maintain the goodwill and reputation of Canon USA and the Products, which efforts shall include, but not be limited to, the following:

2.1.1 maintaining an inventory of each Product model which is sufficient to meet reasonably anticipated demand therefor from Dealer's current and prospective customers;

2.1.2 displaying prominently in an appropriate environment at each Authorized Sales Location at least one (1) demonstrator unit of each model of the Products;

2.1.3 advertising and promoting the Products on a reasonable basis;

2.1.4 providing at all times during reasonable business hours one or more qualified sales persons at each Authorized Sales Location to market and demonstrate each Product model, each such person to be knowledgeable of the functional and performance specifications of each Product model and to be trained and qualified as provided in paragraph 4 below;

2.1.5 utilizing, to the extent appropriate for more effective marketing of the Products, leasing programs and sales promotion programs (programs offered by or through Canon USA and/or programs developed by Dealer);

2.1.6 developing and maintaining, using programs for which its personnel are trained pursuant to paragraph 4 below, records and information relating to sales performance, market analysis and market trends;

2.1.7 working with potential customers, Canon USA and third-party vendors in the marketing and/or development of value-added applications for the Products and systems incorporating the Products, and reporting to Canon USA from time to time as to applications utilized or suggested for the Products by Dealer, Dealer's customers and third-party vendors;

2.1.8 participating, if and to the extent requested by Canon USA from time to time, in preliminary or test marketing programs; and

2.1.9 assisting and cooperating with Canon USA in the distribution of Product information (including marketing-related and service-related information) to Dealer's customers and potential customers.

2.2 Minimum Performance Standard. Dealer's minimum quarter-annual purchase requirement (which shall be pro-rated for the period from the date hereof until the end of the current calendar quarter) is set forth in Schedule C hereto. Canon USA shall have the right to change such minimum purchase requirement for the Products for any quarter-annual period by substituting a new Schedule C for the one then in effect upon written notice given to Dealer at least ten (10) days prior to the commencement of the calendar quarter in which such changed minimum purchase requirement is to be effective. If Dealer's Product purchase payments to Canon USA are less than the minimum quarter-annual purchase requirement specified in the then-effective Schedule C hereto for each of any two (2) successive calendar quarters, Canon USA may give Dealer notice of its deficiency and thirty (30) days in which to rectify the same. If the deficiency is not cured within such time period, Canon USA may, at its discretion, and in addition to all other rights and remedies available to it, terminate this Agreement by providing Dealer with thirty (30) days' notice of termination (or such longer notice period as may be required by applicable law). Product purchases credited against a deficiency for a prior calendar quarter or quarters shall not be credited against the minimum quarter annual purchase requirement in the calendar quarter in which such purchases are made.

3. DEALER SERVICE RESPONSIBILITIES

3.1 Dealer's Service Obligations. Dealer shall, at its own cost and expense, except as provided in paragraphs 4 and 6.4 below, maintain during the term of this Agreement (and thereafter, as provided in paragraph 14.5 below), a service organization for the installation, maintenance and repair of the Products from each of the Authorized Service Locations, which organization shall provide a high level of service consistent with the technically-sophisticated nature of the Products and the attainment of high end-user satisfaction consistent with the quality assurance standards established by Canon USA from time to time. Without limiting the foregoing, Dealer agrees as follows:

3.1.1 Dealer shall not sell any Product to any customer unless Dealer is able to provide service for such Product to such Customer which complies in all respects with Dealer's service obligations in this paragraph 3 and elsewhere in this Agreement;

3.1.2 Dealer shall provide installation, maintenance and repair services for all Products in accordance in all respects with the standards (including without limitation minimum service response times, maintenance of remote diagnostic systems, periodic customer-site quality assurance service and customer-site warranty service) set forth in the "Service Requirements" in Schedule D hereto, as the said Schedule D may be modified from time to time by Canon USA on written notice to Dealer, and in accordance with all other service procedures published by Canon USA from time to time;

3.1.3 Dealer shall (a) maintain at all times at each Authorized Service Location (i) a parts inventory adequate to provide prompt and efficient service at Dealer's normally experienced usage rates or as may be reasonably prescribed by Canon USA from time to time and (ii) such test and other equipment as may be required by Canon USA from time to time; and (b) employ at all times at each Authorized Service Location for each Product model such number of service technicians (but in any event not less than one) as shall be adequate in view of Dealer's service commitments, which service technicians shall have been trained pursuant to paragraph 4 below for each Product model and shall otherwise be fully qualified and competent to service each Product model;

3.1.4 Dealer shall maintain service records and inventory information at each Authorized Service Location, and shall permit Canon USA service personnel to inspect Dealer's service records at reasonable times to ensure compliance with Dealer's obligations under this paragraph 3.1 and to acquire data for the purpose of improving standard service procedures and reliability;

3.1.5 Dealer, at its expense and without charge to the end-users except as may be specified by Canon USA, shall cooperate with Canon USA in providing retrofits to end-users and with such other Product-modification programs as Canon USA may establish from time to time to enhance performance and capabilities of Products; and,

3.1.6 when Dealer maintains, repairs or otherwise services any Products, it shall use only spare parts supplied to it by Canon USA pursuant to this Agreement, or other spare parts which are compatible with the Products and which, when used to repair or service the Products, do not result in significant reliability or performance problems.

Dealer's obligations under this paragraph 3.1 shall apply to all Products sold by it, to all Products serviced by it as Canon USA's marketing representative, and to all other Products with respect to which Dealer may from time to time provide installation, maintenance and/or repair services. Service provided by Dealer as Canon USA's servicing representative shall be pursuant to, and in accordance with the policies and procedures established by Canon USA from time to time for, its Government Account, Strategic Account and Special Account Programs in effect from time to time, and Dealer's compensation for such services shall be as provided by the terms of such programs. Service provided by Dealer to end-users covered by Canon USA's applicable end-user limited warranty shall be provided at no charge to the end-user, Dealer's sole compensation therefor being as provided pursuant to paragraph 6.4 below.

3.2 Authorized Service Providers. Notwithstanding subparagraph 3.1.1 above, Dealer may arrange for other dealers, independent service organizations or other third parties to provide for Products sold by Dealer the service otherwise required to be provided directly by Dealer pursuant to this paragraph 3, but only if such third parties are authorized by Canon USA to service the Products. As between Canon USA and Dealer, Dealer shall be solely responsible for any failure by any such third party to provide service in accordance with the requirements of this Agreement. Canon USA, irrespective of whether it from time to time authorizes independent service organizations or establishes a voluntary program for allocation of responsibilities and compensation between selling dealers and servicing dealers, makes no representation that any such third party shall be available or willing to provide service for Products sold by Dealer, and shall have no liability to Dealer whatsoever for any such third party's performance of, or failure to perform, service for Products sold by Dealer.

3.3 Corrective Actions. Dealer agrees that if a customer complains to Canon USA about Dealer's performance of service, Canon USA may conduct an investigation to determine the legitimacy of the customer's complaint and Dealer's compliance with the standards set forth in or pursuant to this Agreement. Dealer agrees to take such corrective action as may be reasonably requested by Canon USA as a result of any such investigation, and acknowledges that Dealer shall be liable to Canon USA for all costs and expenses that Canon USA may incur in assisting Dealer to rectify the service problem.

3.4 Service Provided by Canon USA. Canon USA reserves the right to provide, or to arrange for the provision of, (i) warranty or out-of-warranty service, pursuant to maintenance agreements or otherwise, to any end-users of Products, and (ii) service training to any end-users of Products, service and other personnel attend such training programs and to attend follow-up programs which Canon USA may offer from time to time. To the extent that Canon USA makes available "train-the-trainers" programs. Dealer's personnel who have successfully completed such programs shall, at Dealer's expense and at its premises, provide the follow-up training to such of Dealer's other personnel as is appropriate in accordance with Canon USA's requirements.

4. TRAINING

4.1 Training Programs. Canon USA, to the extent it deems appropriate for effective sales, marketing and servicing of the Products, may from time to time develop and make available training programs for the sales and service personnel of Dealer and Canon USA's other authorized dealers of the Products. Separate training programs may be held to develop expertise in the use, demonstration and functional and performance specifications of the Products, and expertise in networking and compatibility of the Products with CANON brand and third-party hardware and software, and to provide training in account management and sales strategy techniques. Canon USA may require Dealer, as a condition of continuation of its dealership with respect to particular Product models and/or its eligibility for certain marketing incentives that Canon USA may make available to its dealers from time to time, to have certain of its sales, service and other personnel attend such training programs and to attend follow-up programs which Canon USA may offer from time to time. To the extent that Canon USA makes available "train-the-trainers" programs, Dealer's personnel who have successfully completed such programs shall, at Dealer's expense and at its premises, provide the follow-up training to such of Dealer's other personnel as is appropriate in accordance with Canon USA's requirements.

4.2 Training: Attendance, Costs, etc. Enrollment in training courses shall be limited to a reasonable number of persons who are employed at Authorized Sales or Service Locations and, in Canon USA's sole judgment, are sufficiently qualified to take courses. Canon USA may discontinue training of any person whom Canon USA deems to be unqualified. In the case of scheduled training programs at locations specified by Canon USA, Canon USA's expenditures shall be limited to paying the reasonable costs of materials and instruction for a reasonable training period, and Dealer shall pay the salaries and all travel and lodging expenses and subsistence of its employees, unless Canon USA agrees otherwise in writing. In lieu of, or in addition to, scheduled training programs, Canon USA may make available personal computer-based initial and/or follow-up training, in which event Dealer, at its own cost and expense, shall make available to its personnel at each Service Location such computer hardware and software (for example, CD-ROM units) as Canon USA may require or recommend.

5. PROMOTIONAL ACTIVITIES

5.1 Advertising. Canon USA agrees to advertise and promote the Products on a nationwide basis to the extent it deems appropriate and will furnish Dealer from time to time with promotional and advertising material. Dealer agrees to coordinate its promotional advertising with that of Canon USA. Dealer acknowledges that Canon USA's cooperative advertising policies may be modified by Canon USA from time to time and that Canon USA may establish and modify from time to time requirements for Dealer to participate therein; and that in any event, promotional material, to be eligible for reimbursement under such cooperative advertising policies, must be submitted to Canon USA in advance of the publication's closing date, and may be used only if Canon USA consents thereto under the terms of such cooperative advertising policies.

5.2 Trademarks. Dealer agrees that it has no right, title or interest in and to the name CANON or any Canon USA logo or trademark. Dealer shall not use the name CANON as part of its corporate or business name, but Dealer may describe itself (but only with respect to its Authorized Sales and Service Locations) as an "Authorized CANON Office Imaging Products Dealer" and an "Authorized CANON Office Imaging Products Service Facility." Dealer may use the name CANON and Canon USA's logos and trademarks only in connection with its marketing of the Products purchased by Dealer from Canon USA pursuant to this Agreement and only if such usage complies in all respects with such trademark use policies as may be published by Canon USA from time to time. From time to time as requested by Canon USA, Dealer shall submit to Canon USA in writing full particulars (including representative samples) of its use of the CANON name and Canon USA's logos and trademarks on stationery, invoices, promotional material or otherwise. In any event, each and every use by Dealer of the CANON name or of any Canon USA logo or trademark in connection with any marketing materials for the Products shall be of a quality that is acceptable to Canon USA. Canon USA shall be the sole judge as to whether Dealer has met or is meeting the required quality standards.

5.3 Used, Etc. Products. Dealer shall not sell any new Products as "used" or any used Products as "new." If Dealer displays or advertises any used Products, the word "used" shall be placed in a prominent position in such displays and advertisements. If remanufactured, refurbished or reconditioned Products are sold by Canon USA to Dealer, Dealer shall promote such Products in the manner prescribed by Canon USA. Dealer shall not publish any advertising or engage in any selling practice relating to any Products that is contrary to any applicable laws or regulations, or that is likely to mislead or deceive the public or to impair the good will or reputation of Canon USA or any of its products.

5.4 No Removal, etc. of CANON Logo. Dealer shall not, under any circumstances, remove, alter or cover the CANON® logo or trademark, Canon USA's insignia, or any serial numbers or lettering on the Products or the original packaging at the time of delivery, or add to the Products or their packaging any name, brand, trademark or service mark.

5.5 Original Packaging and Documentation. Dealer agrees that it shall sell Product supplies and accessories in the original packaging in which such supplies and accessories were delivered to Dealer by Canon USA. All Products, when resold or rented by Dealer to end-users, must include the original documentation supplied for such Products by Canon USA.

6. WARRANTY

6.1 End-user Limited Warranty. All Products (other than certain used Products and other than Products to the extent they are or contain software) are sold with a Canon USA limited warranty, which is set forth in full in the Limited Warranty Statement enclosed with each Product. Dealer acknowledges that such limited warranty is only for the benefit of, and is only enforceable by, the original end-user purchaser or lessee of the Product (including Dealer where the Product is purchased by it for demonstration purposes or otherwise for its own use). Dealer shall make available to each customer the Limited Warranty Statement for a Product prior to the customer's purchase or lease thereof. Dealer shall not misrepresent the performance, capabilities or other characteristics of the Products or the use of the Products in any system or as integrated with any other hardware or software products, nor shall Dealer purport to make any warranty as to any Product on behalf of Canon USA other than as set forth in such Product's Limited Warranty Statement. Any warranties made by Canon USA with respect to any Products are made only to end-users; all Products are sold by Canon USA to Dealer "AS IS," "WHERE IS," WITHOUT WARRANTY OF ANY KIND BY CANON USA, INCLUDING ANY IMPLIED WARRANTY REGARDING MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.

6.2 Warranty Disclaimer. NO EXPRESS WARRANTIES, AND NO IMPLIED WARRANTIES, INCLUDING ANY REGARDING MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, ARE MADE BY CANON USA WITH RESPECT TO THE PRODUCTS, EITHER TO DEALER OR (except for the express warranties in Canon USA's Limited Warranty Statements) THE END-USER CUSTOMER. CANON USA SHALL NOT BE LIABLE FOR PERSONAL INJURY OR PROPERTY DAMAGE (UNLESS CAUSED SOLELY BY CANON USA'S NEGLIGENCE), LOSS OF PROFIT OR OTHER INCIDENTAL, CONSEQUENTIAL OR SPECIAL DAMAGES ARISING OUT OF THE USE OF, OR INABILITY TO USE, THE PRODUCTS. IN NO EVENT SHALL CANON USA BE LIABLE FOR ANY DAMAGES (REGARDLESS OF THEIR NATURE) CAUSED BY DEALER'S FAILURE TO FULFILL ITS RESPONSIBILITIES AS SET FORTH HEREIN. CANON USA SHALL HAVE THE RIGHT AT ANY TIME TO MODIFY ANY PRODUCT'S LIMITED WARRANTY.

6.3 Use of the Products with other Hardware and Software. This Agreement provides only for the sale of the Products, and Dealer or the end-user shall be solely responsible for providing all software, computers and peripheral equipment that may be required or desirable in connection with end-users' use of the Products. Canon USA shall have no responsibility with respect to such software, computers and peripheral equipment (other than CANON brand peripheral equipment which Canon USA expressly recommends for use with the Products) or the Product's performance therewith even if Dealer discusses the same from time to time with employees or agents of Canon USA. Without limiting the foregoing, Dealer acknowledges that the limited warranty provided in the Limited Warranty Statements enclosed with the Products contain exclusions relating to use of the Products with non-compatible software, computers and peripheral equipment. NON-CANON BRAND SOFTWARE,COMPUTERS AND PERIPHERAL EQUIPMENT WHICH MAY BE DISTRIBUTED BY CANON USA WITH THE PRODUCTS ARE SOLD "AS IS," WITHOUT WARRANTY OF ANY KIND BY CANON USA, INCLUDING ANY IMPLIED WARRANTY REGARDING MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. The sole warranty with respect to such non-CANON brand items is given by the manufacturer or developer thereof, and such manufacturer or developer shall be solely responsible for providing, or arranging for the provision of, support and service for such items.

6.4 Warranty Service. With respect to all repair and replacement services provided by Dealer at no charge to end-users for Products covered by Canon USA's limited warranty to end-users, Canon USA agrees that it shall, as its sole and exclusive liability to Dealer, repair or replace, or grant a credit with respect to, such defective parts or subassemblies, as the case may be, (a) which are returned to Canon USA with all necessary documentation, shipping and handling charges prepaid by Dealer and (b) which are proven to be defective upon Canon USA's inspection; provided, that if the claim for warranty service is not made by Dealer to Canon USA within the prescribed time period of Canon USA's end-user limited warranty, or if the defect is otherwise not covered by, or is excluded from, Canon USA's end-user limited warranty for any reason, the cost of Canon USA's service and parts shall be at Dealer's expense at Canon USA's rates then in effect. Replaced parts and subassemblies shall become Canon USA's property. REPAIR REPLACEMENT PARTS AND SUBASSEMBLIES ARE SUPPLIED TO DEALER "AS IS" AND WITHOUT WARRANTY TO DEALER OF ANY KIND, AND WHEN SUPPLIED BY DEALER TO END-USERS ARE ONLY WARRANTED, IF AT ALL, BY CANON USA TO THE EXTENT PROVIDED IN THE LIMITED WARRANTY STATEMENT FOR THE RELEVANT PRODUCT. Dealer's cost of labor to inspect, remove and replace defective parts or subassemblies, to adjust mechanical alignments where necessary, and to perform any other service required under Canon USA's end-user limited warranty, shall be borne solely by Dealer and shall not be reimbursable by Canon USA under any circumstances. Notwithstanding the foregoing, Canon USA may, at its option, with respect to certain Product models, (a) grant Dealer a flat rate Product credit (instead of a credit for returned defective parts)

pursuant to Canon USA's Warranty Administration Reduction Program, or such other warranty programs as may be in effect from time to time, or (b) provide a flat rate labor reimbursement credit to Dealer for providing on-site warranty service.

7. PRODUCT PRICES AND DELIVERY

7.1 Product Prices. Canon USA shall sell the Products to Dealer at the prices published by Canon USA from time to time. Canon USA may modify these prices upon notice to Dealer. Price changes shall not apply to orders accepted, shipped and invoiced by Canon USA prior to the effective date of the price change. There shall be added to the price of each unit the amount of any sales or use tax applicable to the sale by Canon USA to Dealer, unless Dealer shall furnish to Canon USA a resale or other exemption certificate that is valid in the State where the delivery of the Products is made.

7.2 Delivery; Acceptance. Prices are F.O.B. from the nearest Canon USA warehouse where the Products ordered are then available, and all risk of loss or damage to the Products shall cease upon delivery to the carrier selected by Canon USA or designated by Dealer in its order. Dealer shall inspect all Products upon delivery and shall be deemed to have accepted the same if Canon USA does not receive written notice of rejection within ten (10) days of such delivery.

8. ORDERS

8.1 Purchase Orders. Dealer's orders for the purchase of the Products shall be submitted by formal purchase order in form and substance acceptable to Canon USA. Canon USA may, in its sole discretion: accept orders via telephone or facsimile. A purchase order shall not be deemed binding on Canon USA unless and until Canon USA accepts the same (a) by sending written confirmation thereof to Dealer, or (b) in lieu of such confirmation, by shipping the units covered by the order. The terms of Dealer's orders shall be of no force and effect in the event they conflict with or supplement the terms of this Agreement or of Canon USA's confirmation, if any.

8.2 Delivery of Ordered Units. Canon USA shall use reasonable efforts to ship Products to meet delivery dates requested by Dealer in its orders. Since Canon USA itself will be subject from time to time to manufacturer production or shipping delays, or both, Dealer agrees that Canon USA may, in its sole discretion, allocate distribution even though this may effectively limit delivery of ordered Products. Canon USA also reserves the right to limit its sales of Products to Dealer to quantities which Canon USA believes, in its sole discretion, are sufficient to satisfy Dealer's retail sales requirements. Any portion of an order which is not shipped within six (6) months after confirmation thereof by Canon USA may, at Canon USA's option, be declared null and void.

9. PAYMENT

Dealer shall be required to pay for the Products in accordance with the terms of Canon USA's invoices therefor, without any setoff or counterclaim, except for the amount of any written credit memorandum which has been issued by Canon USA to Dealer prior to the due date of the outstanding invoice. Canon USA reserves the right to modify such terms at any time. Without limiting any other rights it may have under this Agreement and applicable law, Canon USA may, if Dealer's account is not kept current, or its credit standing deteriorates (as determined by Canon USA in its sole discretion), discontinue shipments, reduce Dealer's credit line (if any) or place Dealer on a cash basis (that is, certified check with order). Dealer acknowledges and agrees that no such modification of payment terms, cessation of shipments or reduction or elimination of credit terms shall constitute a termination of this Agreement or a substantial change in the competitive circumstances of this Agreement.

10. SECURITY INTEREST

Dealer hereby grants to Canon USA a security interest in all Products now owned or hereafter acquired by Dealer, and in any proceeds therefrom. This security interest shall secure the payment by Dealer of all amounts owing for Products purchased by Dealer from Canon USA, all other sums due hereunder and all other obligations of Dealer hereunder, and upon any default by Dealer in making any such payment or performing any such obligation, Canon USA shall be entitled to exercise any and all rights and remedies of a secured party provided herein and under applicable law, including the Uniform Commercial Code of the State of New York. Dealer further agrees and does hereby grant and authorize Canon USA to execute, and to file with the appropriate governmental authority any and all financing statements (and other documents) on behalf of Dealer necessary to perfect Canon USA's security interest in the Products and, for this purpose only, hereby appoints Canon USA, its representatives and designees, as attorneys-in-fact, agents and authorized signatories of Dealer for such financing statements. In addition to any other remedy available to it, Canon USA may, upon Dealer's default in payment, or in its performance of its other obligations hereunder, enter upon Dealer's premises peaceably to take possession of the Products during normal business hours. If Canon USA shall be required to obtain possession by judicial process, Dealer expressly waives any right to require Canon USA to post any security as a precondition to securing a judicial order granting immediate repossession.

11. RELATIONSHIP OF THE PARTIES

11.1 Independent Contractor. Nothing contained in this Agreement shall be construed to make Dealer the agent of Canon USA for any purpose, and neither party shall have any right whatsoever to incur any liabilities or obligations on behalf of or binding upon the other party. Dealer specifically agrees that it shall have no power or authority to represent Canon USA in any manner; that it will remarket Products as an independent contractor in accordance with the terms and conditions of this Agreement; and that it shall not at any time represent orally or in writing to any person or corporation or other business entity that it has any right, power or authority not expressly granted by this Agreement.

11.2 No Franchise. The relationship created by this Agreement is not intended by the parties to constitute the granting of a franchise to Dealer by Canon USA, and no federal or state law, regulation or rule relating to franchises is intended to be applicable to such relationship or to this Agreement.

11.3 No Employment, etc. of Canon USA Employees.

11.3.1 Except as otherwise disclosed in writing by Dealer to Canon USA prior to the date of execution of this Agreement, Dealer represents and warrants that if Dealer is a corporation, limited liability company or other legal entity, no shareholder, partner, member, officer, manager or director (or the equivalent of any of the foregoing) of Dealer is, or during the period of six (6) months prior to the date of execution of this Agreement was, an employee of Canon USA or of an affiliate of Canon USA or is the spouse, parent, brother, sister or child of any such employee. Dealer shall give Canon USA notice of any such proposed relationship during the term of this Agreement at least sixty (60) days prior to the creation of any such proposed relationship, which notice shall indicate the name(s) of the person(s) involved and the nature of the proposed relationship.

11.3.2 Except as may be consented to in writing by Canon USA, which consent shall not be unreasonably withheld, Dealer shall not employ or other wise contract for the services of any employee of Canon USA until one (1) year after the earlier of (a) the termination of such employee's employment by Canon USA, or (b) the termination of this Agreement. No offer or other form of solicitation of employment shall be made at any time when the employment of such a person is prohibited by this Agreement.

11.4 Change in Control. Dealer shall give Canon USA notice of any proposed change in its control or management during the term of this Agreement at least sixty (60) days prior to the effectiveness of any such proposed change, which notice shall indicate the name(s) of the person(s) involved and the background and experience of the person(s) to be substituted for (or added to) the current parties in control of, or in the management of, Dealer.

11.5 No Reliance. Dealer acknowledges that it has experience and expertise in the retail sale of office imaging products similar to the Products, and that it has made its own independent analysis of the prospects of the dealership created by this Agreement. In connection with Dealer's acceptance of the dealership created hereby and Dealer's activities as a retail dealer of the Products, Dealer (i) expressly disclaims having relied upon any representation or statement made at any time by Canon USA or by any of its officers, employees or representatives regarding the capability, condition, operation, performance or specifications of the Products, the profit potential of the dealership created hereby, or the duration of the dealership created hereby, and (ii) agrees that neither any such representation or statement nor any other representation or statement of whatsoever nature shall be binding upon Canon USA as a warranty or in any other way unless expressly set forth in the original counterpart of this Agreement as executed on Canon USA's behalf by the General Manager of its Business Imaging Solutions Group or the General Manager of the Business Imaging Solutions Group's Dealer Sales Division.

11.6 No Assignment by Dealer. This Agreement constitutes a personal contract and is not assignable by Dealer in whole or in part without Canon USA's written consent, which consent may be withheld by Canon USA in its sole discretion.

12. INDEMNIFICATION; INSURANCE

12.1 Indemnification. Dealer agrees to indemnify and hold Canon USA free and harmless from any loss, damage or cost, including legal expenses and reasonable counsel fees, that Canon USA becomes liable for by reason of, arising out of, or relating to, any acts, obligations, or omissions of Dealer or of Dealer's employees, representatives, or agents, in connection with Dealer's marketing, sales and service of the Products under this Agreement, including, without limitation, any of the following:

12.1.1 acts of Dealer in marketing the Products including, but not limited to, (a) misrepresenting the terms of Canon USA's limited warranty to end-users or failing to give Canon USA's Limited Warranty Statement to end- users and (b) any breach of an express warranty made by Dealer's personnel or agents regarding the Products or the use or performance of the same either on a stand-alone basis or together with other hardware or software products, if such express warranty is not covered by Canon USA's applicable Limited Warranty Statement;

12.1.2 acts of Dealer in servicing the Products, including, but not limited to, acts of Dealer in providing, or failing to provide in a satisfactory manner service to end-users under rental or lease programs and under Canon USA's Government Account, Strategic Account and Special Account Programs;

12.1.3 Dealer's failure to pay outstanding invoices upon termination of this Agreement in accordance with its terms; and

12.1.4 acts of third parties, such as the execution of liens and security interests, in relation to Products sold to Dealer under this Agreement.

12.2 Insurance. Dealer agrees to maintain in full force and effect during the term of this Agreement a comprehensive general liability insurance policy with a combined single limit for bodily injury and property damage of at least $2 million. Such policy shall protect Dealer and Canon USA and their officers and employees against any loss, liability or expense due to personal injury, death or property damage arising out of Dealer's business. Canon USA shall be named as an additional insured in such policy, and Dealer shall promptly provide Canon USA with adequate proof of coverage at Canon USA's request.

13. DEALER'S FINANCIAL CONDITION

Dealer agrees to furnish, from time to time when requested by Canon USA, a full and detailed statement of Dealer's business and operations (but only to the extent it relates to the dealership created hereby), and certified (or verified) copies of Dealer's then current balance sheet and profit and loss statement. Dealer also agrees to maintain such net working capital, net worth and financial resources as may be required to assure proper and complete performance of its obligations under this Agreement. Further, upon at least five (5) days prior written notice to Dealer, Canon USA shall be afforded access to Dealer's premises during normal business hours to enable Canon USA to audit Dealer's Product inventory and verify any Dealer statements or remittances sent to Canon USA.

14. DURATION OF AGREEMENT AND TERMINATION

14.1 Term. The term of this Agreement shall begin on the date it is signed by the General Manager of Canon USA's Business Imaging Solutions Group or by the General Manager of the Business Imaging Solutions Group's Dealer Sales Division, and shall continue thereafter until expiration thereof or until terminated as herein provided. The initial term of this Agreement shall expire on December 31 of the second calendar year after the year in which this Agreement first becomes effective (by way of illustration, the initial term of an Agreement which became effective on January 15, 1999 shall expire on December 31, 2001). Upon expiration of the initial term of this Agreement or of any renewal term, this Agreement shall be automatically renewed for an additional two (2) year term unless either party gives to the other party, not later than September 30 (or such earlier date as may be required by applicable law) of the year in which the initial or renewal term is to expire, written notice of its election not to renew.

14.2 Termination. In addition to paragraph 2.2 above, this Agreement may be terminated by Canon USA prior to the expiration of its initial term or of any renewal term:

14.2.1 for breach of any provision of this Agreement by Dealer, provided that written notice has been given to Dealer of the alleged breach and Dealer has not cured the breach within thirty (30) days (or such longer period as may be required by applicable law) after delivery of such notice;

14.2.2 if there is a change in the management or control of Dealer which is unacceptable to Canon USA in its sole discretion,

termination to be effective thirty (30) days after delivery of notice to such effect to Dealer or such longer period as may be required by applicable law;

14.2.3 automatically and without notice if Dealer ceases to function as a going concern, becomes insolvent, makes an assignment for the benefit of creditors, files a petition in bankruptcy, permits a petition in bankruptcy to be filed against it, or admits in writing its inability to pay its debts as they mature or if a receiver is appointed for all or a substantial part of its assets; or

14.2.4 upon Canon USA's failure to receive timely payment from Dealer of any Canon USA invoice, such termination to be effective thirty (30) days after delivery of notice to such effect to Dealer, or such longer period as may be required by applicable law, unless Dealer pays in full the invoice amount, and any applicable late charges, within such period.

14.3 Obligations upon Termination. In the event that the Agreement shall be terminated for any cause whatsoever or the term hereof expires without renewal, Dealer agrees that it shall immediately:

14.3.1 cease holding itself out as an authorized retail dealer of the Products and, at Canon USA's option, resell all or any portion of its inventory of the Products to Canon USA at the net price paid therefor, less a reasonable allowance for depreciation and handling fees to be determined by Canon USA;

14.3.2 refrain from exercising or attempting to exercise any right or privilege granted to it under this Agreement, and cease to act for Canon USA with respect to any Strategic Account, Government Account, and/or Special Account customers;

14.3.3 discontinue its use of and relinquish any and all rights to any name, trade name or trademark which Canon USA has authorized or permitted it to use under this Agreement or in connection with the retail dealership created hereby;

14.3.4 remove all signs, names, insignias, logotypes, telephone directory listings and advertisements and any other material which identify it as an authorized Canon retail dealer of the Products; and

14.3.5 at Canon USA's election, return or destroy any promotional, advertising or technical material bearing such designations, and Canon USA's service manuals, parts lists and other material furnished to Dealer free of charge for Dealer's use during the term of this Agreement.

14.4 Post-Termination Product Deliveries. Termination or expiration of the term hereof without renewal shall automatically operate as a cancellation of any deliveries of Products to Dealer which are scheduled to be made subsequent there-to, whether or not any orders for the Products were previously confirmed by Canon USA. If Canon USA elects to fill any of Dealer's orders after notice of termination has been given, all such sales and deliveries made to Dealer prior to the expiration of the applicable cure period shall be upon a cash-on-delivery basis.

14.5 Post-Termination Service Obligations. Effective upon termination of this Agreement, Dealer shall not describe itself as an authorized service facility for the Products. However, notwithstanding paragraph 14.3 above, Dealer's obligations under paragraph 3.1 above shall survive the termination of this Agreement as to Products sold or rented by it pursuant to this Agreement and as to Products for which Dealer continues to act as a service representative under Canon USA's Federal Supply Contract and its Government Account, Strategic Account and Special Account Programs. For so long as such obligations shall survive, Canon USA shall sell to Dealer, at Canon USA's prices in effect from time to time (but without giving effect to special pricing or other promotional programs available only to authorized dealers) and on such credit terms as Canon USA may establish for Dealer from time to time, such types and quantities of supplies, spare parts and service tools as Canon USA deems necessary for Dealer to perform such service obligations. Dealer's obligations to service such Products, and its authorization under this paragraph 14.5 to perform such servicing, may be terminated at any time by Canon USA in its sole discretion upon written notice to Dealer, and Canon USA may then notify Dealer's end-user customers of alternative authorized service facilities.

14.6 Survival. Neither expiration without renewal of any term hereof nor termination hereof shall relieve either party of obligations incurred prior thereto or of any obligation which by its terms is to take effect upon termination.

15. CHOICE OF LAW; DISPUTE RESOLUTION

15.1 Choice of Law. THIS AGREEMENT IS MADE WITHIN THE STATE OF NEW YORK AND SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO ITS CONFLICT OF LAWS PRINCIPLES.

15.2 Mediation of Certain Disputes. IF A DISPUTE ARISES AS A RESULT OF THE TERMINATION OR NON-RENEWAL OF THIS AGREEMENT PURSUANT TO PARAGRAPHS 2.2 OR 14 ABOVE, AND IF SUCH DISPUTE CANNOT BE SETTLED THROUGH NEGOTIATION, THE PARTIES AGREE FIRST TO ATTEMPT IN GOOD FAITH TO RESOLVE THE DISPUTE BY MEDIATION IN NEW YORK ADMINISTERED BY THE AMERICAN ARBITRATION ASSOCIATION UNDER ITS COMMERCIAL MEDIATION RULES, BEFORE RESORTING TO LITIGATION. THE COSTS OF SUCH MEDIATION SHALL BE BORNE EQUALLY BY CANON USA AND DEALER.

15.3 Exclusive Jurisdiction and Venue. DEALER HEREBY IRREVOCABLY AND UNCONDITIONALLY:

(a) AGREES THAT ANY AND ALL ACTIONS, SUITS OR OTHER LEGAL PROCEEDINGS, WHETHER OR NOT ARISING UNDER THIS AGREEMENT AND REGARDLESS OF THE LEGAL THEORY UPON WHICH THE CLAIMS ARE BASED, MAY BE BROUGHT BY DEALER AGAINST CANON USA ONLY IN A STATE OR FEDERAL COURT SITUATED WITHIN THE STATE OF NEW YORK, AND CONSENTS TO THE EXCLUSIVE JURISDICTION OF SUCH COURTS IN ANY SUCH LEGAL PROCEEDING,

(b) CONSENTS TO THE NON-EXCLUSIVE JURISDICTION OF THE STATE AND FEDERAL COURTS SITUATED WITHIN THE STATE OF NEW YORK IN ANY AND ALL ACTIONS, SUITS OR OTHER LEGAL PROCEEDINGS BROUGHT AGAINST IT BY CANON USA, AND AGREES THAT SERVICE OF PROCESS IN ANY SUCH LEGAL PROCEEDING MAY BE EFFECTED IN ACCORDANCE WITH THE STATUTES OF NEW YORK AND THE UNITED STATES, AS APPROPRIATE, AND

(c) WAIVES ANY OBJECTION IT MAY NOW OR HEREAFTER HAVE TO THE VENUE OF ANY SUCH LEGAL PROCEEDING IN ANY SUCH COURT.

15.4 Limitations Period. DEALER AGREES THAT ANY SUIT BETWEEN THE PARTIES, OTHER THAN FOR PAYMENT OF THE PURCHASE PRICE OF THE PRODUCTS OR FOR INDEMNIFICATION UNDER PARAGRAPH 12 OF THIS AGREEMENT, SHALL BE COMMENCED, IF AT ALL, WITHIN ONE (1) YEAR OF THE DATE THAT THE CAUSE OF ACTION ACCRUES.

15.5 Waiver of Jury Trial. EACH PARTY HERETO HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES TRIAL BY JURY IN ANY ACTION, SUIT OR OTHER LEGAL PROCEEDING BETWEEN THEM, WHETHER OR NOT ARISING UNDERTHIS AGREEMENT AND REGARDLESS OF THE LEGAL THEORY UPON WHICH THE CLAIMS ARE BASED.

16. GENERAL

16.1 Force Majeure. Neither Canon USA nor Dealer shall be in default of any obligation under this Agreement due to circumstances beyond its reasonable control, including but not limited to governmental acts or directives (official or unofficial), strikes (legal or illegal), acts of God, war (declared or undeclared), insurrection, riot or civil commotion, fires, flooding or water damage, explosions, embargoes, or delays in manufacturer's or supplier's furnishing of products or materials.

16.2 Compliance with Applicable Laws. Nothing contained in this Agreement shall be construed to permit or require either party to do any act or thing in contravention of any law or regulation of the United States or of any agency or instrumentality of the United States or any of the various states. Canon USA and Dealer mutually agree to comply with all laws and regulations applicable to it in connection with the sale and marketing of Products contemplated by this Agreement, and to do all things reasonably necessary in order to enable both or either of them to comply with all such laws and regulations.

16.3 Severability. A judicial determination that any paragraph or subpart of this Agreement is, in whole or in part, invalid shall not affect the enforceability of those provisions found not to be invalid. Nor shall a judicial determination that such clauses are not enforceable in a particular jurisdiction preclude Canon USA from seeking to enforce them in another jurisdiction.

16.4 Notices. All notices to be sent pursuant to the terms of this Agreement relating to disputes arising under, or to non-renewal or termination of, this Agreement shall either be sent by registered or certified mail, return receipt requested, or delivered personally to the attention of (a) the General Manager of the Dealer Sales Division of Canon USA's Business Imaging Solutions Group or (b) the President or duly authorized representative of Dealer, at their respective addresses on the first page of this Agreement. All other notices or communications required or permitted to be sent pursuant to the terms of this Agreement shall be ineffective unless in writing and signed by the party sending such notice or communication.

16.5 Limitation of Damages. Under no circumstances shall either party have any liability to the other party for any lost profits or for any indirect, special or consequential damages, however caused and whether arising under contract, tort or other theory of liability.

16.6 Entire Agreement. This Agreement constitutes the entire agreement between the parties, superseding all previous proposals, oral or written. This Agreement shall not be modified or amended unless in writing and signed by the General Manager of Canon USA's Business Imaging Solutions Group or the General Manager of the Business Imaging Solutions Group's Dealer Sales Division.

IN WITNESS WHEREOF, the parties have caused this Agreement to be signed by their duly authorized and empowered officers or representatives as of the respective dates set forth below.

Hunter Business System of Delaware LLC (Dealer Name)	Canon U.S.A., Inc., Business Imaging Solutions Group
Signature [signature] 12/28/12	Signature [signature]
Please print name Steve Martin	Please print name Junichi Yoshitake
Title President	Title Sr. Vice President
Date 12/27/2012	Date 12-28-2012

EXHIBIT "B"

Hunter Business Systems
We Have Moved:
307 Gravel Hill Road | Monroe NJ 08831
☎(Office) 609-336-7679 x 123 | (Fax) 732-521-0656
☎(Direct) 609-469-1471 | abennett@hunterbiz.net
Visit us on the web at www.hunterbiz.net

From: Marie Abbondondolo
Sent: Thursday, July 15, 2021 4:54 PM
To: STEVE MARTIN <smartin@hunterbiz.net>
Subject: Request from Canon USA

Hello Mr. Martin,

I hope all is well with you.

My name is Marie Abbondondolo. I am the Vice President of the Canon U.S.A., Inc. Audit & Business Consultation Department - based out of our America's Headquarters in Melville, NY. The function that I lead within the organization covers Canon America's, including our Canon USA Entity, which includes our Printer Organization BICG (Business Information Communications Group). We are separate from the Sales and Product Groups and act as an independent governance, risk, compliance, and internal consultation function.

As part of our routine monitoring of the Company's accounts, activities, and transactions, we perform quality checks on certain aspects of activity from our Dealers to understand market trends, activity, compliance, etc. As a result of our monitoring, we would like to execute our right (in accordance with Section 13 of the Office Imaging agreement dated 12/17/12) to obtain copies of the following financial records for both Hunter Business Systems and Laser Tone Business Systems:

- (Audited) Financial statements (Balance Sheet and P&L) for the last 3 years.
- System generated report of all Canon sales. This report should include fields such as (but not limited to), Purchase order number, serial number(where applicable), invoice date, invoice number, shipment date, customer name, customer address, merchandise item number, merchandise item description, sales amount, etc.
- System generate report of all Canon machines that are currently and have been serviced by either Hunter Business Systems or Laser Tone for the last 4 years with serial numbers, customer address locations
    - From this report, we will select a sample of signed and executed contracts between with Hunter Business Systems/ Laser Tone System and the customer.

If you can please send these documents to me by end of day, Friday, July 23rd.
Feel free to reach out to me with any questions.

Thanks,

B

Marie

Note: Please note that since we are an independent function and authorized to do so – we inform BICG Management, but separate the business unit staff and Management from these types of customer inquiries/procedures.

Canon

Marie Abbondondolo
Vice President
Audit, Credit and Risk
Canon U.S.A., Inc.
One Canon Park, Melville, NY, 11747
www.usa.canon.com
mabbondondolo@cusa.canon.com
T 631.330.4750 F 631.330.5229

Anne Bennett

From: Steve Martin
Sent: Monday, August 16, 2021 11:06 AM
To: Marie Abbondondolo
Cc: Anne Bennett; Sean E. Regan
Subject: Re: Request from Canon USA

Maria ,
Based on the dealer agreement, the financial s are all we are required to provide . Council has been in contact with your attorney and we can not release customer information based on my businesses being located in the same geographical area as your direct CSA offices. You are a competitor thru your direct offices and we need to protect our business since in the past , Canon has shared information from dealers that were acquired by other manufacturers, which shows distrust amount the dealer community. Your council may contact Sean Regan at 7322997633 cell or 732 741-3900 office.
I have started my own investigation on our inside sales team after communication with Mason , and eliminated a certain medical buying group .
I am not in the office due to medical issues but can be reached on my cell . 7327350922.

Steve Martin

Sent from my iPhone

On Aug 16, 2021, at 9:59 AM, Marie Abbondondolo <mabbondondolo@cusa.canon.com> wrote:

CAUTION: THIS EMAIL IS FROM AN EXTERNAL SOURCE OUTSIDE OF YOUR ORGANIZATION

Hi Anne,

Good morning.
We have received your financials but we have not received the remaining requests.

Can you please let me know the status of the open items?

Thanks

Marie

<image001.jpg>

Marie Abbondondolo
Vice President
Audit, Credit and Risk
Canon U.S.A., Inc.
One Canon Park, Melville, NY, 11747
www.usa.canon.com
mabbondondolo@cusa.canon.com
T 631.330.4750 F 631.330.5229

Anne Bennett

From: Marie Abbondondolo <mabbondondolo@cusa.canon.com>
Sent: Monday, August 16, 2021 9:59 AM
To: Anne Bennett
Cc: Steve Martin; Sean E. Regan
Subject: RE: Request from Canon USA

CAUTION: THIS EMAIL IS FROM AN EXTERNAL SOURCE OUTSIDE OF YOUR ORGANIZATION

Hi Anne,

Good morning.
We have received your financials but we have not received the remaining requests.

Can you please let me know the status of the open items?

Thanks

Marie

Canon
Marie Abbondondolo
Vice President
Audit, Credit and Risk
Canon U.S.A., Inc.
One Canon Park, Melville, NY, 11747
www.usa.canon.com
mabbondondolo@cusa.canon.com
T 631.330.4750 F 631.330.5229

From: Anne Bennett <abennett@hunterbiz.net>
Sent: Monday, August 02, 2021 3:42 PM
To: Marie Abbondondolo <mabbondondolo@cusa.canon.com>
Cc: STEVE MARTIN <smartin@hunterbiz.net>; Sean E. Regan <SRegan@ghclaw.com>
Subject: RE: Request from Canon USA

Email was not sent from a Canon Network!
Good afternoon Marie,

As per the voicemail I left you earlier today I have attached copies of the financial statements for Laser Tone and Hunter Business Systems in accordance with Section 13 of the Office Imaging agreement.

Thank you,

Anne Bennett

Hunter Business Systems
We Have Moved:
307 Gravel Hill Road | Monroe NJ 08831
☎(Office) 609-336-7679 x 123 | 🖷(Fax) 732-521-0656
☎(Direct) 609-469-1471 |✉abennett@hunterbiz.net
Visit us on the web at www.hunterbiz.net

From: Marie Abbondondolo
Sent: Thursday, July 15, 2021 4:54 PM
To: STEVE MARTIN <smartin@hunterbiz.net>
Subject: Request from Canon USA

Hello Mr. Martin,

I hope all is well with you.

My name is Marie Abbondondolo. I am the Vice President of the Canon U.S.A., Inc. Audit & Business Consultation Department - based out of our America's Headquarters in Melville, NY. The function that I lead within the organization covers Canon America's, including our Canon USA Entity, which includes our Printer Organization BICG (Business Information Communications Group). We are separate from the Sales and Product Groups and act as an independent governance, risk, compliance, and internal consultation function.

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    - From this report, we will select a sample of signed and executed contracts between with Hunter Business Systems/ Laser Tone System and the customer.

If you can please send these documents to me by end of day, Friday, July 23rd.
Feel free to reach out to me with any questions.

Thanks,

Marie

Note: Please note that since we are an independent function and authorized to do so – we inform BICG Management, but separate the business unit staff and Management from these types of customer inquiries/procedures.

Canon

Marie Abbondondolo
Vice President
Audit, Credit and Risk
Canon U.S.A., Inc.
One Canon Park, Melville, NY, 11747
www.usa.canon.com
mabbondondolo@cusa.canon.com
T 631.330.4750 F 631.330.5229

Anne Bennett

From: Marie Abbondondolo <mabbondondolo@cusa.canon.com>
Sent: Monday, August 2, 2021 7:26 PM
To: Anne Bennett
Cc: Steve Martin; Sean E. Regan
Subject: RE: Request from Canon USA

CAUTION: THIS EMAIL IS FROM AN EXTERNAL SOURCE OUTSIDE OF YOUR ORGANIZATION

Hi Anne,

Thank you for the financials and the voicemail.

My apologies but my afternoon was full of meetings.

I will try to call you on Tuesday morning to discuss how to share the rest of the requests.

Thanks,

Marie

Canon

Marie Abbondondolo
Vice President
Audit, Credit and Risk
Canon U.S.A., Inc.
One Canon Park, Melville, NY, 11747
www.usa.canon.com
mabbondondolo@cusa.canon.com
T 631.330.4750 F 631.330.5229

From: Anne Bennett <abennett@hunterbiz.net>
Sent: Monday, August 02, 2021 3:42 PM
To: Marie Abbondondolo <mabbondondolo@cusa.canon.com>
Cc: STEVE MARTIN <smartin@hunterbiz.net>; Sean E. Regan <SRegan@ghclaw.com>
Subject: RE: Request from Canon USA

Email was not sent from a Canon Network!
Good afternoon Marie,

As per the voicemail I left you earlier today I have attached copies of the financial statements for Laser Tone and Hunter Business Systems in accordance with Section 13 of the Office Imaging agreement.

Thank you,

Anne Bennett

Hunter Business Systems
We Have Moved:
307 Gravel Hill Road | Monroe NJ 08831
☎(Office) 609-336-7679 x 123 | (Fax) 732-521-0656
☎(Direct) 609-469-1471 | abennett@hunterbiz.net
Visit us on the web at www.hunterbiz.net

From: Marie Abbondondolo
Sent: Thursday, July 15, 2021 4:54 PM
To: STEVE MARTIN <smartin@hunterbiz.net>
Subject: Request from Canon USA

Hello Mr. Martin,

I hope all is well with you.

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Feel free to reach out to me with any questions.

Thanks,

Marie

Note: Please note that since we are an independent function and authorized to do so – we inform BICG Management, but separate the business unit staff and Management from these types of customer inquiries/procedures.

Canon

Marie Abbondondolo
Vice President
Audit, Credit and Risk
Canon U.S.A., Inc.
One Canon Park, Melville, NY, 11747
www.usa.canon.com
mabbondondolo@cusa.canon.com
T 631.330.4750 F 631.330.5229

EXHIBIT "C"

Canon

Canon U.S.A., Inc.
One Canon Park
Melville, NY 11747
Tel: 631.330.5000

DIRECT DIAL: (631) 330-5631

August 30, 2021

Via Certified Mail, Return Receipt Requested

Steve Martin
President
Hunter Business Systems of Delaware LLC
307 Gravel Hill Road
Monroe, NJ 08831

Re: Notice of Termination of Office Imaging Retail Dealer Agreement between Canon U.S.A., Inc. and Hunter Business Systems of Delaware LLC

Dear Mr. Martin:

Please be advised that Canon U.S.A., Inc. (Canon USA") hereby provides notice that it is exercising its contractual right to terminate of the Office Imaging Retail Dealer Agreement between Canon USA and Hunter Business Systems of Delaware LLC ("Dealer") dated December 28, 2012 (the " Retail Dealer Agreement") pursuant to Section 14.2 thereof. You have materially breached the Retail Dealer Agreement:

1. By failing and refusing to comply with an audit as set forth in Section 13 which requires that you "furnish, from time to time when requested by Canon USA, a full and detailed statement of Dealer's business and operations...and afford[ing] access...to enable Canon USA to audit Dealer... and verify any Dealer statements or remittances sent to Canon USA"; and
2. By selling aftermarket products at wholesale in violation of Section 1.1 which provides in pertinent part that "Dealer agrees to perform a retail function only (that is, marketing the Products solely to end-users who are unaffiliated with Dealer and who acquire Products solely for their own use) and Dealer shall not sell any Products to other dealers or other remarketers."

Termination of the Retail Dealer Agreement is effective immediately (the "Termination Date") since the material breach referenced in point 2 above is not curable.

Canon USA further informs Dealer that as of the Termination Date, Canon USA shall cease:

(i) Its sale to Dealer of Canon-brand business equipment and accessories, spare parts, and supplies for such equipment;

(ii) Its provision to Dealer of support, including technical support, training, and access to online service and support portals offered to its authorized retail dealers; and

(iii) Its provision to Dealer of the ability to participate in promotional marketing, pricing, and other programs offered to its authorized retail dealers.

To be clear, the cessation of such sales, support, service, and participation in promotional programs shall be effective as of the Termination Date. Accordingly, any obligations that Dealer may have pursuant to Sections 2.1 and 3.1 of the Retail Dealer Agreement, including, without limitation, (i) any obligation to provide service for products sold, rented, or serviced by it, and (ii) any obligation to adhere to certain service standards, shall be terminated, effective as of the Termination Date. Canon certifications for any and all service representatives, technicians and/or system consultants shall likewise be terminated as of the Termination Date.

C

In accordance with the terms and conditions of the Retail Dealer Agreement, Canon USA reminds Dealer that it must immediately, as of the Termination Date:

(i) Cease holding itself out as an authorized Canon retail dealer of, and/or authorized service provider for, Canon-brand business equipment;

(ii) Refrain from exercising or attempting to exercise any right or privilege granted to it under the Retail Dealer Agreement, including, if applicable, purporting to act on behalf of Canon USA with respect to any Canon USA Strategic Account, Government Account, and/or Special Account customers;

(iii) Cease its use of, and relinquish any and all rights to, any name, trade name, or trademark which Canon USA has authorized or permitted Dealer to use in connection with its authorized retail dealership;

(iv) Remove all names, marks, logos, insignias, signs, telephone directory listings, advertisements, statements on websites, and any other material that identifies Dealer as an authorized Canon retail dealer of, and/or authorized service provider for, Canon-brand business equipment;

(v) Destroy any and all materials provided to Dealer by Canon USA, including, but not limited to, any confidential information of Canon USA, promotional materials, technical materials, service manuals, product literature, reseller price lists, customer sales lists, and/or sales leads; and

(vi) Return all demonstration and/or loaner units previously provided by Canon USA to Dealer free of charge, if any.

To the extent that Dealer wishes to dispute any of the matters addressed in this letter, or any other matters arising from its termination as an authorized retail dealer, Section 15.2 of the Retail Dealer Agreement obligates Dealer to refrain from commencing litigation prior to seeking to resolve any such dispute by engaging in mediation in the State of New York under the auspices of the American Arbitration Association.

The statements in this letter are made without prejudice to any and all of Canon USA's rights pursuant to the Retail Dealer Agreement and/or under applicable law. Canon USA expressly reserves all such rights.

Sincerely,

CANON U.S.A., INC.

S Yoshida M.O.

Shinichi (Sam) Yoshida
Executive Vice President and General Manager
Business Information Communications Group

EXHIBIT "D"

Canon

Canon U.S.A., Inc.
One Canon Park
Melville, NY 11747
Tel: 631.330.5000

DIRECT DIAL: (631) 330 -5631

August 30, 2021

Via Certified Mail, Return Receipt Requested

Steve Martin
President
Laser Tone Business Systems LLC
1973 Bay Road
Milford, DE 19963

Re: Notice of Election Not to Renew Office Imaging Retail Dealer Agreement between Canon U.S.A., Inc. and Laser Tone Business Systems LLC

Dear Mr. Martin:

Please be advised that Canon U.S.A., Inc. ("Canon USA") hereby provides notice to Laser Tone Business Systems LLC ("Dealer") of Canon USA's election not to renew the Office Imaging Retail Dealer Agreement, dated January 8, 2013, between Dealer and Canon USA (the "Retail Dealer Agreement"). Termination of the Retail Dealer Agreement shall be effective January 1, 2022 (the "Termination Date").

Section 14.1 of the Retail Dealer Agreement provides, in pertinent part, that:

> The initial term of this Agreement shall expire on December 31 of the second calendar year after the year in which this Agreement first becomes effective . . . Upon expiration of the initial term of this Agreement or of any renewal term, this Agreement shall be automatically renewed for an additional two (2) year term unless either party gives to the other party, not later than September 30 (or such earlier date as may be required by applicable law) of the year in which the initial or renewal term is to expire, written notice of its election not to renew.

The current two-year renewal term of the Retail Dealer Agreement commenced on January 1, 2019. Canon USA elects not to renew the Retail Dealer Agreement for an additional term. Accordingly, the current term of the Retail Dealer Agreement expires on December 31, 2021, and the Retail Dealer Agreement shall be terminated as of the Termination Date.

Canon USA further informs Dealer that as of the Termination Date, Canon USA shall cease:

(i) Its sale to Dealer of Canon-brand business equipment and accessories, spare parts, and supplies for such equipment;

(ii) Its provision to Dealer of support, including technical support, training, and access to online service and support portals offered to its authorized retail dealers; and

(iii) Its provision to Dealer of the ability to participate in promotional marketing, pricing, and other programs offered to its authorized retail dealers.

To be clear, the cessation of such sales, support, service, and participation in promotional programs shall be effective as of the Termination Date. Accordingly, any obligations that Dealer may have pursuant to Sections 2.1 and 3.1 of the Retail Dealer Agreement, including, without limitation, (i) any obligation to provide service for products sold, rented, or serviced by it, and (ii) any obligation to adhere to certain service standards, shall be terminated, effective as

D

of the Termination Date. Canon certifications for any and all service representatives, technicians and/or system consultants shall likewise be terminated as of the Termination Date.

In accordance with the terms and conditions of the Retail Dealer Agreement, Canon USA reminds Dealer that it must immediately, as of the Termination Date:

(i) Cease holding itself out as an authorized Canon retail dealer of, and/or authorized service provider for, Canon-brand business equipment;

(ii) Refrain from exercising or attempting to exercise any right or privilege granted to it under the Retail Dealer Agreement, including, if applicable, purporting to act on behalf of Canon USA with respect to any Canon USA Strategic Account, Government Account, and/or Special Account customers;

(iii) Cease its use of, and relinquish any and all rights to, any name, trade name, or trademark which Canon USA has authorized or permitted Dealer to use in connection with its authorized retail dealership;

(iv) Remove all names, marks, logos, insignias, signs, telephone directory listings, advertisements, statements on websites, and any other material that identifies Dealer as an authorized Canon retail dealer of, and/or authorized service provider for, Canon-brand business equipment;

(v) Destroy any and all materials provided to Dealer by Canon USA, including, but not limited to, any confidential information of Canon USA, promotional materials, technical materials, service manuals, product literature, reseller price lists, customer sales lists, and/or sales leads; and

(vi) Return all demonstration and/or loaner units previously provided by Canon USA to Dealer free of charge, if any.

To the extent that Dealer wishes to dispute any of the matters addressed in this letter, or any other matters arising from its termination as an authorized retail dealer, Section 15.2 of the Retail Dealer Agreement obligates Dealer to refrain from commencing litigation prior to seeking to resolve any such dispute by engaging in mediation in the State of New York under the auspices of the American Arbitration Association.

The statements in this letter are made without prejudice to any and all of Canon USA's rights pursuant to the Retail Dealer Agreement and/or under applicable law. Canon USA expressly reserves all such rights.

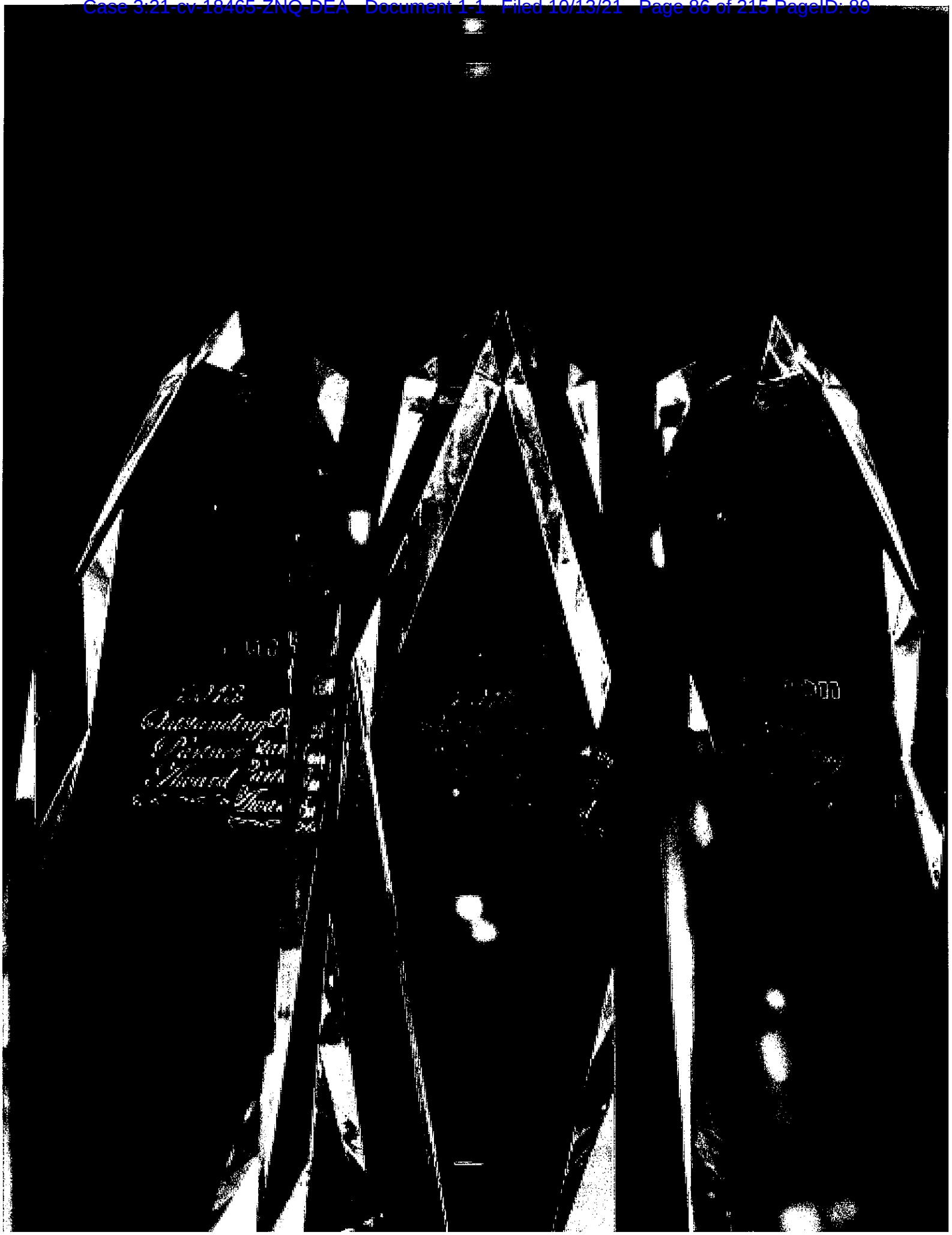
Sincerely,

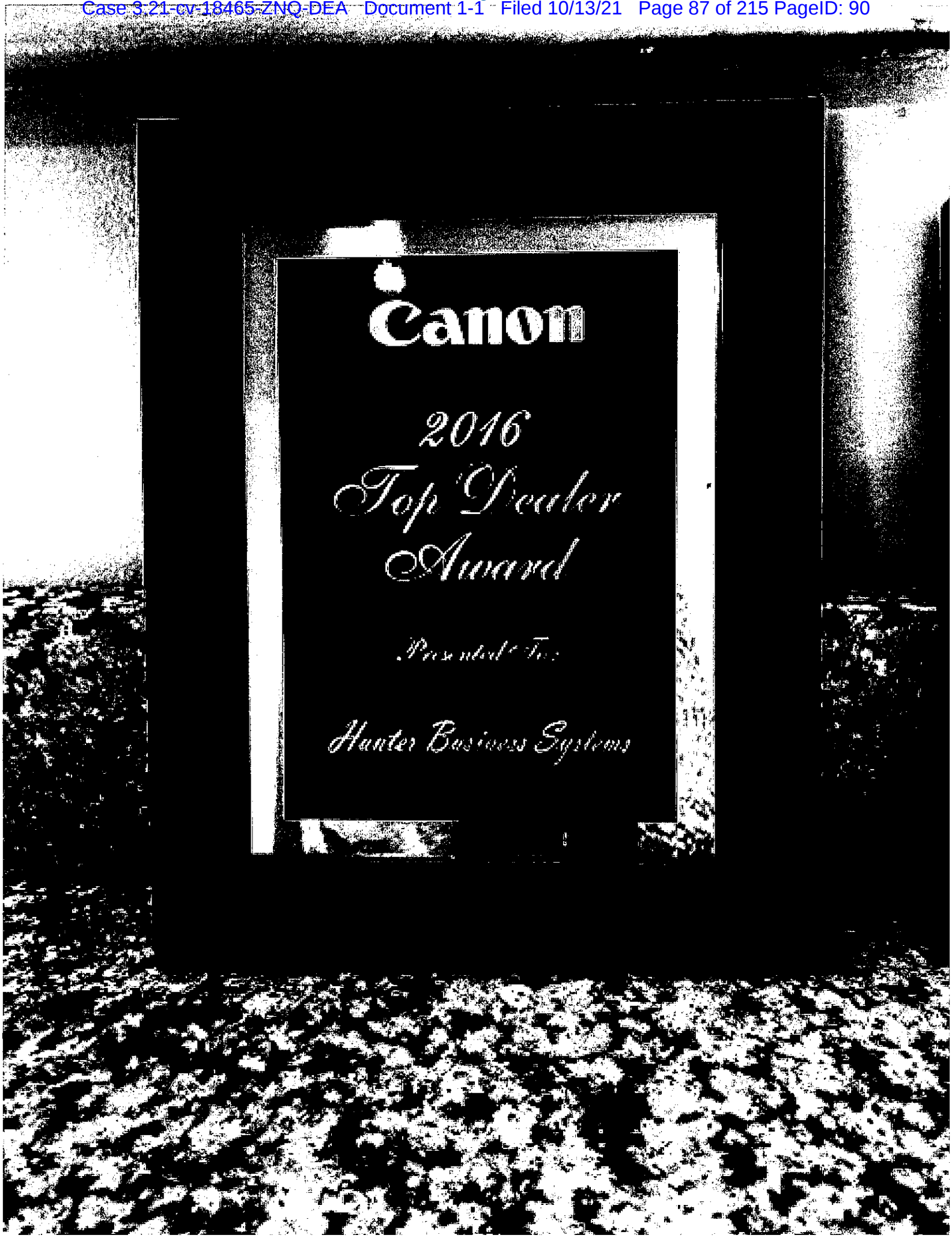
CANON U.S.A., INC.

M.O.

Shinichi (Sam) Yoshida
Executive Vice President and General Manager
Business Information Communications Group

EXHIBIT "E"



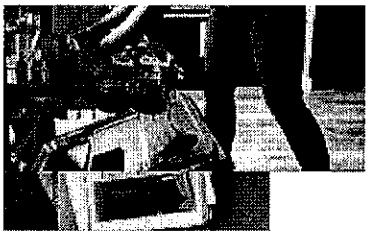

Canon
2016
Top Dealer
Award
Presented To:
Hunter Business Systems

Canon

Hunter Business Systems of Delaware, *LLC*

15 Year Authorized Canon Dealer

EXHIBIT "F"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Buy 2 major appliances, save $50
Buy 3 or more major appliances, save $100
Only valid on appliances priced $399+*
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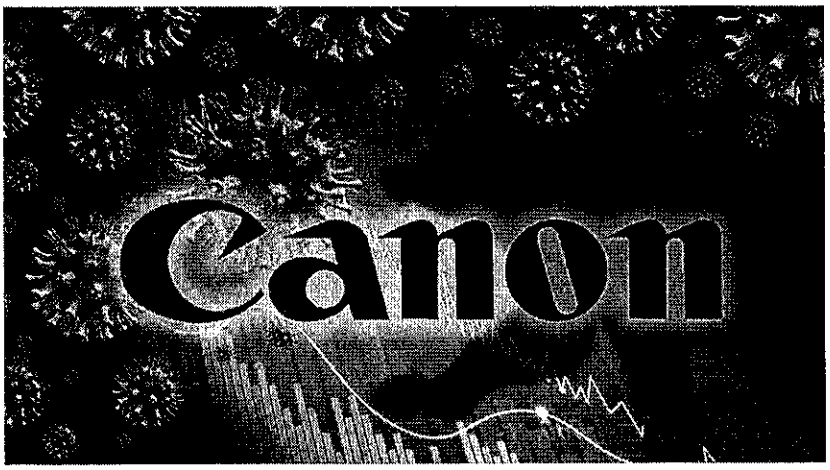
*Click f

Canon's Sales Dropped by a Massive 25% in the First Quarter of 2020

by **Andy Day**
April 24, 2020 | 7 Comments

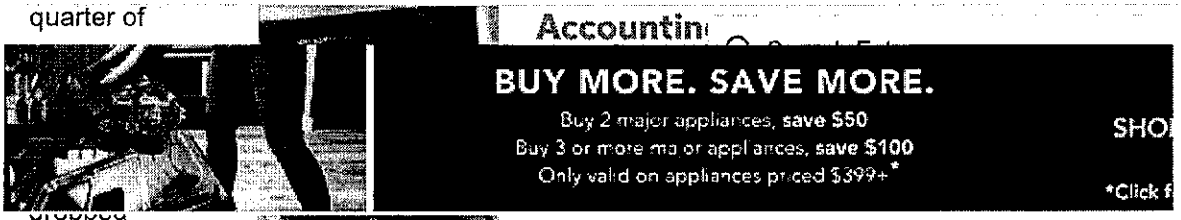


Canon has posted its financial

ADVERTISEMENT

F

quarter of



dropped massively. The global pandemic is having a huge impact on the camera industry, and Canon is no exception.

The spread of COVID-19 "completely changes the global economic landscape," says one of Canon's first slides in its recent report to stakeholders, with the global economy facing its "worst recession since the Great Depression."

It explains that factory shutdowns and reduced capacity has left the company short on some products and sales are suffering due to a drop in demand. Income Before Taxes (IBT) is down more than 25% when compared to the first quarter of 2019. Operating profit from its Imaging System division is down by more than 80%.

If that wasn't stark enough, the report states that Canon expects the situation to worsen, with the assumption that results of the second quarter of 2020 will be even worse. Having recently launched the EOS R5, Canon plans to "stimulate demand with even sharper focus on professional and advanced amateurs."

If this is the impact on Canon — a company that is so large and diverse that it is still generating profits, despite COVID-19 and this dramatic downturn — one can imagine that smaller manufacturers may face incredibly tough challenges in the coming months.

Will the camera industry be reshaped following the pandemic? Will some smaller companies disappear altogether? Leave your thoughts in the comments below.

Fstoppers
Like Page 387K likes

Follow @fstoppers 476K followers

Posted In: Business News **via:** Canon Global

SUPPORT FSTOPPERS

7 COMMENTS

Andy Day is a British

addicted to climbing and owns a fairly useless dog. He has an MA in Sociology & Photography which often makes him ponder what all of this really means.

andyday.com

More from A

R3: How Good is Eye-Control Autofocus?

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Buy 3 or more major appliances, save $100
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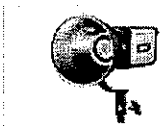

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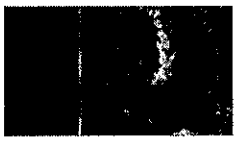

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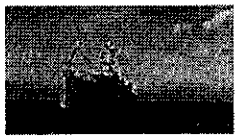

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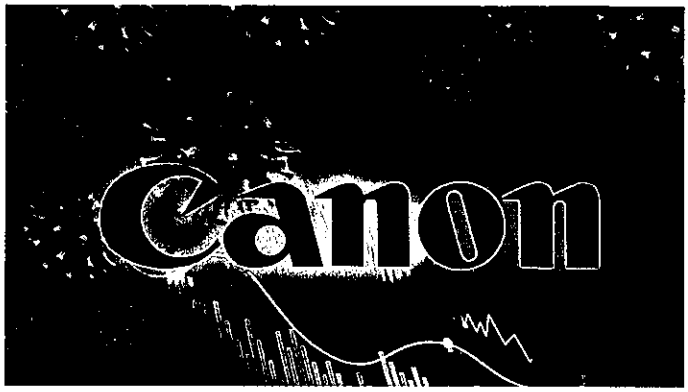
Canon's Sales Dropped by a Massive 25% in the First Quarter of 2020

by Andy Day
April 24, 2020 7 Comments



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Canon has posted its financial results for the first quarter of 2020 and sales of cameras have dropped massively. The global pandemic is having a huge impact on the camera industry, and Canon is no exception.

The spread of COVID-19 "completely changes the global economic landscape," says one of Canon's first slides in its recent report to stakeholders, with the global economy facing its "worst recession since the Great Depression."

It explains that factory shutdowns and reduced capacity has left the company short on some products and sales are suffering due to a drop in demand. Income Before Taxes (IBT) is down more than 25% when compared to the first quarter of 2019. Operating profit from its Imaging System division is down by more than 60%.

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If that wasn't stark enough, the report states that Canon expects the situation to worsen, with the assumption that results of the second quarter of 2020 will be even worse. Having recently launched the EOS R5, Canon plans to "stimulate demand with even sharper focus on professional and advanced amateurs."

If this is the impact on Canon — a company that is so large and diverse that it is still generating profits, despite COVID-19 and this dramatic downturn — one can imagine that smaller manufacturers may face incredibly tough challenges in the coming months.

Will the camera industry be reshaped following the pandemic? Will some smaller companies disappear altogether? Leave your thoughts in the comments below.

Posted in: Business News via: Canon Global

7 COMMENTS

Andy Day is a British photographer and writer living in France. He began photographing parkour in 2003 and has been doing weird things in the city and elsewhere ever since. He's addicted to cycling and owns a fairly useless dog. He has an MA in Sociology & Photography which often makes him ponder what all of this really means.
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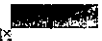
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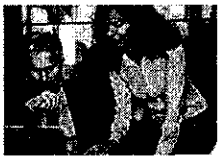
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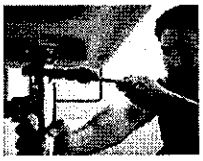
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Canon annual/quarterly revenue history and growth rate from 2006 to 2021. Revenue can be defined as money a company receives from its customers in exchange for the sales of goods or services. Revenue item on an income statement from which all costs and expenses are subtracted to arrive at net income.

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- Canon annual revenue for 2018 was **$35.963B**, a **0.96% decline** from 2017.

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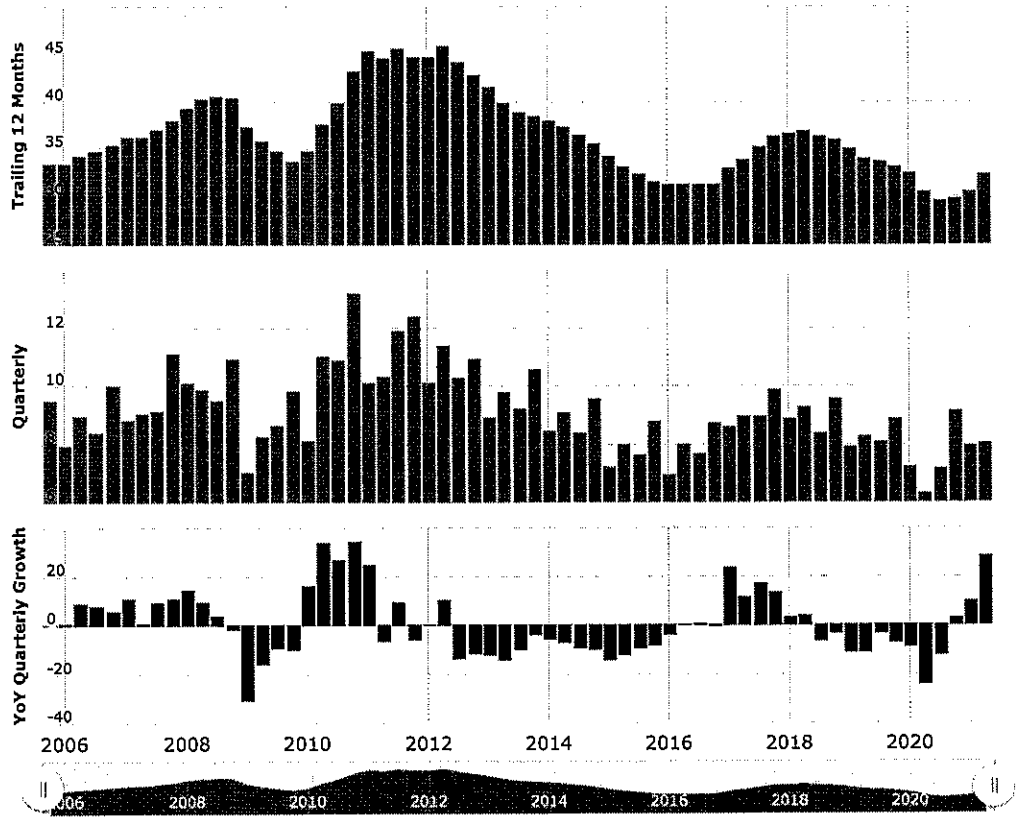

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Canon Annual Revenue (Millions of US $)		Canon Quarterly Revenue (Millions of US $)	
2020	$29,706	2021-06-30	$8,026
2019	$33,058	2021-03-31	$7,921
2018	$35,963	2020-12-31	$9,114
2017	$36,312	2020-09-30	$7,133
2016	$31,294	2020-06-30	$6,262
2015	$31,542	2020-03-31	$7,197
2014	$35,409	2019-12-31	$8,862
2013	$38,433	2019-09-30	$8,086
2012	$43,497	2019-06-30	$8,243
2011	$45,608	2019-03-31	$7,867
2010	$45,764	2018-12-31	$9,527
2009	$34,883	2018-09-30	$8,338
2008	$44,991	2018-06-30	$9,259

Sector	Industry	Market Cap	Revenue
Computer and Technology (https://www.macrotrends.net/stocks/sector/computer-and-technology)	Office Automation & Equipment (https://www.macrotrends.net/stocks/industry/124/)	$26.202B	$30.387B

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Stock Name	Country	Market Cap	PE Ratio
Pitney Bowes (PBI) (/stocks/charts/PBI/pitney-bowes/revenue)	United States	$1.346B	19.13

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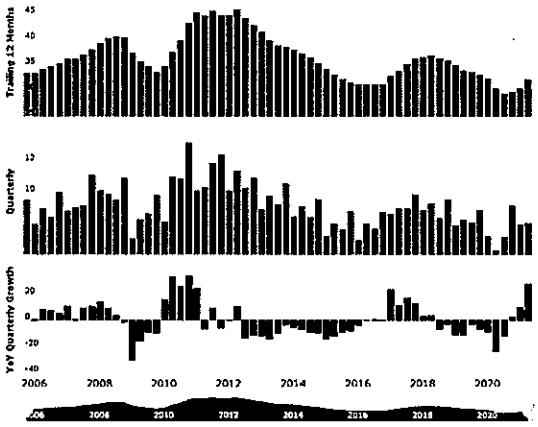

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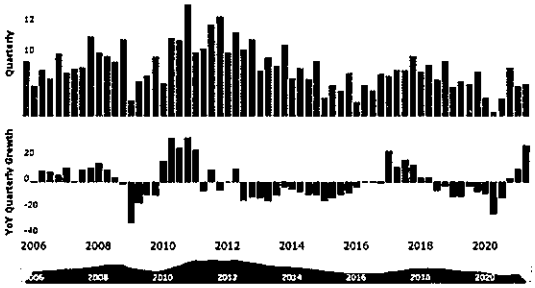

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Sector	Industry	Market Cap	Revenue
Computer and Technology	Office Automation & Equipment	$25.936B	$30.387B

Canon, Inc. is an industry leader in professional and consumer imaging equipment and information systems. Canon's extensive product line enables businesses and consumers worldwide to capture, store and distribute visual information. Canon products include full-color as well as black and white copiers, color laser printers, facsimile machines, micrographics and optical disk filing systems, word processors, typewriters and calculators, camcorders, and lenses, semiconductor, broadcast and optical equipment, and other specialized industrial products.

Stock Name	Country	Market Cap	PE Ratio
Pitney Bowes (PBI)	United States	$1.268B	18.02

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Fundamental data from Zacks Investment Research, Inc

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

FORM 20-F

☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

☑ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2020

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

☐ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report _____
For the transition period from _____ to _____
Commission file number 001-15122

CANON KABUSHIKI KAISHA

(Exact name of Registrant in Japanese as specified in its charter)

CANON INC.

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

JAPAN
(Jurisdiction of incorporation or organization)

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

Sachiho Tanino, +81-3-3758-2111, +81-3-5482-9680, 30-2, Shimomaruko 3-chome, Ohta-ku, Tokyo 146-8501, Japan
(Name, Telephone, Facsimile number and Address of Company Contact Person)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
(1) American Depositary Shares ("ADSs"), each of which represents one share	CAJ	New York Stock Exchange
(2) Common Stock (the "shares")*		

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

None
(Title of Class)

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

None
(Title of Class)

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

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

As of December 31, 2020, 1,045,773,645 shares of common stock, including 16,536,936 ADSs, were outstanding.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ☐ No ☑

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files) Yes ☑ No ☐

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

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐ Emerging growth company ☐

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act. ☐

† The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☑

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

U.S. GAAP ☑ International Financial Reporting Standards as issued by the International Accounting Standards Board ☐ Other ☐

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ☐ Item 18 ☐

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

Yes ☐ No ☑

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CERTAIN DEFINED TERMS, CONVENTIONS AND PRESENTATION OF FINANCIAL INFORMATION

All information contained in this Annual Report is as of December 31, 2020 unless otherwise specified.

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

On March 5, 2021, the noon buying rate for yen in New York City as reported by the Federal Reserve Bank of New York was ¥ 108.24= U.S.$1.

The Company's fiscal year end is December 31. In this Annual Report "2020" refers to the Company's fiscal year ended December 31, 2020, and other fiscal years of the Company are referred to in a corresponding manner.

FORWARD-LOOKING INFORMATION

This Annual Report contains forward-looking statements and information relating to Canon that are based on beliefs of its management as well as assumptions made by and information currently available to Canon. When used in this Annual Report, the words "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," "project," "should" and similar expressions, as they relate to Canon or its management, are intended to identify forward-looking statements. Such statements, which include, but are not limited to, statements contained in "Item 3. Key Information-Risk Factors," "Item 4. Information on the Company," "Item 5. Operating and Financial Review and Prospects" and "Item 11. Quantitative and Qualitative Disclosures about Market Risk" reflect the current views and assumptions of the Company with respect to future events and are subject to risks and uncertainties.

Many factors could cause the actual results, performance or achievements of Canon to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, among others, changes in general economic and business conditions, changes in currency exchange rates and interest rates, introduction of competing products by other companies, lack of acceptance of new products or services by Canon's targeted customers, inability to meet efficiency and cost reduction objectives, changes in business strategy and various other factors, both referenced and not referenced in this Annual Report. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected, intended, planned or projected. Canon Inc. does not intend or assume any obligation to update these forward-looking statements.

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PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected financial data

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

Selected financial data *1*3*4:	2020	2019	2018	2017	2016
	(Millions of yen, except average number of shares and per share data)				
Net sales	¥ 3,160,243	¥ 3,593,299	¥ 3,951,937	¥ 4,080,015	¥ 3,401,487
Operating profit	110,547	174,420	342,452	322,211	216,338
Income before income taxes	130,280	195,493	362,392	354,490	244,564
Net income attributable to Canon Inc.	83,318	124,964	252,441	242,081	150,334
Advertising expenses	31,273	46,665	58,729	61,207	58,707
Research and development expenses	272,312	298,503	315,842	333,371	306,537
Depreciation of property, plant and equipment	162,733	170,418	175,771	189,712	199,133
Increase in property, plant and equipment	132,302	178,088	159,316	147,542	171,597
Long-term debt, excluding current installments	4,834	357,340	361,962	493,238	611,289
Common stock	174,762	174,762	174,762	174,762	174,762
Canon Inc. shareholders' equity	2,575,031	2,685,496	2,820,644	2,863,986	2,776,327
Total assets	4,625,614	4,771,918	4,902,955	5,201,626	5,142,279
Average number of common shares in thousands	1,049,802	1,069,957	1,079,753	1,085,439	1,092,071
Per share data:					
Net income attributable to Canon Inc. shareholders per share:					
Basic	¥ 79.37	¥ 116.79	¥ 233.80	¥ 223.03	¥ 137.66
Diluted	79.35	116.77	233.78	223.03	137.66
Cash dividends declared	80.00	160.00	160.00	160.00	150.00
Cash dividends declared (U.S.$)*2	$ 0.745	$ 1.514	$ 1.440	$ 1.483	$ 1.393

Notes:

1. The above financial data is prepared in accordance with U.S. generally accepted accounting principles.
   Canon acquired Toshiba Medical Systems Corporation on December 19, 2016, which was subsequently renamed as Canon Medical Systems Corporation ("CMSC") on January 4, 2018. CMSC's consolidated balance sheet and operating result since the acquisition date are reflected in Canon's consolidated financial statements.
2. Annual cash dividends declared (U.S.$) are translated from yen based on a weighted average of the noon buying rates for yen in New York City as reported by the Federal Reserve Bank of New York in effect on the date of each semiannual dividend payment or on the latest practicable date.

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3. Canon adopted ASU No. 2017-07 from the quarter beginning January 1, 2018. The adoption of the new presentation requirement of the service cost component and the other components of net benefit cost resulted in reclassification from cost of sales, and selling, general and administrative expenses, and research and development expenses into other income (deductions) for the years ended December 31, 2017 and 2016 respectively.
4. Certain figures for the fiscal years ended December 31, 2019, 2018, 2017 and 2016 presented in the table above have been revised from the versions previously disclosed. The effect on the consolidated financial statements was immaterial, respectively. For further details regarding the circumstances of the revision, please refer to Note 1 (y) of the Notes to Consolidated Financial Statements.

B. Capitalization and indebtedness

Not applicable.

C. Reasons for the offer and use of proceeds

Not applicable.

D. Risk factors

Canon is one of the world's leading manufacturers of office multifunction devices ("MFDs"), plain paper copying machines, laser printers, cameras, inkjet printers, diagnostic equipment and lithography equipment.

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

Risks Specific to Canon's Industries and Business Operations

Changes in the print environment may affect Canon's business.

In the business machines market for such products as office MFDs and printers, customers are increasingly looking for ways to cut costs while protecting the environment. In addition, the digitalization of workflow in office and the increasing popularity of remote work could also lead to a decrease in customer print opportunities.

In line with these trends, Canon believes that products and services with enhanced cloud connectivity and security, as well as advanced functions that contribute to the efficiency of office operations, will attract strong demand. In the field of commercial printing, Canon anticipates growth in the medium to long term due to a changeover from analog printing to digital printing and growing needs for high-mix, low-volume printing, and is striving to capture demand by focusing on the graphic arts and packaging fields. While Canon has been taking initiatives to analyze market information and respond to these market changes in the print environment by tailoring its new product and service offerings, if Canon is unable to develop and provide products and services that are responsive to the evolving needs of consumers, its operating results may be adversely affected.

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

As the photographic capabilities of other digital devices, including smartphones, have improved significantly, consumer preferences for taking photographs have also changed and diversified. As a result, the digital camera market is shrinking, with competition intensifying in price and performance. Under these circumstances, one of Canon's strategies is developing higher performance digital cameras with further differentiation from smartphones, and further strengthening its product capabilities focusing on models for professional and high-end users. Canon is also developing new categories of cameras in order to attract new users who demand ease of use and taking photographs in a variety of occasions.

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Although Canon has been taking initiatives to analyze market information and respond to the market changes, if Canon fails to introduce new products that maintain a competitive advantage over competitors, or fails to provide new services that match changes in consumer tastes, Canon's position will decline in relative terms, and as a result, its operating results may be adversely affected.

Canon may not be able to adequately anticipate developments related to its medical device business, including changes to the market environment and developments related to medical device approvals, certifications and health insurance coverage.

Regarding the market for Canon's medical equipment sold to medical institutions, mainly in the area of diagnostic imaging, it takes a long time to design, research, develop and commercialize products, because it is necessary to prove the clinical effectiveness of new technologies and new products, and obtain regulatory approvals and certifications prior to sale in individual countries and regions. The global market for medical devices is expanding due to developing medical infrastructure in emerging countries and regions, but in developed countries and regions issues such as aging populations, rising health insurance costs and pressure to cut medical device costs may adversely affect Canon's medical device business.

Canon invests in research and development of new medical device technologies based on detailed analysis of the potential technical and business prospects for such technologies. Although Canon has been taking initiatives to analyze market information and respond to the market changes and despite these investments, Canon may become less competitive if it cannot anticipate whether new technologies will have the expected clinical effects or developments in the market or regulatory environment for such technologies. Canon may need to significantly modify its business plans in response to these challenges and it may not be able to generate the expected returns on its investments in research and development of medical devices.

Because the semiconductor lithography equipment and flat-panel-display ("FPD") industry is highly cyclical, Canon may be adversely affected by any downturn in demand for semiconductor devices, FPD panels and organic light-emitting diode ("OLED") panels.

The semiconductor lithography equipment and FPD lithography equipment industry is characterized by fluctuating business cycles, the timing, length and volatility of which are difficult to predict. Recurring periods of oversupply of semiconductor devices and panels have at times led to significantly reduced demand for capital equipment, including the semiconductor lithography equipment, FPD lithography equipment and OLED vapor deposition equipment that Canon produces. Despite this cyclicality, Canon must maintain significant levels of research and development expenditures to remain competitive. A future cyclical downturn in the lithography equipment industry and related fluctuations in the demand for capital equipment could cause cash flow from sales to fall below the level necessary to offset Canon's expenditures, including those arising from research and development, and could consequently have a material adverse effect on Canon's operating results and financial condition.

Under these circumstances, Canon is working to stabilize its earnings base by continuously improving the performance of its equipment and enhancing its ability to respond to customer needs, thereby aiming to capture a broader scope of demand, diversifying customer base and applications, and developing products to improve the balance in sales regions across the globe. In addition, Canon is taking measures to minimize the impact of fluctuations in market demand by transforming existing manufacturing facilities and building a group-wide system of flexible staff reshuffling, and investing in its own production facilities with the assumptions of significant fluctuations in demand.

Although Canon has been taking initiatives to analyze market information and respond to the market changes, Canon's operating results and financial position could be adversely affected if Canon fails to meet its customer needs by having different assumptions of the market trend.

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

Situations such as disruptions of relationships between Canon and its original equipment manufacturing ("OEM") partner, HP Inc., or between Canon and the major distributors of Canon products or acquisitions of those distributors by competitors could adversely affect Canon's ability to meet its sales targets. In addition, the rapid proliferation of Internet-based businesses may render conventional distribution channels obsolete. These, and other changes in Canon's sales environment, could adversely affect Canon's operating results.

In addition, Canon depends on HP Inc. for a significant part of its business and has had a strong relationship with HP Inc. as an OEM partner. However, Canon's business and operating results may be affected by the policies, business and operating results of HP Inc. Any decision by HP Inc. management to limit or reduce the scope of its relationship with Canon would adversely affect Canon's business and operating results.

Canon has built close relationships with the major distributors of Canon products but Canon's business and operating results may be affected by the policies, business and operating results of those partners. Any decision by the senior management team of such partners to limit or reduce the scope of its relationship with Canon would adversely affect Canon's business and operating results.

In addition to the traditional approach of selling its goods, Canon has been focusing on online sales of its products by making use of a variety of its sales channels amid the sharp growth of online sales platforms across the world. Nevertheless, Canon's operating results may be adversely affected should the business conditions change dramatically than expected.

Other Risks Related to Canon's Industries and Business Operations

Canon's cooperation and alliances with, strategic investments in, and acquisitions of, third parties may not produce the anticipated improvements to its financial results.

Canon makes strategic acquisitions of other companies for the purpose of business expansion and Canon is also engaged in alliances, joint ventures, and strategic investments with other companies. Canon targets corporate acquisitions, business alliances and strategic investments in areas where Canon has a strong affinity with, based on the technologies it possesses and the businesses it excels in. In particular, it focuses its investments on blue chip companies with strong management teams. These activities can help Canon to grow its business. However, weak business trends or disappointing performance by partners or acquired companies may adversely affect the success of such activities. The success of such activities may be adversely affected by the inability of Canon and its partners or acquired companies to successfully define and reach common objectives. Even if Canon and its partners or acquired companies succeed in designing a structure that allows for the definition and achievement of common objectives, synergies may not be created between the businesses of Canon and its partners or acquired companies. In addition, integration of operations may take more time than expected. In connection with its acquisitions, Canon recognizes goodwill and other intangible fixed assets on its consolidated balance sheet, and the amounts recognized may be impaired if there is a decline of future cash flow. An unexpected cancellation of a major business alliance may disrupt Canon's overall business plans and may also result in a delayed return on, or reduced recoverability of, the investment, adversely affecting Canon's operating results and financial position.

A substantial portion of Canon's business activity is conducted outside Japan, exposing Canon to unfavorable political, diplomatic or economic conditions, sharp fluctuations in foreign currency exchange rates and unexpected political, legal or regulatory change.

Canon's business activities are deployed globally so overseas business activities are primarily exposed to the risk of unfavorable political, diplomatic or economic conditions, sharp fluctuations in foreign currency exchange rates and unexpected political, legal or regulatory changes.

Declines in consumption and restrained investment due to an economic downturn in major markets such as Japan, the United States, Europe, Asia and others may affect Canon's operating results. The operating results for

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products such as office, diagnostic equipment and industrial equipment are affected by the financial results of its corporate customers or medical institutions, and deterioration of their financial results has caused and may continue to cause customers to limit capital investments. Demand for Canon's consumer products, such as cameras and inkjet printers, is discretionary. Rapid price declines owing to intensifying competition and declines in levels of consumer spending and corporate investment could adversely affect Canon's operating results and financial position.

Canon derives a significant portion of its revenue from its international operations. As a result, Canon's operating results and financial position have been and may continue to be significantly affected by changes in the value of the yen versus foreign currencies. Sales of Canon's products denominated in foreign currencies have been and may continue to be adversely affected by the strength of the yen against foreign currencies. Conversely, a strengthening of foreign currencies against the yen will generally be favorable to Canon's foreign currency sales. Canon's consolidated financial statements are presented in yen. As such, the yen value of Canon's assets and liabilities arising from foreign currency transactions have fluctuated and may continue to fluctuate. Unpredictable fluctuations may have certain effects on Canon's consolidated financial statements. Although Canon strives to mitigate the effects of foreign currency fluctuations arising from its international business activities, including by executing currency hedge transactions through short-term forward exchange contracts and by reflecting exchange rate movements in its product pricing, Canon's consolidated financial statements have been and may continue to be affected by currency translations from the financial statements of Canon's foreign subsidiaries and affiliates, which are denominated in various foreign currencies.

In addition, there are various political, diplomatic or economic issues in countries and regions around the world, and there is a risk that Canon will face unexpected political, legal or regulatory changes.

With regard to the occurrence of unfavorable political, diplomatic or economic conditions, Canon strives to monitor local conditions through daily communication with its subsidiaries and by collecting information through regular business hearings to its business strategies and forecasts of financial results. If demand is expected to decline in a specific market or globally, Canon adjusts its production in accordance with the production and supply system.

Canon has focused on strengthening its measures for international environmental regulations and changes in international and domestic tax regulations with respect to unexpected political, legal or regulatory changes. Regulations such as fair competition, anti-corruption, protection of personal information, security trade control and others including regulations related to the environment are carefully monitored and complied with based on the control of each department in charge.

Any inability to manage the risks inherent in Canon's international activities could adversely affect its business and operating results.

Canon's business could be adversely affected by disruption in the supply chain.

Canon's main business is to develop products, purchase raw materials and parts, manufacture products, and sell them worldwide. In its business activities, Canon strives to build an optimal supply chain for the entire chain of activities, from the purchase of raw materials to production and sales. In particular, Canon has striven to build optimal production systems and improve the quality of its products, including by building an efficient production system using automation and robotization technology, promoting in-house production of key parts, controlling the degree of external dependence, and reducing manufacturing costs to increase our resistance to rising raw material prices and supply shortages. Canon has also established a department dedicated to quality control and has worked with external suppliers to improve quality and ensure stable procurement of raw materials and parts, and established a department to manage the logistics of the entire Group, in order to increase efficiency, reduce logistics costs and quickly respond to problems when they arise. Further, Canon enters insurance policies to cover damages incurred by accidents. Nevertheless, despite these efforts, there can be no assurance that Canon

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will be able to prevent or mitigate adverse effects on its supply chain, and there is a possibility that a shortage of raw materials and parts supply, quality problems, rising production costs, as well as stagnation in distribution, accidents of transportation and damages triggered by other factors in the production and sales of products may have an adverse effect on Canon's operating results.

Canon relies on specific external suppliers for critical parts and materials to be used in products that meet Canon's strict quality, efficiency and environmental standards. Canon's business performance may be adversely affected by suspension of production activities or higher production costs in the event of any unforeseen circumstances affecting suppliers of parts and materials used across Canon's product lineup, or in the event of a quality problem, insufficient supply, or sharp price increases affecting such parts and materials.

Canon's ability to supply products to countries and regions around the world depends on the effectiveness of its logistics services. However, if any trouble occurs in the computerized logistics system, if problems such as regional disputes occur, or if labor disputes such as strikes by port workers occur, or if the losses arising from accidents when transporting expensive products are not compensated by insurance, or if products cannot be replaced and delivered to the customers, there are possibilities that increased logistics costs or delays in deliveries may result in lost sales opportunities and credibility with its customers.

Canon's facilities, information systems and information security systems are subject to damage as a result of natural disasters and infectious diseases.

Canon's headquarters building, information systems and major facilities of research and development centers are located in the Tokyo region, and earthquakes occur more frequently in Japan than in other parts of the world, making Japan an area that is vulnerable to the damage caused by such natural disasters. Canon's facilities and offices in the areas of research and development, procurement, production, logistics, sales and services are located throughout the world, and there are risks of disruptions due to the stoppage of infrastructure in the wake of natural disasters such as earthquakes and floods, as well as terrorist attacks. Such factors may adversely affect Canon's operations, incur cost related to physical and human damage, and lower the value of Canon brand.

Although Canon has continuously implemented risk management activities led by the relevant departments of the head office, there can be no assurance that Canon will be able to prevent or mitigate the effect of any disruptive events or developments. In preparation for the worst-case scenario, such as plant shutdowns, Canon has established the backup system for concurrent production of similar models at multiple sites which may not be adequate to mitigate the relevant risks. In order to quickly restore operations in the event of a shutdown, Canon has identified the initial actions to be taken, roles and responsibilities of the departments involved, and established the structure to communicate among departments in the event of an emergency. In addition, Canon has the backup structure for core systems used in R&D, procurement, production, logistics, sales and services in case of information systems failure. Nonetheless, there can be no assurance that Canon will be able to prevent or mitigate the effect of any disruptive events or developments.

In addition, the global infection of the novel coronavirus disease ("COVID -19") has had a negative effect on Canon's operating results and financial conditions. Initially, the pandemic disrupted supply chains around the world including the production activities of Canon. Canon took measures to temporarily halt operations at some of its plants and cut production. Sales are also greatly affected by the impact of closures of offices and retail outlets, overseas travel restrictions and shortage of international freight transport capacity which have resulted from the restrictions to economic activities such as the emergency declaration in Japan, lockdowns and travel restrictions across the globe. Canon has developed a task force to focus on preventing infection and have implemented such measures to cancel internal and external major events as well as promote staggered commuting and remote work of its employees. Canon has also made the efforts to adapt to the changes of the environment and recover production and sales activities around the world.

The time frame to contain COVID-19 remains uncertain. If the transmission further expands and prolongs, it could lead to a slowdown of the world economy and the business of Canon, a slowdown in the business of Canon's customers, suppliers and partners and lower investment sentiment for those parties. Further, requests by

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governments to restrict Canon's business amid the pandemic may occur. COVID-19 may have other effects on Canon's businesses. For example, print volume of office MFDs may not recover to the expectations of Canon in view of the increasing popularity of remote work since COVID-19. Also, installation of industrial equipment may turn out to be slower than expected by Canon, due to slower recovery in business investment. All of these cases may have an adverse effect on Canon's financial position and operating results.

Canon must continue to attract and retain highly qualified professionals.

Canon's future operating results depend in significant part upon the continued contributions of its employees. In addition, Canon's future operating results depend in part on its ability to attract, train and retain qualified personnel in the area of R&D, production, sales and management. The competition to acquire human resources in the high-tech industries in which Canon operates has intensified in recent years. Moreover, owing to the accelerating pace of technological change, the importance of training new personnel in a timely manner to meet product research and development requirements will increase.

Maintaining a high level of expertise in Canon's manufacturing technology is critical to Canon's business. However, it is difficult to secure the requisite expertise for specialized skill areas, such as lens processing, in a short time period. Canon strives to create a work environment in which each and every employee is highly motivated and can fully demonstrate his or her abilities by making the most of his or her individuality and sense of value in order to provide an attractive workplace for capable employees. In particular, when conducting business activities globally, Canon ensures thorough compliance with labor-related laws and regulations in each country and region, respect human rights, support the improvement of employees' abilities through the development of various training systems, and strengthen the development of human resources who can show leadership internationally. Canon is systematically training successors for certain skills.

However, failure by Canon to recruit and train qualified personnel or the loss of key employees could delay R&D or slow production and could increase the risks of outflow of technologies and skills, and inappropriate knowledge transfers. These factors may adversely affect Canon's business and operating results.

Canon's business is subject to environmental laws and regulations.

Canon is subject to certain Japanese and foreign environmental laws and regulations in areas such as mitigation of climate change, resource conservation including product recycling, reduction of hazardous substances, clean air, clean water and waste disposal. Although Canon is making group-wide efforts to respond to climate change through a variety of measures, including energy-saving activities and the development of energy-saving products, advanced resource recycling. strict management of chemical substances through sustainable procurement, reduction of chemical substances used in production processes and emission control, there can be no assurance that such efforts will successfully achieve compliance, particularly as environmental laws and regulations continue to become more stringent globally. Due to the laws and regulations, including enforcement of new environmental regulations in Japan and other countries and regions or more active enforcement of existing laws and regulations, Canon may face liability for additional costs and damages. Such costs and damages could adversely affect Canon's business and operating results.

Canon is subject to potential liability for the investigation and cleanup of environmental contamination at each of the properties that it owns or operates and at certain properties Canon formerly owned or operated. If Canon is held responsible for such costs in any future litigation or proceedings, such costs may not be covered by insurance and may be material.

Canon is subject to risks relating to information security and electronic data.

Canon stores and has access to confidential electronic data relating to manufacturing, research and development, procurement and production, as well as sensitive information obtained from its customers, parties who have connections with Canon and other individuals and parties. Such electronic data is used by Canon and third party managed systems and networks. Electronic data is also used in various products to provide information services.

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There are some risks inherent in the use of electronic data, including vulnerability to hacking, computer viruses, and cyber attacks, service failures and leakage of personal information due to infrastructure issues and issues arising from damage caused by natural disasters. Although Canon has implemented the controls of software used in its operations and company-wide employee training for information security and cyber attacks, in addition to data access restrictions and security measures, and continues to make improvements so as to alleviate these risks, such events may occur despite its best efforts. In particular, cyber attacks have become increasingly sophisticated and complex, and are targeted anywhere around the world. Canon's locations in Japan and overseas are exposed to these risks and if its infrastructure turns out to be technically vulnerable to such attacks, malicious access to Canon's network by third party, stoppage of websites and online services or other incidents may occur.

The materialization of such risks could result in disruptions of Canon's material operations, leakage of confidential data composed of both personal and business information and damage to the information service functions in products. The occurrence of any of these events may potentially cause Canon to be subject to claims from affected individuals and parties and may negatively affect Canon's brand image, the credibility it has developed, and its operating results and financial conditions.

Other Risks

Canon may be adversely affected by fluctuations in the stock and bond markets.

Canon's assets include investments in publicly traded securities. Canon does not hold shares for the purpose of receiving profits from fluctuations in stock prices or dividends, and holds shares as part of its alliance with companies outside the Group, only with respect to those that are deemed useful for strengthening the Group's organizational structure because they are difficult to realize as management resources within the Group for medium- to long-term growth. As a result, volatility in financial markets and overall economic uncertainty create the risk that the actual amounts realized in the future on Canon's investments could differ significantly from the fair values currently assigned to them.

Canon's operating results and financial position may be negatively affected by price fluctuations in the stock and bond markets.

Canon may be subject to antitrust-related lawsuits, investigations or proceedings, which may adversely affect its operating results or reputation.

A portion of Canon's net sales consists of sales of supplies and the provision of services after the initial equipment placement. The supplies and services have become more commoditized and there are many competitors in these markets. Canon's success in maintaining these post-placement sales will depend on its ability to compete successfully with these competitors, some of which may offer lower-priced products or services. Despite the increase in competitors, Canon currently maintains a high market share in the market of supplies for office MFDs and printers. Accordingly, Canon may be subject to lawsuits, investigations or proceedings under relevant antitrust laws and regulations. Although Canon conducts risk management activities such as regular training for employees in the relevant departments under the leadership of the departments responsible at the Head Office, any such lawsuits, investigations or proceedings may lead to substantial costs and have an adverse effect on Canon's operating results or reputation.

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

Canon's success depends in part on maintenance and development of the value of its brand name. The main factors which could damage its brand value are defective product quality, circulation of counterfeit and failures of its compliance regime. Although Canon works to minimize risks that may arise from product quality and

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liability issues, such as those triggered by the individual functionality and also from the combination of hardware and software that make up Canon's products, there can be no assurance that Canon will be able to eliminate or limit these issues and the resulting damages. If such factors adversely affect Canon's operating activities, generate additional expenses such as those related to product recalls, service and compensation, or otherwise hurt its brand image, Canon's operating results or reputation for quality may be adversely affected. Canon has been implementing measures to halt the spread of counterfeit products. However, the continued manufacture and sale of such products could adversely affect Canon's brand image as well as its operating results.

Canon has established a group-wide compliance system to ensure compliance with laws and regulations. However, if Canon fails to maintain its overall compliance regime, especially legal and regulatory compliance, or if Canon fails to take measures to any problems linked to its supply chain, this also could result in damage to Canon's credibility and brand value.

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

Many of the business areas in which Canon competes are characterized by rapid technological advances in hardware performance, software functionality and product features; frequent introduction of new products; short product life cycles; and continued qualitative improvements to current products at stable price levels. Canon has sought to invest substantial resources into introducing new products that are attractive, innovative and cost competitive. There are several risks inherent in the introduction of new products and services, such as delays in development or manufacturing, unsuitable product quality during the introductory period, variations in manufacturing costs, cannibalization of existing product sales, uncertainty in predicting customer demand and difficulty in effectively managing inventory levels. Moreover, if Canon is unable to respond quickly to technological innovations with respect to information systems and networks, Canon's revenue may be significantly affected as a result of delays associated with the incorporation into its products of such new information technologies.

Canon's revenues and gross margins also may suffer adverse effects because of the timing of product or service introductions by its competitors. In order to respond to the above risks, Canon has a system to promptly supply products that reflect the needs of the market. However, this risk is exacerbated when a competitor introduces a new product immediately prior to Canon's introduction of a similar product. If any of these risks materialize, future demand for Canon's products and services could be reduced, and its operating results could decline.

Canon is subject to risks relating to legal proceedings.

Canon is involved in various claims and legal actions arising in the ordinary course of its business. Results of actual and potential litigation are inherently uncertain. An unfavorable result in a legal proceeding could adversely affect Canon's reputation, financial condition and operating results.

Canon may be subject to intellectual property litigation and infringement claims, which could cause it to incur significant expenses or prevent it from selling its products.

Because of the emphasis on product innovation in the markets for Canon's products, many of which are subject to frequent technological innovations, patents and other intellectual property are an important competitive factor. In relation to protection of its technologies, Canon faces risks that: competitors will be able to develop similar technology independently; Canon's pending patent applications may not be issued; the steps Canon takes to prevent misappropriation or infringement of its intellectual property may be unsuccessful; and intellectual property laws may not adequately protect Canon's intellectual property, particularly in certain emerging markets. Canon has established a department specializing in intellectual property, relies primarily on internally developed technology, and seeks to protect such technology through a combination of patents, trademarks and other intellectual property rights.

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In relation to third party intellectual property rights, if any third party is adjudicated to have a valid infringement claim against Canon, Canon could be required to: refrain from selling the relevant product in certain markets; pay monetary damages; pursue development of non-infringing technologies, or attempt to acquire licenses to the infringed technology and to make royalty payments, which may not be available on commercially reasonable terms, if at all.

Canon may need to litigate in order to enforce its intellectual property rights or in order to defend against claims of infringement, which can be expensive and time-consuming.

Canon also licenses its patents to third parties in exchange for payment or licensing. The terms and conditions of such licensing or changes in the renewal conditions of such licenses could affect Canon's business.

With respect to employee inventions, Canon maintains company rules and an evaluation system and has been making adequate payments to employees for the invention rights based on these rules. However, there can be no assurance that disputes will not arise with respect to the amount of these payments to employees.

Canon's businesses, brand image and operating results could be adversely affected by any of these developments.

Canon's financial results may be adversely affected if its deferred tax assets are not recoverable or if it is subject to international double taxation.

Canon currently has deferred tax assets, which are subject to periodic recoverability assessments based on projected future taxable income. The changes of future profitability due to future market conditions and tax reforms including changes in tax rates may require possible recognition of significant valuation allowances to reduce the net carrying value of deferred tax asset balances. When Canon determines that certain deferred tax assets may not be recoverable, the amounts which may not be realized are charged to income tax expense and will adversely affect net income.

In addition, recently, international corporate tax avoidance has developed into a political issue with a focus on aggressive tax planning strategies of certain multinational corporations. The Organisation for Economic Co-operation and Development ("OECD"), established the Base Erosion and Profit Shifting ("BEPS") project for the purpose of increasing cooperation among countries and implementing harmonization of taxation. The BEPS action plan was published in July 2013; the OECD then conducted further study based on that plan and published its final report in October 2015. Each country has been revising or amending its domestic taxation system and tax treaties based on the final report. Canon has been reviewing the transfer pricing policy taking into consideration the details stated in the reports published by OECD and the developments of international digital taxation rules.

It is, however, possible that there will be differences in opinion between Canon and tax authorities which may adversely affect Canon's operating results and financial condition.

Canon's retirement and severance benefit obligations are subject to certain accounting assumptions.

Canon has significant employee retirement and severance benefit obligations that are recognized based on actuarial valuations. Inherent in these valuations are key assumptions, including discount rates, expected return on plan assets, assumed rate of increase in compensation level and mortality rate. Actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore any such differences would be expected to be linked to increases in actual costs, which may adversely affect net income.

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Item 4. Information on the Company

A. History and development of the Company

Canon Inc. is a joint stock corporation (*kabushiki kaisha*) formed under the Corporation Law of Japan. Its principal place of business is at 30-2, Shimomaruko 3-chome, Ohta-ku, Tokyo 146-8501, Japan. The telephone number is +81-3-3758-2111.

The Company was incorporated under the laws of Japan on August 10, 1937 to produce and sell Japan's first focal plane shutter 35mm still camera, which was developed by its predecessor company, Precision Optical Research Laboratories, which was organized in 1933.

In the late 1950s, Canon entered the business machines field utilizing technology obtained through the development of photographic and optical products. With the successful introduction of electronic calculators in 1964, Canon continued to expand its operations to include plain paper copying machines, faxes, laser printers, bubble jet printers, computers, video camcorders and digital cameras. In 2016, Canon acquired Toshiba Medical Systems Corporation ("CMSC" as of January 4, 2018) and has expanded its medical business.

In 2020, 2019, and 2018, Canon's increases in property, plant and equipment were ¥132,302 million, ¥178,088 million and ¥159,316 million, respectively. In 2019, the increases in property, plant and equipment were mainly used to expand production capabilities in both domestic and overseas regions, and to bolster Canon's production-technology-related infrastructure. In addition, Canon has been continually investing in tools and dies for business machines, in which the amount invested is generally the same each year.

For 2021, Canon projects to invest in property, plant and equipment of approximately ¥160,000 million. This amount is expected to be spent for investments in new production plants and new facilities of Canon. Canon anticipates that the funds needed for this increase will be generated internally through operations.

The SEC maintains a website at https://www.sec.gov that contains reports and proxy information regarding issuers that file electronically with the SEC. Some of the information may also be found on our website at https://global.canon/en.

B. Business overview

Canon is one of the world's leading manufacturers of office MFDs, plain paper copying machines, laser printers, cameras, inkjet printers, diagnostic equipment and lithography equipment.

Canon sells its products principally under the Canon brand name and through sales subsidiaries. Each of these subsidiaries is responsible for marketing and distribution to retail dealers in an assigned territory. In 2020, 74.5% of consolidated net sales were generated outside of Japan, with approximately 27.0%, 25.2% and 22.3% generated in the Americas, Europe and Asia and Oceania, respectively.

Canon's strategy is to develop innovative, high value-added products incorporating advanced technologies.

Canon's research and development activities range from basic research to product-oriented research directed at maintaining and increasing Canon's technological leadership in the marketplace.

Canon will work to realize the optimized global allocation of its production assets based on changes in local conditions in each country and region. Canon has manufacturing subsidiaries in a variety of countries and regions, including the United States, Germany, France, the Netherlands, Taiwan, China, Malaysia, Thailand, Vietnam and the Philippines.

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As a concerned member of the world community, Canon emphasizes recycling and has increased its use of clean energy sources and cleaner manufacturing processes. Canon has also launched programs to collect and recycle used Canon cartridges and to refurbish used Canon copying machines. In addition, Canon has removed virtually all environmentally unfriendly chemicals from its manufacturing processes.

Products

Canon operates its business in four segments: the "Office Business Unit," the "Imaging System Business Unit," the "Medical System Business Unit", and the "Industry and Others Business Unit".

- Office Business Unit –

Canon manufactures, markets and services a full range of office MFDs, printers, copying machines for personal and office use and production print products for print professionals. Canon also delivers added value to customers through software, services and solutions. Canon's offerings cater to a broad market from Small Office Home Office ("SOHO"), and Small and Midsize Business ("SMB") to large enterprises and professional graphic arts companies.

In the industry, customer preference has been shifting from monochrome to color products and from hardware to services and solutions. Especially in the professional print market, customers are increasingly turning to short-run, print-on-demand and variable data printing. The importance of connectivity, security, mobility, integration, workflow and cloud-based web services is growing, and such added value is increasingly delivered together with hardware. Canon seeks to maintain its position as a market leader in these fast-changing markets.

In 2020, Canon expanded its hardware offerings by providing "image RUNNER ADVANCE DX" with advanced scanning, security and cloud based features. Canon is also providing a software named "uniFLOW" Online which enabled the new "image RUNNER ADVANCE DX" to connect to cloud services. Canon expanded our Multi-Function Printer ("MFP") capability by using the new software solution technology.

To maintain and enhance its competitive edge and to meet increasingly sophisticated customer demands, Canon is committed to the continued reinforcement of Canon's hardware and software offerings and solutions capability.

As for laser printers, Canon has focused on expanding sales of high value-added products from mid to high-end class, especially for MFP, however, it was affected due to low office print usage driven by COVID-19. Meanwhile, demand for low-mid class of printers are recovering with work/learn-from-home needs. Canon is experiencing fierce competition from aggressive competitors in the laser printer market and an eventual decline in sales prices of printers and consumable cartridges is becoming a major threat, in addition to concerns over lagging growth of the entire market affected by decrease in demand for printing, which is caused by change in users' printing behavior due to the prevalence of smartphones, cloud computing, etc.

In response, Canon aims to accelerate current momentum to increase sales volume and market share by enhancing competitiveness like driving contractual business which engages with customers for a certain period, accompanied with leveraging technical innovation and so forth. Furthermore, Canon aims to maximize business efficiency through continuous efforts to reduce costs and optimize its supply chain.

- Imaging System Business Unit –

Canon manufactures and markets digital cameras, as well as lenses and various related accessories.

In interchangeable lens digital cameras, Canon launched two new full-size mirrorless cameras, "EOS R5" and "EOS R6" at the same time in the 3rd quarter. The movie function, AF performance, and image stabilization

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mechanism of these two models have received a great deal of attention, and sales have been strong immediately after the start of sales. In addition, Canon also released the "EOS Kiss M2", the second-generation model of the entry-level mirrorless camera "EOS Kiss M", which has been highly acclaimed by the market, in the fourth quarter, and has been working to further strengthen and expand the lineup of mirrorless cameras which is a growth area. As a result, Canon has steadily increased its market share in the field of mirrorless cameras, and maintained a leading market share in digital interchangeable-lens cameras in terms of volume in the major regions/countries, such as the United States, Europe, China and Japan.

Canon aims to expand the imaging domains of interchangeable lens digital cameras, and believes there remains considerable room for future growth through development of new products based on state-of-the-art technology such as higher picture quality, small and lightweight body and versatile movie/network functions.

Canon has announced eight new RF lenses for full frame mirrorless cameras. Sales of RF lenses increased due to the synergistic effect with the EOS R series camera body. The large diameter mount and short back focus has allowed for a great increase in freedom of lens design, resulting in huge leaps in optical performance.

Canon aims to meet customer expectations through continuous introduction of high-quality and high-performance lenses developed with superior optical technology and new elemental technology.

As for compact digital cameras, while the overall market has been shrinking, Canon will continue to strengthen its premium lineup and strive to improve its profitability.

In the compact photo printer market, Canon has endeavored to promote sales by capturing sales for demand for printing at home even in the harsh environment of COVID-19. With its advantages, such as easy operation, portability, and lab-quality photo print, "SELPHY" has gained a strong market position in each region. In the second quarter, Canon launched the "SELPHY SQUARE QX10", a mini photo printer which allows users to easily enjoy square format prints that are popular to Social Networking Service ("SNS"), and has been well received. Canon plans to tap new customer demand and to maintain its lead in this market.

Inkjet printer technology has been evolving, driving expansion of application from home use to office and commercial use such as poster printing and photo printing that require high-quality.

Canon offers a wide variety of products to meet such needs based on its core technology Full-photolithography Inkjet Nozzle Engineering ("FINE"), which enables realization of high-speed printing and high image quality at the same time.

For home use, Canon offers such printer solutions as "Canon PRINT Inkjet" to tighten the connection with cloud computing, smartphones and tablet PCs. Canon also offers more compact body, premium design, convenient front and rear dual paper feeder, and the function that enables connecting the smartphone to the printer by reading the QR code. Canon believes such enhancement of function and service will increase user-friendliness and satisfaction of users.

Canon has launched Refillable Ink Tank Printers that achieved high productivity and cost saving by featuring built-in ink tanks for business use in emerging markets, and gradually expanded to developed countries.

As large-format inkjet printers must meet the advanced photo and graphic printing needs of professionals, Canon has a lineup of graphic products that cater to all customers, starting with the "imagePROGRAF PRO-1000", which supports A2-size paper, to the 60-inch flagship model, "imagePROGRAF PRO-6100" with improved functionality and productivity. The color reproduction and expressiveness of dark areas of these products are improved by using 12-color "LUCIA Pro ink", which features new pigment ink and Chroma Optimizer, and the new "L-COA PRO" image processing engine.

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To meet companies' growing demand for low-cost in-house production of large formats such as Computer Aided Design ("CAD") and posters, Canon newly developed the five-color pigment ink "LUCIA TD" that realizes high-quality image printing on normal paper and does not require special paper. For the CAD and posters market, Canon has a lineup of the "imagePROGRAF TX/TM" series that delivers high-speed printing, and the entry version "imagePROGRAF TA" series, with the best print quality and the quietness inherited from the advanced models.

Canon has maintained high share in the scanner market by achieving stable sales results with "CanoScan LiDE" series, the flatbed scanners which use Contact Image Sensor ("CIS").

- Medical System Business Unit –

Canon markets diagnostic imaging systems, including Computed tomography ("CT"), Magnetic resonance imaging ("MRI"), ultrasound, and X-ray systems, as well as clinical laboratory systems and healthcare ICT solutions, and provides them to customers in more than 150 countries and regions around the world, offering technology that enables early detection and fast diagnosis. Continuing its long tradition of contributing to improvements in healthcare, Canon is making positive contributions toward hospital management and provides a range of patient-friendly healthcare systems and services.

Canon continues to support all the medical professionals and other concerned parties that are striving to control the COVID-19 pandemic by offering total solutions for its diagnosis.

For example, Canon started the clinical evaluation on the effectiveness of the CT image analysis technology for diffuse pulmonary diseases, developed under the joint research with Fujita Health University (Toyoake City, Aichi Prefecture, Japan), which helps improve the diagnosis of novel coronavirus pneumonia. Canon also developed and will commercialize the first mobile Medical Container CT in Japan, equipped with measures against infectious diseases.

In addition, Canon started selling the new coronavirus antigen qualitative test kit "Rapiim SARS-CoV-2-N", developed under the joint research with Yokohama City University (Yokohama City, Kanagawa Prefecture, Japan).

By combining an antibody with high specificity for SARS-CoV-2 developed by Yokohama City University and Rapiim's highly sensitive detection technology platform developed by Canon, it can accurately detect SARS-CoV-2 without cross-reacting with other viruses such as influenza A and B, and is also capable of detecting a small amount of viral antigen of about 6.64 pg / mL in just 15 minutes. A large amount of virus can be detected in 4 minutes.

In the CT systems business, the mainstay of medical business units, Canon kept top share in the Japanese market. New products Canon launched so far continued to enhance its presence, such as "Aquilion Lightning / Helios I Edition" in 80/160 slices with a reconstruction technology that eliminates noise from images utilizing deep learning technology, and "Aquilion Exceed LB" (80 multi-slice CT) with wide-bore.

Canon equipped its high-end 3T MRI named "Vantage Centurian" with Advanced intelligent Clear-IQ Engine ("AiCE"), first on MRI last year. This year, we expanded our MRI line-up with "AiCE" to models such as "Vantage Orian / S Grade" and "Vantage Gracian".

By incorporating various strengths (such as precision mechanical design, processing technology, sensor technology, and image processing technology) and advancing synergy with Canon's group technology among the development, manufacturing, and servicing of Canon's medical equipment products, Canon continues to provide products with high added value that further contribute to the healthcare field.

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In the component business, both the expanding demand in emerging markets and the demand to transition from Computed Radiography ("CR") to Digital Radiography ("DR") continue to drive steady market growth for X-ray equipment. On the other hand, technological competition with component manufacturers in Europe and the USA has been increasing for high-end products, and price competition with manufacturers in China and South Korea has been increasing for the low-end product segment where products are becoming commoditized. Under these market circumstances, Canon launched a new standard model with enhanced price competitiveness for some regions, and plans to make it available in other regions soon. In the dynamic X-ray equipment market, where high growth is expected, Canon is continuing its strong efforts to promote sales of fluoroscopy and angiography systems. With regard to our X-ray tube units, X-ray imaging devices, etc., Canon has developed competitive products for this business based on its highly reliable core technologies (high-voltage vacuum technology, hydrodynamic liquid metal bearing technology, cesium iodide deposition technology, etc.), which have contributed to strong sales. With regard to professional cameras which are mainly for medical equipment, Canon retains high competitiveness, due to its agile product development and quick adaptation to the market needs for camera miniaturization and better image quality.

In the ophthalmic equipment business, Canon continues to upgrade its Optical Coherence Tomography ("OCT") Angiography software series which enables depiction of retinal blood vessels without using fluorescein, under stiffer competition in the growing OCT market.

- Industry and Others Business Unit—

In the semiconductor lithography equipment market, although uncertainty in the timing of economic recovery from COVID-19 and the intensification of trade friction between U.S. and China had caused concerns primarily related to capital expenditure, such matter resulted to only have minor impacts. Capital expenditures on lithography equipment for memory devices and sensors remained solid, and those for Complementary Metal-Oxide-Semiconductor field-effect transistor ("CMOS") sensors, communication devices, and other products were also strong based on progress in IoT and 5G technologies. In the back-end lithography systems market, demand for higher integration and thinner semiconductor chips increased, leading to increased capital expenditures for higher memory capacity using Through-Silicon Via ("TSV") technology and wafer-level packaging.

Responding to diversified semiconductor applications, Canon has established "design-in" business style, which enables customer needs to be reflected in the early stage of our product development process. As a result of its steady progress in developing value added products, Canon offers a wide variety of products for IoT devices and automotive semiconductors, which are rapidly becoming more widespread. As for memory productions, Canon is ready to expand its market share further by KrF scanner "FPA-6300ES6a" which realized the highest level of productivity and overlay, and by continuous upgrades of i-line stepper "FPA-5550iZ2".

For back-end lithography system lineup, Canon has introduced "FPA-8000iW", which offers both high resolution and compatibility with large square substrates. It meets the high productivity needs of PLP (Panel Level Packaging) which uses organic substrates to realize low power consumption for data center use Central Processing Units ("CPU") and Graphics Processing Units ("GPU"). Canon is also preparing for the mass production of Nanoimprint semiconductor lithography equipment.

In the FPD lithography equipment market, delays in equipment installation were unavoidable as restrictions of traveling to China, where major panel manufacturers are located, have been enforced due to COVID-19. However, investing motivation towards FPD lithography equipment remains at a high level due to the needs in large-sized TVs and accelerated OLED applications, such as foldable displays. With the spread of flat-panel TVs, the TV market is expected to experience a transition to high-quality TVs represented by large-sized, 4K/8K high-definition panels and OLED displays. Canon meets market needs with its "MPAsp-H1003T" compatible with G8 substrates that achieve high productivity by exposing high-quality 65 inch panel. Also, in order to meet the demand for higher definition, which is indispensable for next generation display manufacturing, Canon will add "MPAsp-E 903T" for small and medium-size panels productions to our lineup. Canon will expand market share by continuingly meeting various panel production needs.

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Solutions that combine network cameras and video analytics software are expanding beyond security applications as part of social infrastructure, and the market is expanding commensurate with the growth of cloud businesses. Canon's solution offerings, which combines its lineup of network cameras capable of meeting diverse customer needs and video analytics software utilizing AI are steadily gaining ground as it expands its domestic and overseas channels. This year, the social needs for grasping the congestion situation increased rapidly due to COVID-19. In this context, the Canon Group quickly made proposals to the market for solutions that combine people count, crowd count, passer-by count, and the silhouetting of moving objects so that the situation can be monitored remotely and in real time.

Going forward, Canon continues to aim to be the global leader in network visual solutions by strengthening cooperation among the Canon Group companies, including Axis, Milestone and BriefCam accelerating the integration of technologies, and providing optimal solutions.

In the medium to long term, demand for sports relay broadcasting in developed countries and demand for 4K transmission in emerging countries are expected to remain strong, but the market for broadcast lenses has been temporarily stagnant due to the postponement of large-scale events caused by COVID-19. Among these, Canon will stimulate demand by launching the portable zoom lens "CJ20eX5B", which is ideal for sports broadcasts and various program production locations, and will respond to the diverse needs of production sites by further expanding the lineup of 4K broadcasting lenses.

In the digital video camera market, Canon has responded to the diverse needs of production sites seeking high-definition video expression. In the digital cinema camera field, Canon strengthened and expanded its lineup with the launch of "EOS C 300 MKIII" and "EOS C 70". In the field of 4K professional video cameras, demand for streaming video due to the COVID-19 is rapidly increasing. Canon will continue to contribute to the development of video culture by responding to a wide range of professional needs in the field of video production by introducing products that reflect changes in market conditions.

As a new video solution, Canon developed and launched the Video Analysis software "Vision-based Navigation Software" using "Visual SLAM (Simultaneous Localization and Mapping) technology" that simultaneously performs self-localization and environmental mapping. By providing this video analysis systems as robot's eye to collaborative companies, Canon aims to contribute to the productivity improvement and automation of logistics operations, and to equip service robots used in various applications such as cleaning, transportation, security, inspection, and exploration.

NET SALES BY SEGMENT

The following table presents our net sales by segment for each of the periods shown.

	Years ended December 31				
	2020	change	2019	change	2018
	(Millions of yen, except percentage data)				
Office	1,440,212	-17.8%	1,752,107	-6.2%	1,868,355
Imaging System	712,238	-11.8	807,414	-16.8	970,435
Medical System	436,074	-0.6	438,525	0.2	437,578
Industry and Others	654,813	-4.9	688,433	-12.0	781,887
Eliminations	(83,094)	—	(93,180)	—	(106,318)
Total	3,160,243	-12.1%	3,593,299	-9.1%	3,951,937

Notes:

1. From the beginning of the first quarter of 2019, Canon has reclassified certain businesses from the Imaging System Business Unit to the Industry and Others Business Unit.

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2. Based on the realignment of Canon's internal reporting and management structure, from the beginning of the first quarter of 2020, Canon has reclassified certain businesses from the Industry and Others Business Unit to the Office Business Unit. Operating results for the fiscal years ended December 31, 2019 and 2018 also have been reclassified.

NET SALES BY GEOGRAPHIC AREA

The following table presents our net sales by geographic area for each of the periods shown.

	Years ended December 31				
	2020	change	2019	change	2018
	(Millions of yen, except percentage data)				
Japan	806,305	-7.6%	872,534	0.3%	869,577
Americas	852,451	-17.2	1,029,078	-4.4	1,076,402
Europe	795,616	-9.8	882,480	-13.1	1,015,428
Asia and Oceania	705,871	-12.8	809,207	-18.3	990,530
Total	3,160,243	-12.1%	3,593,299	-9.1%	3,951,937

Seasonality

Canon's sales for the fourth quarter are typically higher than for the other three quarters, mainly due to strong demand for consumer products, such as cameras and inkjet printers, during the year-end holiday season.

In Japan, corporate demand for office products peaks in the first quarter, as many Japanese companies end their fiscal year in March. Sales also tend to increase at the start of the new school year in each region.

Sources of supply

Canon purchases materials such as glass, aluminum, plastic, steel and chemicals for use in various product components and in the manufacturing process. Canon procures raw materials from all over the world and selects suppliers based on a number of criteria, including environmental friendliness, quality, cost, supply stability and financial condition.

Prices of some raw materials fluctuate according to market trends. Although Canon is currently focusing on globalizing supplies and improving raw material resource management strategies, and believes that it will be able to continue procuring sufficient quantities of raw materials to meet its needs, there can be no assurance that supply shortages will not occur or that raw materials, such as crude oil, will be available at competitive prices, or at all, in the future.

Marketing and distribution

Canon sells its products primarily through subsidiaries organized under regional marketing subsidiaries: Canon Marketing Japan Inc. in Japan; Canon U.S.A., Inc. in North and South America; Canon Europe Ltd. and Canon Europa N.V. in Europe, Russia, Africa and the Middle East; Canon (China) Co., Ltd. in Asia outside Japan; and Canon Australia Pty. Ltd. in Oceania. Each subsidiary is responsible for its own market research and for determining its sales channels, advertising and promotional activities. Each subsidiary provides tailor-made solutions to a diverse range of unique customers and aims to advance Canon's reputation as a highly trusted brand.

In Japan, Canon sells its products primarily through Canon Marketing Japan Inc., mainly to dealers and retail outlets.

In the Americas, Canon sells its products primarily through Canon U.S.A., Inc. and Canon Canada Inc., mainly to dealers and retail outlets.

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In Europe, Canon sells its products primarily through Canon Europa N.V., which sells mainly through subsidiaries or independent distributors to dealers and retail outlets in each locality. In addition, copying machines are sold directly to end-users by several subsidiaries such as Canon (UK) Ltd. in the United Kingdom and Canon France S.A.S. in France.

In Southeast Asia and Oceania, Canon sells its products through subsidiaries located in those areas. In addition, copying machines are sold directly to end-users in Australia by Canon Australia Pty. Ltd.

For medical business, CMSC sells its products directly or through regional marketing subsidiaries and distributors.

Canon also sells laser printers on an OEM basis to HP Inc. HP Inc. resells these printers under the "HP LaserJet Printers" name. During 2020 and 2019, OEM sales to HP Inc. constituted 11.4% and 13.0%, respectively, of Canon's consolidated net sales.

Canon continues to enhance its distribution system by promoting the continuing education of its sales personnel and by optimizing inventory levels and business planning through weekly analysis of sales data.

Service

In Japan and overseas, product service is provided in part by independent retail outlets and designated service centers that receive technical training assistance from Canon. Canon also services its products directly.

Most of Canon's business machines carry warranties of varying terms, depending upon the model and country of sale. Cameras and camera accessories carry warranties that vary depending upon the model and country of sale.

Canon services its copying machines, office MFDs, and printers, and supplies replacement drums, parts, toner and paper. Most customers enter into a contract under which Canon offers consumables and parts as well as break fix activities in return mainly for a fixed amount in the contract plus a per copy charge. Copying machines not covered by a service contract may be serviced from time to time by Canon or local dealers for a fee.

For diagnostic imaging systems, including CT, MRI, ultrasound, and X-ray systems, Canon provides comprehensive repairs, service, and maintenance to ensure that customers are able to use these products to their full potential at all times. Canon maintains support contracts with customers and has technical call centers. In addition, to help ensure customer satisfaction, Canon offers service training programs for engineers working in overseas medical institutions. For the service contract of medical system products, customers pay stated fixed fees for the stand ready maintenance service.

Patents and licenses

Canon holds a large number of patents, design rights and trademarks in Japan and abroad to protect proprietary technologies stemming from its research and development activities. Canon utilizes these intellectual property rights as important strategic management tools. For example, Canon leverages its intellectual property rights to expand its product lines and business operations and to form alliances and exchange technologies with other companies.

Canon has granted licenses with respect to its patents to various Japanese and foreign companies, most often with respect to electrophotography, laser printers, multifunction printers, facsimile machines and cameras.

Companies to which Canon has granted licenses include:

Kyocera Document Solutions Inc.	Electrophotography
Brother Industries, Ltd.	Electrophotography and facsimile machines

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Canon has also entered into cross-licensing agreements with other major industry participants.

Companies with which Canon has entered into cross-licensing agreements include:

HP Inc.	Bubble jet printers
Xerox Corporation	Business machines
International Business Machines Corporation	Information handling systems
Eastman Kodak Company	Electrophotography and image processing technology
Seiko Epson Corporation	Information-related instruments

Canon has placed a high priority on the management of its intellectual property. Some products that are material to Canon's operating results incorporate patented technology. Patented technology is critical to the continued success of Canon's products, which typically incorporate technology from dozens of different patents. However, Canon does not believe that its business, as a whole, is dependent on, or that its profitability would be materially affected by the revocation, termination, expiration or infringement upon, any particular patent, copyright, license or intellectual property rights or group thereof.

Competition

Canon encounters intense global competition in all areas of its business. Canon's competitors range from some of the world's major multinational corporations to smaller, highly specialized companies. Canon competes in a number of different business areas, whereas many of its competitors focus on one or more individual areas. Consequently, Canon may face significant competition from entities that apply greater financial, technological, sales and marketing or other resources than Canon to their activities in a particular market segment.

The principal elements of competition that Canon faces in each of its markets are technology, quality, reliability, performance, price and customer service and support. Canon believes that its ability to compete effectively depends in large part on conducting successful research and development activities that enable it to create new or improved products and release them on a timely basis and at commercially attractive prices. The competitive environments in which each product group operates are described below:

- Office Business Unit -

The markets for this segment are highly competitive. Canon's primary competitors are Xerox Corporation/Fuji Xerox Co., Ltd.; Ricoh Company, Ltd.; Konica Minolta Inc.; HP Inc.; and Lexmark International, Inc. Canon believes that it is one of the leading global manufacturers of office MFDs, copying machines and laser printers. In addition to the general elements of competition described above, Canon's ability to compete successfully in these markets also depends significantly on whether it can provide effective, broad-based "business solutions" to its customers and respond to interrelated customer needs. In particular, the ability to provide equipment and software that connect effectively to networks (ranging in scope from local area networks to the Internet and the cloud) is often a key to Canon's competitive strength. In the United States, Europe and Japan, Canon is one of the market leaders in all areas of the business machine market. In emerging markets, for example in China, the current market leaders for business machines are Fuji Xerox. Co., Ltd., Konica Minolta Inc. and Toshiba TEC Corporation. Canon plans to join this group by introducing products tailored to the Chinese market and by strengthening sales and service channels.

- Imaging System Business Unit -

Canon has continued to invest aggressively in competitive new products and intends to maintain its position in this market.

Canon's primary competitors in the interchangeable-lens digital camera market are Nikon Corporation and Sony Corporation.

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Average prices for compact digital cameras in the industry increased in 2020 from the previous year. Market contraction is having a major impact, resulting in severe conditions in the digital camera market. Despite these difficulties, Canon will seek to take advantage of its status as the major brand in the industry, along with its economies of scale, in order to maintain profitability.

Canon's primary competitors in the compact digital camera market are Sony Corporation and Nikon Corporation. Canon's primary competitors in the inkjet printer market are HP Inc., Seiko Epson Corporation and Brother Industries, Ltd.

- Medical System Business Unit -

Canon's primary competitors in the diagnostic medical imaging market are General Electric Company, Siemens Healthineers AG, Koninklijke Philips N.V., Hitachi, Ltd., and Fujifilm Corporation. Canon has also new competitors such as United Imaging Healthcare Co. Ltd., a Chinese vendor.

The markets for this segment are highly competitive. Canon has been consistently involved in the medical care business, from development to manufacturing, sales, and service. Canon believes that it provides high-resolution images that enable more accurate diagnoses. For example, Canon has developed several world's-first technologies, such as an ultrahigh-resolution CT scanner with twice the spatial resolution in both the in-plane direction and the axial direction compared to a conventional CT scanner, and ultrasound technology that can perform imaging of very fine, slow-flowing bloodstreams that previously could not be visualized. Canon will continue to bring the latest diagnostic imaging systems to the market.

- Industry and Others Business Unit -

Very stiff competition continues in the markets for lithography equipment used in the production of semiconductor devices and FPD. In order to produce lithography equipment that can provide ultra-fine processing, an integration of advanced optical, control and system technologies is required, along with continuous investment in technology development. The main competitors in these markets are Nikon Corporation, for semiconductor and FPD lithography equipment, and ASML Holding N.V., for semiconductor lithography equipment.

Canon believes that it has helped its customers improve their productivity by continuously improving the cost performance of semiconductor lithography equipment using the i-line and KrF laser light sources. In particular, equipment using the i-line has captured a large share of the global market, satisfying needs by quickly providing products which correspond to the diversification of devices associated with the trend of IoT.

Canon believes its FPD lithography equipment with a common platform offers excellent productivity and reliability that has helped it capture market share in the industry-leading South Korean market. Canon's sales and service support systems have also received high accolades from the customers in these markets. In the trend of demand expansion for 4K/8K displays and OLED panels, Canon believes it has also been meeting the needs of panel makers by continuously offering new products with high productivity and high resolution.

As for network cameras, the market is competitive driven by higher functional requirements and price pressure from customers. Canon's primary competitors are Hikvision Digital Technology Co., Ltd. and Panasonic Corporation. Canon is developing the innovative technology to continue to be a global market leader in this industry.

Environmental regulations

Canon is subject to a wide variety of laws, regulations, industry standards and global initiative relating to energy and resource conservation, recycling, global warming, pollution prevention, pollution remediation and environmental health and safety. Some of the environmental laws, regulations, industry standards and global initiative that affect Canon's businesses are summarized below.

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1. UN Frameworks to Address Global Issues, which are related to the Environment including Climate Changes

The United Nations adopted the 2030 Agenda for Sustainable Development Goals ("SDGs") on September 25, 2015, under the UN Sustainable Development Summit. SDGs cover global issues aimed at transforming the world toward sustainable development over the next 10 years, which are composed of 17 goals and 169 targets. The goals and targets cover a wide-range global issues, including the environmental areas such as climate change, sustainable energy, efficient use of natural resources and reduction of waste. Based upon the SDGs, member states will introduce national policies and initiatives to tackle such global environmental issues, and Canon may need to implement further actions to respond to potential national initiatives.

The Paris Agreement on climate change was adopted in 2015 and entered into force in 2016. In the Agreement, all member states of UNFCCC agreed to take countermeasures to hold Global temperature rise to well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature rise to 1.5 degrees Celsius. Further, large scale climate disasters have become more frequent in recent years and they accelerate the movement toward decarbonization. The EU announced European Green Deal in 2019. In 2020, the Chinese government announced that it would achieve carbon neutrality by 2060, and the Japanese government announced the same by 2050. Such trends would increase environmental regulations in the future.

The European Green Deal is also accelerating the trend of resource circulation. In Europe, the new Circular Economy Action Plan was announced in 2020, and the road map of the regulations was presented. ICT (Information and Communication Technology) industry is one of the priority target and new regulations such as durability, repairability, reuse, and remanufacturing are anticipated.

Canon is striving to reduce CO2 emissions toward the low-carbon society. Canon has established 2021-2023 Mid-Term Environmental Goals and monitors its progress to be reported to the CEO for review on a yearly basis. Canon is implementing initiatives to achieve these goals, which focus on "Lifecycle CO2 emissions improvement index per product by average 3% improvement", "Raw materials and usage CO2 emissions improvement index per product by average 3% improvement", and "Improve energy consumption basic unit at operational sites by 1.2% (compared to the previous year)". Canon has successfully reduced its "Life Cycle CO2 emission" per product, that was an average improvement of 4.7% (2008—2019) and cumulative 40.0% as compared with 2008. Also, total lifecycle CO2 emissions in 2019 were 7.785 million tons. Further, Canon continues to reduce its "Life Cycle CO2 emission" per product, that was an average improvement of 4.6% (2008—2020) and cumulative 41.3% as compared with 2008. Total lifecycle CO2 emissions in 2020 were 7.723 million tons, which were verified by a third party in March 2021. For contributing to a circular economy, Canon promotes reductions in resource consumption, product-to-product recycling, recycling-conscious design, designing smaller and lighter products and other various activities.

Canon has disclosed the climate change-related information based on a framework of the TCFD (Task Force on Climate-related Financial Disclosure) set by Climate Disclosure Standard Board and also has disclosed the environmental impact information through a platform of the CDP. In 2020, Canon is qualified as a Climate A Listed Company and a Water A Listed Company by the CDP.

Canon continues to pursue CO2 emission reductions both locally and globally through energy-efficient product design and improvement of logistics and factory operations.

2. European Union Directive on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment ("the RoHS Directive")

Under the RoHS Directive, from July 1, 2006, companies are required to ensure that electrical and electronic equipment ("EEE") sold in the European Union does not contain lead, cadmium, hexavalent chromium, mercury, polybrominated biphenyls or polybrominated diphenyl ethers. The scope of products covered was expanded to include medical and measurement equipment starting in July 2014. New subsidiary directive of the RoHS

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Directive restricting an additional four substances, Bis (2-ethylhexyl) phthalate ("DEHP"), Butyl benzyl phthalate ("BBP"), Dibutyl phthalate ("DBP") and Diisobutyl phthalate ("DIBP"), was published in June 2015, and these substances were restricted starting in July, 2019. In 2018, study for more additional restricted substances was started, and the preparatory study for the next recast of RoHS was started in 2019. In parallel with these developments, all the RoHS exempted applications for which the restricted substances can be used are now under review. If these exemptions expire and/or additional substances are restricted in the future, additional design changes may be required for Canon products, and cost of changing designs may increase total compliance costs. Similar chemical regulations have been enacted in various countries such as China, Korea, India, UAE and EAEU.

3. *European Framework for the Management of Chemical Substances ("REACH Regulation")*

The REACH Regulation was implemented in 2007. This regulation covers almost all chemicals (products in gaseous, liquid, paste or powder form) and articles (products in solid state) manufactured in or imported into the European Union. All chemicals manufactured in or imported into the European Union that exceed specific content thresholds must be registered. If certain substances of very high concern are contained in an article, the substances must be communicated to the recipient or consumer of the article. In addition, such information has to be registered on the new EU database called the "SCIP database" under Waste Framework Directive from January 2021. Canon takes necessary actions for a scheme which creates the information needed for input into the database. Furthermore, additional restrictions on the use of certain substances can be proposed at any time by the ECHA (European Chemical Agency) or member states, and, some of them have been already adopted and others are now under discussion. Manufacturers such as Canon must take steps to address such new restrictions.

Canon continues to meet these existing and newly-added requirements under the REACH Regulation, and implementation of these requirements could increase Canon's management costs and have adverse effects on its operating results and financial condition.

4. *The European Framework for the Setting of Requirements for Energy-Related Products ("ErP Directive")*

The ErP Directive applies in Europe to all energy-using products, and implementing measures with respect to off-mode and standby mode and external power supplies were adopted in and have been applied since 2010. These measures were expanded in 2013 to include requirements for energy modes with "networked standby". For imaging equipment, the industry made a public commitment to attain certain targets on environmentally conscious designs from 2012 by an industrial voluntary agreement ("VA") and began implementation of the VA in 2011. The VA has been in the process of revision since 2019, and commitments may become tighter than ever from 2021, because the European authorities and NGOs are expected to require a stricter VA including resource efficiency-related criteria. In addition, many new or revised implementing measures (expanded both in scope and requirements) are now being considered, and some of them will cover Canon's products. Canon is continuing to comply with requirement under the ErP Directive. However, the requirements are expected to be challenging, and achieving compliance will likely increase Canon's costs, especially by required design changes.

5. *State Legislation in the United States Concerning Recycling of Waste Electric and Electronic Products*

E-waste recycling laws have been enacted or proposed in more than twenty American states. Although certain state laws cover only displays or television sets, printers and other products are covered by other states, such as Illinois, Michigan and Hawaii, among others. These laws require manufacturers to bear the costs of collecting and recycling electrical and electronic equipment based on sales volume or market share by brand of covered products. Canon expects that compliance with such state requirements might increase its costs, such as recycling fees and product guarantees.

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6. Chinese Regulation for the Management of the Recycling and Disposal of Waste Electrical and Electronic Products

The Regulation for the Management of the Recycling and Disposal of Waste Electrical and Electronic Products was issued by the Chinese government in 2009 and implemented on January 1, 2011. Producers and importers are required to pay a fee to a government fund. The list of products falling under the waste electrical and electronic products catalogue issued on February 9, 2015 includes printers, copying machines and facsimile machines. As of February 2021, the unit price of the fee has not been decided, but Canon will have to pay a fee when the unit price is decided by the Chinese government.

These requirements will likely increase Canon's costs and could adversely affect its operating results and financial condition.

7. Other Environmental Regulations

In addition to the laws described above, various environmental laws and regulations may have been promulgated or enacted by European Union member states, states of the United States, emerging markets such as China, India, Russia, Vietnam, and other countries. Compliance with any such additional regulations may increase Canon's costs and may adversely affect Canon's operating results and financial condition.

Other regulations

Disclosure under Section 13(r) of the Securities Exchange Act of 1934

Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 ("ITRA") added Section 13(r) to the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Section 13(r) requires an issuer to disclose in its annual or quarterly reports, as applicable, whether, during the reporting period, it or any of its affiliates knowingly engaged in certain activities, transactions or dealings relating to Iran or with designated natural persons or entities involved in terrorism or the proliferation of weapons of mass destruction.

Disclosure is required even where the activities, transactions or dealings are conducted outside the U.S. by non-U.S. affiliates in compliance with applicable law, and whether or not the activities are sanctionable under U.S. law.

During the year ended December 31, 2020, the following Canon affiliates engaged in the transactions described below that are required to be disclosed pursuant to Section 13(r) of the Exchange Act. These transactions were conducted in compliance with applicable law in the respective countries.

- CMSC, a wholly-owned Japanese subsidiary of Canon Inc., had indirect sales transactions through independent distributors in Istanbul, Turkey, Sharjah, United Arab Emirates and Tehran, Iran for computed tomography, diagnostic ultrasound systems and service parts for those products with hospitals in Iran. It is our understanding that Iranian hospitals are owned or controlled by the Government of Iran (central or local government) and that their purchases are controlled through an agency of the Iranian Ministry of Health and Medical Education. Total gross sales under these contracts during the year 2020 were approximately ¥1,228 million. The net profit was substantially less than that.

As of the date of this report, Canon is not aware of any other activity, transaction or dealing by us or any of our affiliates during the year ended December 31, 2020 that requires disclosure in this report under Section 13(r) of the Exchange Act. Canon maintains policies and procedures designed to ensure that transactions, including transactions with Iranian counterparties, are conducted in accordance with applicable economic sanction laws and regulations.

In addition, CMSC has indirect sales of medical equipment to unaffiliated distributors in Japan, which distribute the equipment to hospitals in Syria and Sudan through unaffiliated third parties. Canon does not have any direct agreements, commercial arrangements, or other contacts with the governments of Syria or Sudan, or

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with entities controlled by those governments. Total net sales to Syria and Sudan in the year ended December 2020 was one-tenth of one percent (0.1%) or less of Canon's total consolidated net sales for that period. Canon does not believe the transactions with Syria and Sudan are material, either individually or in the aggregate, in quantitative or in qualitative terms.

C. Organizational structure

Canon Inc. and its subsidiaries and affiliates form a group of which Canon Inc. is the parent company. As of December 31, 2020, Canon Inc. had 343 consolidated subsidiaries and 9 affiliated companies accounted for by the equity method.

The following table lists the significant subsidiaries owned by Canon, all of which are consolidated as of December 31, 2020.

Name of company	Head office location	Proportion of ownership interest owned	Proportion of voting power held
Canon Marketing Japan Inc.	Tokyo, Japan	57.8%	58.5%
Canon U.S.A., Inc.	New York, U.S.A.	100.0%	100.0%
Canon Europa N.V.	Amstelveen, The Netherlands	100.0%	100.0%
Canon Medical Systems Corporation	Tochigi, Japan	100.0%	100.0%

D. Property, plants and equipment

Canon's manufacturing is conducted primarily at 29 plants in Japan and 14 plants in other countries and regions. Canon owns all of the buildings and the land on which its plants are located, with the exception of certain immaterial leases of land and floor space of certain of its subsidiaries. The names and locations of Canon's plants and other facilities, their approximate floor space and the principal activities and products manufactured therein as of December 31, 2020 are as follows:

Name and location	Floor space (including leased space) (Thousands of square feet)	Principal activities and products manufactured
Domestic		
Headquarters, Tokyo	2,564	R&D, corporate administration and other functions
Canon Global Management Institute, Tokyo	166	Training and administration
Kawasaki Office, Kanagawa	1,882	R&D and manufacturing of production equipment and semiconductor devices; R&D of laser printers and toner cartridges
Kosugi Office, Kanagawa	378	Development of medical equipment, Human resources development training (except for technical training)
Fuji-Susono Research Park, Shizuoka	932	R&D in electrophotographic technologies
Ayase Plant, Kanagawa	394	R&D and manufacturing of semiconductor devices
Hiratsuka Plant, Kanagawa	930	R&D of display products and manufacturing of semiconductor devices
Tamagawa Office, Kanagawa	384	Quality engineering

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Name and location Domestic	Floor space (including leased space) (Thousands of square feet)	Principal activities and products manufactured
Oita Plant, Oita	464	Manufacturing of semiconductor devices
Yako Office, Kanagawa	906	Development of inkjet printers, inkjet chemical products
Utsunomiya Office, Tochigi	2,764	Manufacturing of lenses for cameras and other applications, R&D in optical technologies, development and sales of broadcasting equipment, R&D, manufacturing, sales and servicing of semiconductor production equipment
Toride Plant, Ibaraki	3,018	R&D in electrophotographic technologies, mass-production trials and supports; manufacturing of office imaging products, chemical products; training of manufacturing
Ami Plant, Ibaraki	964	Manufacturing of FPD production equipment
Canon Electronics Inc., Tokyo, Saitama and Gunma	1,310	Components, magnetic heads, document scanners and laser printers
Canon Finetech Nisca Inc., Saitama, Ibaraki and Yamanashi	1,106	Label printer, Card printer, Optical equipment, Motor
Canon Precision Inc., Aomori	1,591	Toner cartridges, sensors and micromotors
Canon Optron Inc., Ibaraki	144	Optical crystals (for lithography equipments, cameras, telescopes) and vapor deposition materials
Canon Chemicals Inc., Ibaraki	1,907	Toner cartridges and rubber functional components
Canon Components, Inc., Saitama	723	Contact image sensors, inkjet cartridges and medical equipment
Oita Canon Inc., Oita	2,095	Digital cameras, lenses and digital video camcorders
Nagahama Canon Inc., Shiga	1,095	Laser printers, toner cartridges and A-Si drums, Semiconductor production-related equipment
Oita Canon Materials Inc., Oita	3,081	Chemical products for copying machines and printers, and inkjet cartridges
Ueno Canon Materials Inc., Mie	654	Chemical products for copying machines and printers
Fukushima Canon Inc., Fukushima	1,310	Inkjet printers and inkjet cartridges
Canon Semiconductor Equipment Inc., Ibaraki	239	Development and production of semiconductor production-related equipment
Canon Ecology Industry Inc., Ibaraki	1,422	Recycling of toner cartridges, repair and recycling of business machines
Fukui Canon Materials Inc., Fukui	193	OPC raw stock, material for optics, High water-repellent material

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Name and location	Floor space (including leased space) (Thousands of square feet)	Principal activities and products manufactured
Domestic		
Miyazaki Canon Inc., Miyazaki	831	Digital cameras
Canon Mold Co., Ltd., Ibaraki	221	Molds
Canon ANELVA Corporation, Kanagawa and Yamanashi	745	Production equipment for electron devices, flat panel display and semiconductors
Canon Machinery Inc., Shiga	658	Automated production equipment and semiconductor production-related equipment
Canon Tokki Corporation, Niigata, Kanagawa and Tokyo	373	Vacuum technology-related equipment
Nagasaki Canon Inc., Nagasaki	477	Digital cameras
Canon Medical Systems Corporation, Tochigi	1,423	R&D, manufacturing and sales of medical equipment
Canon Electron Tubes & Devices Corporation, Tochigi	357	R&D, manufacturing and sales of electron tubes and its application products
Overseas		
Europe		
Canon Giessen GmbH, Giessen, Germany	348	Remanufacturing of copying machines, repair of cameras, service and support for Canon sales companies
Canon Bretagne S.A.S., Liffre, France	505	Manufacturing and recycling of toner cartridges
Canon Production Printing Netherlands B.V., Venlo, the Netherlands	2,347	Document management, digital sheet-fed presses and wide format printers
Americas		
Canon Virginia, Inc., Virginia, U.S.	1,546	Toner cartridges, molds and remanufacturing of copying machines
Asia		
Canon Inc., Taiwan, Taiwan	1,597	Lenses and digital cameras
Canon Opto (Malaysia) Sdn. Bhd., Selangor, Malaysia	611	Lenses and optical lens parts

Name and location	Floor space (including leased space) (Thousands of square feet)	Principal activities and products manufactured
Overseas		
Canon Dalian Business Machines, Inc., Dalian, China	1,734	Production and recycling of toner cartridges, production of laser printers
Canon Zhuhai, Inc., Zhuhai, China	1,722	Digital cameras, digital video camcorders and contact image sensors

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Name and location	Floor space (including leased space) (Thousands of square feet)	Principal activities and products manufactured
Overseas		
Canon Prachinburi (Thailand) Ltd., Prachinburi, Thailand	1,268	Copying machines
Canon Hi-Tech (Thailand) Ltd., Ayutthaya and Nakohon Ratchasima, Thailand	3,275	Inkjet printers, office MFDs, scanners, molds and plastic injection molded parts
Canon Zhongshan Business Machines Co., Ltd., Zhongshan, China	52	Laser printers
Canon Vietnam Co., Ltd., Hanoi, Vietnam	3,377	Inkjet printers, laser printers, office MFDs, scanners and contact image sensors
Canon (Suzhou) Inc., Suzhou, China	1,528	Copying machines
Canon Business Machines (Philippines), Inc., Batangas, Philippines	898	Laser printers

Canon considers its manufacturing and other facilities to be well maintained and believes that its plant capacity is adequate for its current requirements. None of the buildings or land are subject to any major encumbrances.

Main facilities under construction for establishment/expansion

Name and location	Principal activities and products manufactured
Domestic	
Canon Inc., Hiratsuka Plant, Kanagawa	New production base (Manufacturing of semiconductor devices)
Canon Mold Co., Ltd., Ibaraki	New production base (Manufacturing of molds)

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

A. Operating Results

The following discussion and analysis provides information that management believes to be relevant to understanding Canon's consolidated financial condition and results of operations.

Overview

Canon is one of the world's leading manufacturers of office MFDs, plain paper copying machines, laser printers, cameras, inkjet printers, medical equipment, semiconductor lithography equipment and FPD lithography equipment. Canon earns revenues primarily from the manufacture and sale of these products domestically and internationally. Canon's basic management policy is to contribute to the prosperity and well-being of the world while endeavoring to become a truly excellent global corporate group targeting continued growth and development.

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Canon divides its businesses into four segments: the Office Business Unit, the Imaging System Business Unit, the Medical System Business and the Industry and Others Business Unit.

Economic environment

Looking back at 2020, the global economy fell significantly with no signs of controlling the spread of infections, although the balanced measures to curb infections and expand economic activities were implemented around the world amid the global COVID-19 pandemic. In the U.S., despite a record decline in consumption caused by movement restrictions implemented in the first half of the year, the economy gradually recovered in the second half of the year while repeating deregulation and tighter regulations of economic activities. In Europe, the consumption headed toward a recovery phase resulting from the easing of large-scale lockdowns and night curfews that were enacted in each country from March. The European economy, however, continued to slow down due to restrictions on economic activities being reinstated due to a resurgence of infections. In China, economic recovery has accelerated mainly through domestic demand and exports resulting from a rapid resumption of economic activities. Even in other emerging markets, despite restrictions on movement and economic activities in some countries, economies showed signs of recovery resulting from gradual resumption of economic activities amid the COVID-19 pandemic. In Japan, the recovery trend continued due to the resumption of economic activities and the easing of voluntary restrictions after the lifting of the State of Emergency, although infections began to rise again in November.

Market environment

Amid these conditions, the markets in which Canon operates were greatly affected by the spread of COVID-19. For office MFDs and laser printers, demand for both monochrome and color models declined due to insufficient recovery of corporate activities in the spread of COVID-19. For cameras, despite a significant decline in demand due to the impact of COVID-19, demand headed toward an improvement phase due to a recovery in consumption in the second half of the year. For inkjet printers, the pace of recovery gradually increased in some emerging countries in the second half of the year, in addition to developed countries and China, where demand for products were solid due to a rise in remote working and education. For medical equipment, although restrictions on sales activities to medical institutions in the first half of the year due to the impact of COVID-19 were eased in the second half of the year, sales activities were nonetheless affected by the prolonged impact of COVID-19. For industrial equipment, demand for both FPD lithography equipment and semiconductor lithography equipment remained solid.

The average value of the yen for the year was ¥106.68 against the U.S. dollar, a year-on-year appreciation of approximately ¥2, and ¥122.07 against the euro, the same level as the previous year.

Summary of operations

In 2020, sales of MFDs for the office and production printing market both decreased, although they showed signs of recovery since the second half of the year. Unit sales of laser printers, both monochrome and color models, were below those of the previous year. Sales of services and consumables also declined resulting from the moderate recovery in customers' print volumes after cancellation of office closures in response to the spread of COVID-19 and the resumption of corporate activities. For interchangeable-lens digital cameras, although unit sales were below those of the previous year, sales were better than expected in the second half of the year due to strong sales of the EOS R5 and EOS R6 full-frame mirrorless cameras. As for inkjet printers, unit sales, including refillable ink tank models, were significantly above those of the previous year due to the recovery in demand in some emerging countries on top of demand for remote working and education in developed countries and China. In medical equipment, amid the postponement of installation and restrictions on sales activities, sales were slightly below those of the previous year, as a result of capturing demand for equipment supplies to medical institutions supported by the government of each country in the second half of the year. For industrial equipment, despite solid demand for semiconductor lithography equipment for memory devices, and for OLED panel manufacturing equipment, sales for FPD lithography equipment decreased compared with those of the previous

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year as a result of postponement of installation due to the impact of COVID-19. As for network cameras, which are being used in a growing range of applications and where the market is growing, sales increased slightly from those of the previous year due to a moderate recovery in sales activities. Under these conditions, net sales for the year decreased by 12.1% year-on-year to ¥3,160,243 million. Gross profit as a percentage of net sales decreased by 1.3 points to 43.5%. Gross profit for the year decreased by 14.5% year-on-year to ¥1,375,868 million. Operating expenses decreased by 11.9% year-on-year to ¥1,265,321 million, due to the further promotion of efficiency for expenses throughout the entire Group. As a result, although operating profit decreased by 36.6% year-on-year to ¥110,547 million, it exceeded the prediction which had been revised upward in the most recent forecast. Other income (deductions) decreased by ¥1,340 million to ¥19,733 million, mainly due to decrease of interest and dividend income, while income before income taxes decreased by 33.4% year on year to ¥130,280 million and net income attributable to Canon Inc. decreased by 33.3% year on year to ¥83,318 million.

Total assets decreased by ¥146,304 million to ¥4,625,614 million at December 31, 2020, compared with the end of previous year, mainly due to a decrease of fixed and intangible assets, and accounts receivables. Total liabilities decreased by ¥46,365 million to ¥1,841,573 million at December 31, 2020, compared with the end of previous year, mainly due to a decrease of accrued pension liabilities and accrued expenses. Total equity decreased by ¥99,939 million to ¥2,784,041 million at December 31, 2020, compared with the end of previous year, mainly due to the dividend payout, the repurchasing of treasury stock and an increase of accumulated other comprehensive loss resulting from the appreciation of the yen.

Key performance indicators

The following are the key performance indicators ("KPIs") that Canon uses in managing its business. The changes from year to year in these KPIs are set forth in the table shown below.

KEY PERFORMANCE INDICATORS

	2020	2019	2018	2017	2016
Net sales (Millions of yen)	3,160,243	3,593,299	3,951,937	4,080,015	3,401,487
Gross profit to net sales ratio	43.5%	44.8%	46.4%	48.8%	49.2%
R&D expense to net sales ratio	8.6%	8.3%	8.0%	8.2%	9.0%
Operating profit to net sales ratio	3.5%	4.9%	8.7%	7.9%	6.4%
Income before income taxes to net sales ratio	4.1%	5.4%	9.2%	8.7%	7.2%
Inventory turnover measured in days	60 days	59 days	56 days	49 days	59 days
Debt to total assets ratio	10.9%	10.8%	8.2%	10.2%	11.9%
Canon Inc. shareholders' equity to total assets ratio	55.7%	56.3%	57.5%	55.1%	54.0%

Notes:

1. See notes to Item 3A "Selected Financial Data".

Net sales and profit ratio

As Canon pursues the goal to become a truly excellent global corporation, one indicator upon which Canon's management places strong emphasis is revenue. The following are some of the KPIs related to revenue that management considers to be important.

Net sales is one such KPI. Canon derives net sales primarily from the sale of products and, to a lesser extent, provision of services associated with its products. Sales vary depending on such factors as product demand, the number and size of transactions within the reporting period, market acceptance for new products, and changes in sales prices. Other factors involved are market share and market environment. In addition, management considers the evaluation of net sales by segment to be important for the purpose of assessing Canon's sales performance in various segments, taking into account recent market trends.

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Gross profit ratio (ratio of gross profit to net sales) is another KPI for Canon. Through its reforms of product development, Canon has been striving to shorten product development lead times in order to launch new, competitively priced products at a faster pace. Furthermore, Canon has further pursued cost reductions through enhancement of efficiency in its production. Canon believes that these approaches will improve Canon's gross profit ratio, and so will continue pursuing the curtailment of product development lead times and reductions of production costs.

Operating profit ratio (ratio of operating profit to net sales), income before income taxes ratio (ratio of income before income taxes to net sales), and R&D expense to net sales ratio are considered to be KPIs by Canon. Canon is focusing on two areas for improvement. Canon is striving to control and reduce its selling, general and administrative expenses as its first key point. Secondly, Canon's R&D policy is designed to maintain adequate spending in core technology to sustain Canon's leading position in its current business areas and to exploit opportunities in other markets. Canon believes such investments will create the basis for future success in its business and operations.

Cash flow management

Canon also places significant emphasis on cash flow management. The following are the KPIs relating to cash flow management that Canon's management believes to be important.

Inventory turnover measured in days is a KPI because it measures the efficiency of supply chain management. Inventories have inherent risks of becoming obsolete, physically damaged or otherwise decreasing significantly in value, which may adversely affect Canon's operating results. To mitigate these risks, management believes that it is crucial to continue reducing work-in-process inventories by decreasing production lead times in order to promptly recover related product expenses, while balancing risks of supply chain disruptions by optimizing finished goods inventories in order to avoid losing potential sales opportunities.

The debt to total assets ratio is also one of the KPIs. For a manufacturing company like Canon, it generally takes considerable time to realize profit from a business due to lead times required for R&D, manufacturing and sales. Therefore, management believes that it is important to have sufficient financial strength. Canon will continue to reduce its dependency on external funds for capital investments in favor of generating the necessary funds from its own operations.

Canon Inc. shareholders' equity to total assets ratio is another KPI for Canon. Canon believes that its shareholders' equity to total assets ratio measures its long-term sustainability. Canon also believes that achieving a high or rising shareholders' equity ratio indicates that Canon has maintained a strong financial position or further improved its ability to fund debt obligations and other unexpected expenses. In the long-term, Canon's management believes a high shareholders' equity ratio will enable Canon to maintain a high level of stable investments for its future operations and development. As Canon puts strong emphasis on its R&D activities, management believes that it is important to maintain a stable financial base and, accordingly, a high level of its shareholders' equity to total assets ratio.

Critical accounting policies and estimates

The consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") and based on the selection and application of significant accounting policies which require management to make significant estimates and assumptions. These estimates and assumptions include future market conditions, net sales growth rate, gross margin and discount rate. Though Canon believes that the estimates and assumptions are reasonable, actual future results may differ from these estimates and assumptions. In addition, new waves of COVID-19 infections are being seen in some regions, and it is still difficult to predict when COVID-19 will be brought under control. However, each country and region continues to pursue both the infection control and economic activities. Although the global economy is expected to recover in 2021, it is expected that some regions would continue to be affected by COVID-19. Canon believes that the following are

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the more critical judgment areas in the application of its accounting policies that currently affect its financial condition and results of operations.

Revenue recognition

Canon generates revenue principally through the sale of office, imaging system and medical system products, industrial equipment, supplies and related services under separate contractual arrangements. Revenue is recognized when, or as, control of promised goods or services transfers to customers in an amount that reflects the consideration to which Canon expects to be entitled in exchange for transferring these goods or services.

Revenue from sales of office products, such as office MFDs and laser printers, and imaging system products, such as digital cameras and inkjet printers, is recognized upon shipment or delivery, depending upon when the customer obtains controls of these products.

Revenue from sales of equipment that are sold with customer acceptance provisions related to their functionality including optical equipment such as semiconductor lithography equipment and FPD lithography equipment, and certain medical equipment such as CT systems and MRI systems, is recognized when the equipment is installed at the customer site and the agreed-upon specifications are objectively satisfied.

Most of Canon's service revenue is generated from maintenance service in the office and medical system products which is recognized over time. For the service contracts of office products, the customer typically pays a variable amount based on usage, a stated fixed fee or a stated base fee plus a variable amount which frequently include the provision of consumables as well as break fix activities. The majority portion of service revenue from the office products is recognized as billed since the invoiced amount directly correlates with the value to the customer of the underlying performance obligation to date. For the service contracts of medical system products, the customer typically pays a stated fixed fee for the stand ready maintenance service and revenue is recognized ratably over the contract period.

The majority of service arrangements for office products are executed in combination with related products. Transaction prices for products and services need to be allocated to each performance obligation on a relative standalone selling price basis where judgements are required. Canon estimates the standalone selling price using a range of prices that would meet the allocation objective based on all the information that is reasonably available including market conditions and other observable inputs. If transaction prices of the product or service contracts are not within the acceptable range then the revenue is subject to allocation based on the estimated standalone selling prices. Canon recognizes the incremental costs of obtaining a contract as an expense when related office products are sold.

Revenue from sales of certain industrial equipment which do not have alternative use and for which Canon has enforceable right to payment to the customers for the performance completed to date is recognized over time with progress towards completion measured using the cost based input method as the basis to recognize revenue and an estimated margin. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses become evident. Changes in job performance, job conditions, estimated margin and final contract settlements may result in revisions to projected costs and revenue and are recognized in the period in which the revisions to estimates are identified and the amounts can be reasonably estimated. Factors that may affect future project costs and margins include, production efficiencies, availability and costs of labor and materials. These factors can impact the accuracy of our estimates and materially impact future reported revenue and cost of sales.

The transaction prices that Canon is entitled to receive in exchange for transferring goods or services to the customer include certain forms of variable consideration, including product discounts, customer promotions and volume-based rebates mainly for imaging system products, which are sold predominantly through distributors and retailers. Canon includes estimated amounts in the transaction price only to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the

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variable consideration is resolved. Variable considerations are estimated based upon historical trends and other known factors at the time of sale, and are subsequently adjusted in each period based on current information. In addition, Canon may provide a right of return on our products for a short time period after a sale. These rights are accounted for as variable consideration when determining the transaction price, and accordingly Canon recognizes revenue based on the estimated amount to which Canon expects to be entitled after considering expected returns.

Taxes collected from customers and remitted to governmental authorities are excluded from revenues in the consolidated statements of income.

Allowance for credit losses

Allowance for credit losses is determined using a combination of factors to ensure that Canon's trade and financing receivables are not overstated due to uncollectibility. These factors include the length of time receivables are past due, the credit quality of customers, macroeconomic conditions, historical experiences and future prospects based on a current expected credit loss model (Please refer to Note 1 (x) of the Notes to Consolidated Financial Statement). Also, Canon records specific reserves for individual accounts when Canon becomes aware of a customer's inability to meet its financial obligations to Canon, due for example to bankruptcy filings or deterioration in the customer's operating results or financial position. If circumstances related to customers change, estimates of the recoverability of receivables are further adjusted.

Valuation of inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined by the average method for domestic inventories and principally the first-in, first-out method for overseas inventories. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make a sale. Canon routinely reviews its inventories for their salability and for indications of obsolescence to determine if inventories should be written-down to market value. Judgments and estimates must be made and used in connection with establishing such allowances in any accounting period. In estimating the net realizable value of its inventories, Canon considers the age of the inventories and the likelihood of spoilage or changes in market demand for its inventories.

Impairment of long-lived assets

Long-lived assets, such as property, plant and equipment, and acquired intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the carrying amount of the asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Determining the fair value of the asset involves the use of estimates and assumptions.

Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation is calculated principally by the declining-balance method, except for certain assets which are depreciated by the straight-line method over the estimated useful lives of the assets.

Lease

As for lessor accounting, Canon provides leasing arrangement to its customers primarily for the sale of office products. Revenue from the sale of these products under sales-type leases is recognized at the inception of the lease. Interest income on sales-type leases and direct-financing leases is recognized over the life of each respective lease using the interest method. Leases not qualifying as sales-type leases or direct-financing leases are accounted for as operating leases and related revenue is recognized ratably over the lease term. When product leases are bundled with maintenance contracts, revenue is allocated based upon the estimated standalone selling

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prices of the lease and non-lease components. Lease components generally include product and financing while non-lease components generally consist of maintenance contracts and supplies. Some of the contracts include options to extend or to terminate the lease. Canon takes such options into account to determine the lease term when it is reasonably certain that it will exercise these options. The majority of Canon's lease contracts do not contain bargain purchase options for their customers.

As for lessee accounting, Canon has operating and finance leases for various assets including office buildings, warehouses, employees' accommodations, and vehicles. Canon determines if an arrangement is a lease at the inception of each contract. Some of the contracts include options to extend or to terminate the lease. Canon takes such options into accounts to determine the lease term when it is reasonably certain that it will exercise these options. Canon's lease arrangements do not contain material residual value guarantees or material restrictive covenants. As a rate implicit in most of Canon's leases cannot be determined, Canon uses incremental borrowing rate based on the information available at commencement to determine the present values of lease payments. Canon has lease contracts with lease and non-lease components, which are accounted for separately. Canon allocates the consideration in the lease contract to the lease and non-lease components based upon the estimated standalone prices. Costs associated with operating lease assets are recognized on a straight-line basis over the term of the lease.

Business combinations

Acquisitions are accounted for using the acquisition method of accounting. The acquisition method of accounting requires the identification and measurement of all acquired tangible and intangible assets and assumed liabilities at their respective fair values, as of the acquisition date. The determination of the fair value of net assets acquired involves significant judgment and estimates, such as future cash flow projections, appropriate discount and capitalization rates and other estimates based on available market information. Estimates of future cash flows are based on a number of factors including operating results, known and anticipated trends, as well as market and economic conditions.

Goodwill and other intangible assets

Goodwill and other intangible assets with indefinite useful lives are not amortized, but are instead tested for impairment annually in the fourth quarter of each year, or more frequently if indicators of potential impairment exist. All goodwill is assigned to the reporting unit or units that benefit from the synergies arising from each business combination. If the carrying amount assigned to the reporting unit exceeds the fair value of the reporting unit, Canon recognizes an impairment charge in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. Fair value of a reporting unit is determined primarily based on the discounted cash flow analysis which involves estimates of projected future cash flows and discount rates. Estimates of projected future cash flows are primarily based on Canon's forecast of future growth rates. Estimates of discount rates are determined based on the weighted average cost of capital, which considers primarily market and industry data as well as specific risk factors. Canon has completed its impairment test in the fourth quarter of 2020 and determined that there were no reporting units that were at risk of failing the impairment test as the fair value of each reporting unit substantially exceeded its respective carrying amount. However, with regard to goodwill attributed to the Medical System Business Unit, fair values in excess of reported carrying values as a percentage is lower than other reporting units. As a result, a future reduction in cash flows of the related business, could trigger an impairment. The goodwill related to this reporting unit as of December 31, 2020 is ¥506,513 million. Intangible assets with finite useful lives consist primarily of software, trademarks, patents and developed technology, license fees and customer relationships, which are amortized using the straight-line method. The estimated useful lives of software are from 3 years to 8 years, trademarks are 15 years, patents and developed technology are from 5 years to 18 years, license fees are 8 years, and customer relationships are 15 years, respectively.

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Income tax uncertainties

Canon considers many factors when evaluating and estimating income tax uncertainties. These factors include an evaluation of the technical merits of the tax positions as well as the amounts and probabilities of the outcomes that could be realized upon settlement. The actual resolutions of those uncertainties will inevitably differ from those estimates, and such differences may be material to the financial statements.

Valuation of deferred tax assets

Canon currently has significant deferred tax assets, which are subject to periodic recoverability assessments. Realization of Canon's deferred tax assets is principally dependent upon its achievement of projected future taxable income. Canon's judgments regarding future profitability may change due to future market conditions, its ability to continue to successfully execute its operating activities and other factors. Any changes in these factors may require possible recognition of significant valuation allowances to reduce the net carrying value of these deferred tax asset balances. When Canon determines that certain deferred tax assets may not be recoverable, the amounts, which may not be realized, are charged to income tax expense and will adversely affect net income.

Employee retirement and severance benefit plans

Canon has significant employee retirement and severance benefit obligations that are recognized based on actuarial valuations. Inherent in these valuations are key assumptions, including discount rates and expected return on plan assets. Management must consider current market conditions, including changes in interest rates, in selecting these assumptions. Other assumptions include assumed rate of increase in compensation levels, mortality rate, and withdrawal rate. Changes in assumptions inherent in the valuation are reasonably likely to occur from period to period. Actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect future pension expenses. While management believes that the assumptions used are appropriate, the differences may affect employee retirement and severance benefit costs in the future.

In preparing its financial statements for 2020, Canon estimated a weighted-average discount rate used to determine benefit obligations of 0.5% for Japanese plans and 1.5% for foreign plans and a weighted-average expected long-term rate of return on plan assets of 3.0% for Japanese plans and 4.8% for foreign plans. In estimating the discount rate, Canon uses available information about rates of return on high-quality fixed-income government and corporate bonds currently available and expected to be available during the period to the maturity of the pension benefits. Canon establishes the expected long-term rate of return on plan assets based on management's expectations of the long-term return of the various plan asset categories in which it invests. Management develops expectations with respect to each plan asset category based on actual historical returns and its current expectations for future returns.

Decreases in discount rates lead to increases in actuarial pension benefit obligations which, in turn, could lead to an increase in service cost and amortization cost through amortization of actuarial gain or loss, a decrease in interest cost, and vice versa. For 2020, a decrease of 50 basis points in the discount rate increases the projected benefit obligation by approximately ¥97,818 million. The net effect of changes in the discount rate, as well as the net effect of other changes in actuarial assumptions and experience, is deferred until subsequent periods.

Decreases in expected returns on plan assets may increase net periodic benefit cost by decreasing the expected return amounts, while differences between expected value and actual fair value of those assets could affect pension expense in the following years, and vice versa. For 2020, a change of 50 basis points in the expected long-term rate of return on plan assets would cause a change of approximately ¥5,229 million in net periodic benefit cost. Canon multiplies management's expected long-term rate of return on plan assets by the value of its plan assets to arrive at the expected return on plan assets that is included in pension expense. Canon defers recognition of the difference between this expected return on plan assets and the actual return on plan assets. The net deferred amount affects future pension expense.

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Canon recognizes the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its pension plans in its consolidated balance sheets, with a corresponding adjustment to an accumulated other comprehensive income (loss), net of tax.

Recently Issued Accounting Guidance

Please refer to Note 1 of the Notes to Consolidated Financial Statements.

Consolidated results of operations

2020 compared with 2019

Summarized results of operations for 2020 and 2019 are as follows:

	2020	Change	2019
	(Millions of yen, except per share amounts and percentage data)		
Net sales			
Products and Equipment	2,489,829	-12.2%	2,835,428
Services	670,414	-11.5	757,871
	3,160,243	-12.1	3,593,299
Operating profit	110,547	-36.6	174,420
Income before income taxes	130,280	-33.4	195,493
Net income attributable to Canon Inc.	83,318	-33.3	124,964
Net income attributable to Canon Inc. shareholders per share:			
Basic	79.37	-32.0	116.79
Diluted	79.35	-32.0	116.77

Note: See notes to Item 3A "Selected Financial Data".

Sales

In the current business term, on a global basis, the economic slowdown continued. In such an environment, although each of Canon Group's businesses endeavored to expand sales particularly with respect to new products, Canon's consolidated net sales in 2020 totaled ¥3,160,243 million, a decrease of 12.1% from the previous year largely due to adverse effect of a shrinking market as well as unfavorable currency effects of foreign exchange rate fluctuation. Net sales of products and equipment totaled ¥2,489,829 million, a year-on-year decrease of 12.2%, while net sales of services totaled ¥670,414 million, a year-on-year decrease of 11.5%.

Overseas operations are significant to Canon's operating results and generated 74.5% of total net sales in 2020. Such sales are denominated in the applicable local currency and are subject to fluctuations in the value of the yen relative to those currencies. Despite efforts to reduce the impact of currency fluctuations on operating results, including localization of manufacturing in some regions along with procuring parts and materials from overseas suppliers, Canon believes such fluctuations have had and will continue to have a significant effect on its results of operations.

The average value of the yen during the year was ¥106.68 against the U.S. dollar, a year-on-year appreciation of approximately ¥2, and ¥122.07 against the euro, the same level as the previous year. The effects of foreign exchange rate fluctuations negatively affected net sales by approximately ¥27,159 million in 2020. This unfavorable impact consisted of approximately ¥22,416 million of unfavorable impact for the U.S. dollar denominated sales and favorable impact of ¥1,999 million for the euro denominated sales, and unfavorable impact of ¥6,742 million for other foreign currency denominated sales.

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Cost of sales

Cost of sales principally reflects the cost of raw materials, parts and labor used by Canon in the manufacture of its products. A portion of the raw materials used by Canon is imported or includes imported materials. Many of these raw materials are subject to fluctuations in world market prices accompanied by fluctuations in foreign exchange rates that may affect Canon's cost of sales. Other components of cost of sales include depreciation expenses, maintenance expenses, light and fuel expenses, and rent expenses. The ratios of cost of sales to net sales for 2020 and 2019 were 56.5% and 55.2%, respectively.

Gross profit

Canon's gross profit in 2020 decreased by 14.5% to ¥1,375,868 million from 2019. The gross profit ratio also dropped by 1.3 points to 43.5%. The decrease in the gross profit and gross profit ratio were mainly due to a decrease in sales, the effect of product mix and the negative effect of appreciation of the yen against other foreign currencies such as U.S. dollar.

Operating expenses

The major components of operating expenses are payroll, R&D, advertising expenses and other marketing expenses. Operating expenses decreased by 11.9% year on year to ¥1,265,321 million, thanks to the pursuit of cost efficiencies in Canon as well as positive effects of currency exchange fluctuation.

Operating profit

Operating profit in 2020 decreased by 36.6% from 2019 to a total of ¥110,547 million. The ratio of operating profit to net sales decreased by 1.4 points to 3.5% from 2019.

Other income (deductions)

Other income (deductions) for 2020 was ¥19,733 million, a decrease of ¥1,340 million from 2019 mainly due to a decrease in interest income.

Income before income taxes

Income before income taxes in 2020 was ¥130,280 million, a decrease of 33.4% from 2019, and constituted 4.1% of net sales.

Income taxes

Income taxes in 2020 decreased by ¥21,809 million from 2019. The effective tax rate for 2020 was 26.4%, which was lower than the statutory tax rate in Japan. This was mainly due to income of foreign subsidies taxed at lower than Japanese statutory tax rate.

Net income attributable to Canon Inc.

As a result, net income attributable to Canon Inc. in 2020 decreased by 33.3% to ¥83,318 million, which represents 2.6% of net sales.

Segment information

Canon operates four segments: the Office Business Unit, the Imaging System Business Unit, the Medical System Business Unit and the Industry and Others Business Unit.

- The Office Business Unit mainly includes office MFDs, laser MFPs, laser printers, digital continuous feed presses, digital sheet-fed presses, wide-format printers and document solutions.

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- The Imaging System Business Unit mainly includes interchangeable—lens digital cameras, digital compact cameras, interchangeable lenses, Compact photo printers, inkjet printers, large format inkjet printers, commercial photo printers, image scanners and calculators.
- The Medical System Business Unit mainly includes digital radiography systems, diagnostic X-ray systems, CT systems, MRI systems, diagnostic ultrasound systems, clinical chemistry analyzers and ophthalmic equipment.
- The Industry and Others Business Unit mainly includes semiconductor lithography equipment, FPD lithography equipment, vacuum thin-film deposition equipment, OLED panel manufacturing equipment, die bonders, network cameras, digital camcorders, digital cinema cameras, multimedia projectors, broadcast equipment, micromotors, handy terminals and document scanners.

Sales by segment

Please refer to the table of sales by segment in Note 22 of the Notes to Consolidated Financial Statements.

Canon's sales by segment are summarized as follows:

	2020	Change	2019
	(Millions of yen, except percentage data)		
Office	1,440,212	-17.8%	1,752,107
Imaging System	712,238	-11.8	807,414
Medical System	436,074	-0.6	438,525
Industry and Others	654,813	-4.9	688,433
Eliminations	(83,094)	—	(93,180)
Total	3,160,243	-12.1%	3,593,299

Note: From the beginning of the first quarter of 2020, Canon has reclassified certain businesses from the Industry and Others Business Unit to the Office Business Unit. Sales amount for the year ended 2019 also has been restated.

Within the Office Business Unit, although sales of the new imageRUNNER ADVANCE DX series were strong, unit sales of MFDs for the office and the production printing market were below those of the previous year reflecting such factors as the moderate recovery in business negotiations following the resumption of in-office work. As for laser printers, unit sales of both monochrome and color models were below those of the previous year resulting from the continued economic slowdown caused by the COVID-19 pandemic. Sales of services and consumables also declined as a result of a moderate recovery in customers' print volumes after the resumption of corporate activities. These factors resulted in total sales for the business unit of ¥1,440,212 million, a year-on-year decrease of 17.8%, while income before income taxes decreased by 49.3% year-on-year to ¥86,483 million.

As for the Imaging System Business Unit, although unit sales of interchangeable-lens digital cameras were below those of the previous year as the market continued to shrink and, the decline of the demand caused by COVID-19, the shift to mirrorless models accelerated, particularly for full-frame mirrorless models, due to the introduction of the new EOS R5 and EOS R6. As for inkjet printers, sales of printers and consumables increased significantly from the previous year as a result of capturing the recovered demand in some emerging countries as well as the demand for remote working and education in developed countries and China. These factors resulted in total sales for the business unit of ¥712,238 million, a year-on-year decrease of 11.8%, while income before income taxes increased by 43.1% year-on-year to ¥71,070 million thanks to improvements in profitability due to the effect of new products.

Within the Medical System Business Unit, although COVID-19 caused delay of installation of the large equipment and business negotiation, the demand of CT systems for the diagnosis of pneumonia and Diagnostic

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X-ray systems was captured with the support to emergency medical system maintenance and financial support for medical institutions from governments of each country. These factors resulted in total sales for the business unit of ¥436,074 million, a year-on-year decrease of 0.6%, while income before income taxes decreased by 6.4% year-on-year to ¥25,544 million.

As for the Industry & Others Business Unit, regarding semiconductor lithography equipment, demand for memory devices remained solid. As a result, unit sales were significantly above those of the previous year. In OLED panel manufacturing equipment, sales increased due to the resumption of installation work after the easing of COVID-19 travel restrictions. In FPD lithography equipment, although the installation work after the gradual easing of travel restrictions were resumed, unit sales were below those of the previous year. Despite reflecting the negative impact of COVID-19, sales for network cameras slightly increased as a result of strengthened sales activities based on diversified applications made possible by video analysis for such purposes as remote monitoring and monitoring of crowded and confined, as well as conventional market needs including crime prevention and disaster monitoring tools. These factors resulted in total sales for the business unit of ¥654,813 million, a year-on-year decrease of 4.9%, while income before income taxes totaled ¥14,315million, a year-on-year decrease of 26.3%.

Intersegment sales of ¥83,094 million are eliminated from total sales for the four segments, and are described as "Eliminations".

Sales by geographic area

Please refer to the table of sales by geographic area in Note 22 of the Notes to Consolidated Financial Statements.

A summary of net sales by geographic area in 2020 and 2019 is provided below:

	2020	Change	2019
	(Millions of yen, except percentage data)		
Japan	806,305	-7.5%	872,534
Americas	852,451	-17.2	1,029,078
Europe	795,616	-9.8	882,480
Asia and Oceania	705,871	-12.8	809,207
Total	3,160,243	-12.1%	3,593,299

Note: This summary of net sales by geographic area is determined by the location where the product is shipped to the customers.

A geographical analysis indicates that net sales in 2020 are summarized as follows.

In Japan, net sales decreased by 7.5% from the previous year mainly owing to a decline in sales of interchangeable-lens digital cameras and office MFDs mainly due to the decline of the demand caused by COVID-19 pandemic.

In the Americas, net sales decreased by 17.2% from the previous year mainly owing to a decline in sales of interchangeable-lens digital cameras and office MFDs mainly due to the decline of the demand caused by COVID-19 pandemic.

In Europe, net sales decreased by 9.8% from the previous year mainly owing to a decline in sales of interchangeable-lens digital cameras and office MFDs mainly due to the decline of the demand caused by COVID-19 pandemic.

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In Asia and Oceania, net sales decreased by 12.8% from the previous year mainly owing to a decline in sales of interchangeable-lens digital cameras and office MFDs mainly due to the decline of the demand caused by COVID-19 pandemic.

Income before income taxes by segment

Please refer to the table of segment information in Note 22 of the Notes to Consolidated Financial Statements.

Income before income taxes for the Office Business Unit in 2020 decreased by 49.3% from the previous year to ¥86,483 million, mainly due to a decline in sales of office MFDs and laser printers and declines in sales of services and consumables.

Income before income taxes for the Imaging System Business Unit in 2020 increased by 43.1% from the previous year to ¥71,070 million, thanks to improvements in profitability due to the effect of new products.

Income before income taxes for the Medical System Business Unit in 2020 decreased by 6.4% from the previous year to ¥25,544 million, mainly due to COVID-19 caused delay of installation of the large equipment and business negotiation.

Income before income taxes for the Industry and Others Business Unit in 2020 decreased by 26.3% from the previous year to ¥14,315 million, mainly due to COVID-19 caused delay of installation of the FPD lithograpy equipment.

2019 compared with 2018

Summarized results of operations for 2019 and 2018 are as follows:

	2019	Change	2018
	(Millions of yen, except per share amounts and percentage data)		
Net sales			
Products and Equipment	2,835,428	-11.2%	3,194,724
Services	757,871	+0.1	757,213
	3,593,299	-9.1	3,951,937
Operating profit	174,420	-49.1	342,452
Income before income taxes	195,493	-46.1	362,392
Net income attributable to Canon Inc.	124,964	-50.5	252,441
Net income attributable to Canon Inc. shareholders per share:			
Basic	116.79	-50.0	233.80
Diluted	116.77	-50.1	233.78

Note: See notes to Item 3A "Selected Financial Data".

Sales

In the current business term, on a global basis, the economic slowdown continued. In such an environment, although each of Canon Group's businesses endeavored to expand sales particularly with respect to new products, Canon's consolidated net sales in 2019 totaled ¥3,593,299 million, a decrease of 9.1% from the previous year largely due to adverse effect of a shrinking market as well as unfavorable currency effects of foreign exchange rate fluctuation. Net sales of products and equipment totaled ¥2,835,428 million, a year-on-year decrease of 11.2%, while net sales of services totaled ¥757,871 million, a year-on-year increase of 0.1%.

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Overseas operations are significant to Canon's operating results and generated 75.7% of total net sales in 2019. Such sales are denominated in the applicable local currency and are subject to fluctuations in the value of the yen relative to those currencies. Despite efforts to reduce the impact of currency fluctuations on operating results, including localization of manufacturing in some regions along with procuring parts and materials from overseas suppliers, Canon believes such fluctuations have had and will continue to have a significant effect on its results of operations.

The average value of the yen during the year was ¥109.03 against the U.S. dollar, a year-on-year appreciation of approximately ¥1, and ¥122.03 against the euro, a year-on-year appreciation of approximately ¥8. The effects of foreign exchange rate fluctuations negatively affected net sales by approximately ¥90,729 million in 2019. This unfavorable impact consisted of approximately ¥19,828 million of unfavorable impact for the U.S. dollar denominated sales and unfavorable impact of ¥52,368 million for the euro denominated sales, and unfavorable impact of ¥18,533 million for other foreign currency denominated sales.

Cost of sales

Cost of sales principally reflects the cost of raw materials, parts and labor used by Canon in the manufacture of its products. A portion of the raw materials used by Canon is imported or includes imported materials. Many of these raw materials are subject to fluctuations in world market prices accompanied by fluctuations in foreign exchange rates that may affect Canon's cost of sales. Other components of cost of sales include depreciation expenses, maintenance expenses, light and fuel expenses, and rent expenses. The ratio of cost of sales to net sales for 2019 and 2018 were 55.2% and 53.6%, respectively.

Gross profit

Canon's gross profit in 2019 decreased by 12.3% to ¥1,610,033 million from 2018. The gross profit ratio also dropped by 1.6 points to 44.8%. The decrease in the gross profit and gross profit ratio were mainly due to a decrease in sales and the negative effect of appreciation of the yen against other foreign currencies such as U.S. dollar and the euro.

Operating expenses

The major components of operating expenses are payroll, R&D, advertising expenses and other marketing expenses. Operating expenses decreased by 3.9% year on year to ¥1,435,613 million, thanks to the pursuit of cost efficiencies in Canon as well as positive effects of currency exchange fluctuation.

Operating profit

Operating profit in 2019 decreased by 49.1% from 2018 to a total of ¥174,420 million. The ratio of operating profit to net sales decreased by 3.8 points to 4.9% from 2018.

Other income (deductions)

Other income (deductions) for 2019 was ¥21,073 million, an increase of ¥1,133 million from 2018 mainly due to a decrease in foreign currency exchange losses.

Income before income taxes

Income before income taxes in 2019 was ¥195,493 million, a decrease of 46.1% from 2018, and constituted 5.4% of net sales.

Income taxes

Income taxes in 2019 decreased by ¥39,849 million from 2018. The effective tax rate for 2019 was 28.7%, which was lower than the statutory tax rate in Japan. This was mainly due to the tax credit for R&D expense.

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Net income attributable to Canon Inc.

As a result, net income attributable to Canon Inc. in 2019 decreased by 50.5% to ¥124,964 million, which represents 3.5% of net sales.

Segment information

Canon operates four segments: the Office Business Unit, the Imaging System Business Unit, the Medical System Business Unit and the Industry and Others Business Unit.

- The Office Business Unit mainly includes office MFDs, laser MFPs, laser printers, digital continuous feed presses, digital sheet-fed presses, wide-format printers and document solutions.
- The Imaging System Business Unit mainly includes interchangeable—lens digital cameras, digital compact cameras, interchangeable lenses, Compact photo printers, inkjet printers, large format inkjet printers, commercial photo printers, image scanners and calculators.
- The Medical System Business Unit mainly includes digital radiography systems, diagnostic X-ray systems, CT systems, MRI systems, diagnostic ultrasound systems, clinical chemistry analyzers and ophthalmic equipment.
- The Industry and Others Business Unit mainly includes semiconductor lithography equipment, FPD lithography equipment, vacuum thin-film deposition equipment, OLED panel manufacturing equipment, die bonders, network cameras, digital camcorders, digital cinema cameras, multimedia projectors, broadcast equipment, micromotors, handy terminals and document scanners.

Sales by segment

Please refer to the table of sales by segment in Note 22 of the Notes to Consolidated Financial Statements.

Canon's sales by segment are summarized as follows:

	2019	Change	2018
	(Millions of yen, except percentage data)		
Office	1,752,107	-6.2%	1,868,355
Imaging System	807,414	-16.8	970,435
Medical System	438,525	+0.2	437,578
Industry and Others	688,433	-12.0	781,887
Eliminations	(93,180)	—	(106,318)
Total	3,593,299	-9.1%	3,951,937

Note: From the beginning of the first quarter of 2020, Canon has reclassified certain businesses from the Industry and Others Business Unit to the Office Business Unit. Sales amount for the year ended 2019 and 2018 also has been restated.

Within the Office Business Unit, demand for office MFDs was strong for new next-generation color models that feature enhanced security functions. Sales of monochrome models, however, declined due to the impact of economic slowdowns in emerging markets. In the production printing market, sales of a new compact model offering high-speed and high-volume printing steadily increased. As a result, overall unit sales of MFDs increased slightly compared with the previous year. As for laser printers, despite strong demand for new models that offer low energy consumption, compact body designs, and high productivity, overall unit sales decreased compared with the previous year due to decreasing sales of low-speed models, mainly in China where the economic slowdown continued. Sales of consumables decreased, mainly due to the economic slowdown in

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Europe. These factors resulted in total sales for the business unit of ¥1,752,107 million, a year-on-year decrease of 6.2%, while income before income taxes decreased by 24.4% year on year to ¥170,435 million.

Within the Imaging System Business Unit, sales of the new interchangeable-lens digital cameras for advanced amateur DSLRs enjoyed solid growth. Also, in the growing full-frame mirrorless camera market, Canon benefited from sales of new models launched in the second half of the previous year and the beginning of this year. However, the interchangeable-lens digital cameras market continued to shrink mainly for entry-level models and overall unit sales decreased compared with the previous year. As for inkjet printers, despite efforts to enhance the lineup in refillable ink tank models, overall unit sales decreased compared with the previous year, mainly affected by the sluggish economy in emerging markets. As a result, sales for the business unit decreased by 16.8% year on year to ¥807,414 million, while income before income taxes decreased by 62.1% year on year to ¥49,666 million.

Within the Medical System Business Unit, despite domestic sales increased steadily thanks to a recovery of demand and a series of newly launched products, sales in Europe remained sluggish in the first quarter. As a result, sales for the business unit increased by 0.2% year on year to ¥438,525 million, while income before income taxes decreased by 7.4% year on year to ¥27,283 million due to effects of currency exchange fluctuation.

In the Industry and Others Business Unit, although capital investment towards semiconductor devices relevant to IoT business remained solid, capital investment towards memory devices was restrained because of the deterioration in the market. Additionally, as for FPD lithography equipment and OLED panels manufacturing equipment, sales decreased compared with the previous year as capital investment for small- and medium-size panels entered into a phase of adjustment. On the other hand, sales of network cameras increased reflecting the growth of Axis and the contribution of relevant software, driven by the market's continued expansion based on diversifying market needs and replacement demand. Consequently, sales for the business unit decreased by 12.0% year on year to ¥688,433 million, while income before income taxes decreased by 68.5% year on year to ¥19,425 million.

Intersegment sales of ¥93,180 million are eliminated from total sales for the four segments, and are described as "Eliminations".

Sales by geographic area

Please refer to the table of sales by geographic area in Note 22 of the Notes to Consolidated Financial Statements.

A summary of net sales by geographic area in 2019 and 2018 is provided below:

	2019	Change	2018
	(Millions of yen, except percentage data)		
Japan	872,534	+0.3%	869,577
Americas	1,029,078	-4.4	1,076,402
Europe	882,480	-13.1	1,015,428
Asia and Oceania	809,207	-18.3	990,530
Total	3,593,299	-9.1%	3,951,530

Note: This summary of net sales by geographic area is determined by the location where the product is shipped to the customers.

A geographical analysis indicates that net sales in 2019 are summarized as follows.

In Japan, net sales increased by 0.3% from the previous year mainly owing to an increase in sales of medical equipment.

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In the Americas, despite solid sales of network cameras, net sales decreased by 4.4% from the previous year mainly owing to a decline in sales of interchangeable-lens digital cameras and compact digital cameras.

In Europe, net sales decreased by 13.1% from the previous year mainly owing to a decline in sales of consumables, interchangeable-lens digital cameras and compact digital cameras.

In Asia and Oceania, net sales decreased by 18.3% from the previous year mainly owing to a decline in sales of interchangeable-lens digital cameras, compact digital cameras, OLED panels manufacturing equipment which was supplied by Canon Tokki, and semiconductor lithography equipment.

Income before income taxes by segment

Please refer to the table of segment information in Note 22 of the Notes to Consolidated Financial Statements.

Income before income taxes for the Office Business Unit in 2019 decreased by 24.4% from the previous year to ¥170,435 million, mainly due to a decline in sales of consumables.

Income before income taxes for the Imaging System Business Unit in 2019 decreased by 62.1% from the previous year to ¥49,666 million, owing to shrinking market for interchangeable-lens digital cameras on a global basis.

Income before income taxes for the Medical System Business Unit in 2019 decreased by 7.4% from the previous year to ¥27,283 million, mainly due to a decrease of sales in Europe in the first quarter.

Income before income taxes for the Industry and Others Business Unit in 2019 decreased by 68.5% from the previous year to ¥19,425 million, due to a decrease in sales of semiconductor lithography equipment and OLED panels manufacturing equipment.

Note: Certain figures presented in the text above have been revised from the versions previously disclosed. For further details, please refer to Note 1 (y) of the Notes to Consolidated Financial Statements.

Foreign operations and foreign currency transactions

Canon's marketing activities are performed by subsidiaries in various regions in local currencies, while the cost of sales is generally in yen. Given Canon's current operating structure, appreciation of the yen has a negative impact on net sales and the gross profit ratio. To reduce the financial risks from changes in foreign exchange rates, Canon utilizes derivative financial instruments, which consist principally of forward currency exchange contracts.

The operating profit on foreign operation sales is usually lower than that from domestic operations because foreign operations consist mainly of marketing activities. Marketing activities are generally less profitable than production activities, which are mainly conducted by the Company and its domestic subsidiaries. Please refer to the table of geographic information in Note 22 of the Notes to Consolidated Financial Statements.

B. Liquidity and capital resources

Cash and cash equivalents decreased by ¥5,130 million to ¥407,684 million in fiscal 2020 compared to the previous year. Canon's cash and cash equivalents are primarily denominated in Japanese yen and in U.S. dollars, with the remainder denominated in other currencies.

Net cash provided by operating activities decreased by ¥24,656 million to ¥333,805 million in fiscal 2020 compared to the previous year due to a decrease in profit, despite improving working capital mainly through inventory reduction. The major component of Canon's cash inflow is cash received from customers, and the major components of Canon's cash outflow are payments for parts and materials, selling, general and administrative expenses, R&D expenses and income taxes.

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For fiscal 2020, cash inflow from cash received from customers decreased due to sales deterioration. There were no significant changes in Canon's collection rates. Cash outflow for payments for parts and materials decreased due to a decrease of inventory compared with the inventory in fiscal 2019. Cash outflow for payments for income taxes decreased due to a decrease in taxable income in fiscal 2019.

Net cash used in investing activities decreased by ¥73,129 million to ¥155,439 million in fiscal 2020 mainly due to a decrease in payment for purchases of fixed assets.

Canon defines "free cash flow" as cash flows from operating activities less cash flows from investing activities. For fiscal 2020, free cash flow increased by ¥48,473 million to ¥178,366 million as compared with ¥129,893 million for fiscal 2019.

Note: "Free cash flow" is a non-GAAP measure. Refer to the "Non-GAAP Financial Measures" section for the explanation and the reconciliation to the reported GAAP measure.

Canon's management places importance on cash flow management and frequently monitors this indicator. Furthermore, Canon's management believes that this indicator is significant in understanding Canon's current liquidity and the alternatives of use in financing activities because it takes into consideration its operating and investing activities and believes that such indicator is beneficial to an investor's understanding. Canon refers to this indicator together with relevant U.S. GAAP financial measures shown in its consolidated statements of cash flows and consolidated balance sheets for cash availability analysis.

Net cash used in financing activities totaled ¥183,449 million in fiscal 2020, mainly resulting from the dividend payout of ¥126,938 million, the repurchases and reissuance of treasury stock of ¥50,008 million. The Company paid dividends in fiscal 2020 of ¥120.00 per share.

To the extent Canon relies on external funding for its liquidity and capital requirements, it generally has access to various funding sources, including the issuance of additional share capital, issuance of corporate bond or loans. While Canon has been able to obtain funding from its traditional financing sources and from the capital markets, and believes it will continue to be able to do so in the future, there can be no assurance that adverse economic or other conditions will not affect Canon's liquidity or long-term funding in the future.

Canon transferred 344,000 million yen which is loans with a repayment date of December, 2021, from long-term debt to the current portion of long term debt because the repayment date was within one year. As a result, short-term loans (including the current portion of long-term debt) increased by ¥350,201 million to ¥392,235 million at December 31, 2020 compared with ¥42,034 million at December 31, 2019. Long-term debt (excluding the current portion) decreased by ¥352,506 million to ¥4,834 million at December 31, 2020 compared with ¥357,340 million at December 31, 2019.

Canon's long-term debt mainly consists of bank borrowings and finance lease obligations.

In order to facilitate access to global capital markets, Canon obtains credit ratings from two rating agencies: Moody's Investors Services, Inc. ("Moody's") and Standard and Poor's Ratings Services ("S&P"). In addition, Canon maintains a rating from Rating and Investment Information, Inc. ("R&I"), a rating agency in Japan, for access to the Japanese capital market.

As of March 15, 2021, Canon's debt ratings are: Moody's: Baa1 (long-term); S&P: A (long-term), A-1 (short-term); and R&I: AA (long-term). Canon does not have any rating downgrade triggers that would accelerate the maturity of a material amount of its debt. A downgrade in Canon's credit ratings or outlook could, however, increase the cost of its borrowings.

Canon's management policy in recent periods to optimize inventory levels is intended to maintain an appropriate balance among relevant imperatives, including minimizing working capital, avoiding undue exposure

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to the risk of inventory obsolescence, and maintaining the ability to sustain sales despite the occurrence of unexpected disasters.

Canon's total inventory turnover measured in days were 60, 59, and 56 days at the end of the fiscal years 2020, 2019, and 2018, respectively. While sales declined significantly, inventory decreased by ¥21,949 million in fiscal 2020 compared to the previous year. As a result, inventory turnover measured in days was the same level as the previous year.

Increase in property, plant and equipment on an accrual basis in 2020 amounted to ¥132,302 million compared with ¥178,088 million in 2019 and ¥159,316 million in 2018. For 2021, Canon projects its increase in property, plant and equipment will be approximately ¥160,000 million.

Employer contributions to Canon's worldwide defined benefit pension plans were ¥26,965 million in 2020, ¥30,383 million in 2019 and ¥35,044 million in 2018. Employer contributions to Canon's worldwide defined contribution pension plans were ¥16,334 million in 2020, ¥17,414 million in 2019, and ¥19,570 million in 2018. In addition, employer contributions to the multiemployer pension plan of certain subsidiaries were ¥4,224 million in 2020, ¥4,321 million in 2019 and ¥4,452 million in 2018.

Working capital in 2020 decreased by ¥411,008 million to ¥462,954 million, compared with ¥873,962 million in 2019 and ¥1,009,269 million in 2018. Canon believes its working capital will be sufficient for its requirements for the foreseeable future. Canon's capital requirements are primarily dependent on management's business plans regarding the levels and timing of purchases of fixed assets and investments. The working capital ratio (ratio of current assets to current liabilities) for 2020 was 1.35 compared to 1.90 for 2019 and to 1.97 for 2018.

Return on assets (net income attributable to Canon Inc. divided by the average of total assets) was 1.8% in 2020, compared to 2.6% in 2019 and 5.0% in 2018.

Return on Canon Inc. shareholders' equity (net income attributable to Canon Inc. divided by the average of total Canon Inc. shareholders' equity) was 3.2% in 2020 compared with 4.5% in 2019 and 8.9% in 2018.

The debt to total assets ratios were 10.9%, 10.8% and 8.2% as of December 31, 2020, 2019 and 2018, respectively. Canon had short-term loans, current operating lease liabilities, long-term debt, and noncurrent operating lease liabilities of ¥506,172 million as of December 31, 2020, ¥514,946 million as of December 31, 2019 and ¥400,489 million as of December 31, 2018.

Non-GAAP Financial Measures

We have reported our financial results in accordance with U.S. GAAP. In addition, we have discussed our results using the combination of two GAAP cash flow measures, Net cash provided by operating activities and Net cash used for investing activities, which we refer to as "Free Cash Flow" which is a non-GAAP measure. We believe this measure is beneficial to an investor's understanding of Canon's current liquidity and the alternatives of uses of financing activities because it takes into consideration its operating and investing activities.

A reconciliation of this non-GAAP financial measure and the most directly comparable measure calculated and presented in accordance with GAAP is set forth on the following table.

Free Cash Flow

	Years ended December 31	
	2020	2019
	(Millions of yen)	
Net cash provided by operating activities	333,805	358,461
Net cash used in investing activities	(155,439)	(228,568)
Free cash flow	178,366	129,893

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C. Research and development, patents and licenses

Since its founding, Canon has diversified its business by developing and diversifying core competence management that comprises various core competence technologies ("core technologies") to create industry-leading core products and basic component technologies that form the basis of technology accumulation. In addition, Canon incorporates technology and expertise that support the Canon brand accumulated during the company's growth, that is, technology that supports quality, cost and delivery, into core competence management as basic technologies for value creation. Canon's key R&D strategies are as follows:

- Reinforce basic component technologies and basic technologies for value creation
- Create future businesses based on strong core technologies and basic component technologies
- Enhance innovation-type R&D in response to the demands of the current age

Canon strives to implement the above R&D strategies as follows:

- *Reinforce basic component technologies and basic technologies for value creation:*

Contribute to higher efficiency of existing businesses by further evolving basic technologies for value creation. Alongside this, extract the essence of a wide range of core technologies possessed by each business group, deepen basic component technologies and inject them into core technologies of new businesses. In doing so, Canon will promote core competence management for strengthening existing businesses and growing new business groups.

- *Create future businesses based on strong core technologies and basic component technologies:*

Promote development of new business areas through technology diversification. For example, Canon will develop devices that utilize functional materials technology –the foundation of ink and toner materials- as well as materials with unique properties, and work on development of next-generation technologies that lead to business creation.

- *Enhance innovation-type R&D in response to the demands of the current age:*

Build upon trends such as Digital transformation ("DX") and carbon neutrality, promote R&D that leads to corporate value improvement. In particular, focus on cyber-physical systems that closely integrate cyberspace, which enables the combination of various services, with physical (real world) space, the point of contact with people. Develop cyber-physical technologies that stay one step ahead by incorporating advanced cyber technology and utilize business alliances to develop world-class core technologies in the physical field.

R&D expenses were ¥272,312 million in fiscal 2020 and ¥298,503 million in fiscal 2019. The R&D expenses to net sales ratios were 8.6% in fiscal 2020 and 8.3% in fiscal 2019.

Canon believes that new products protected by a robust patent portfolio will not easily allow competitors to surpass them, and will give the company an advantage in establishing standards in the market and industry.

Canon obtained the third greatest number of patents in the United States in 2020, according to the annual ranking list, released by IFI CLAIMS® Patent Services.

D. Trend information

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

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Based on this basic management policy, Canon launched the Excellent Global Corporation Plan in 1996 and, from Phase I through to Phase IV, has worked to strengthen its management base and improve corporate value. In 2016, under the slogan "Embracing the challenge of new growth through a grand strategic transformation," Canon embarked on a new five-year initiative: Phase V of the Excellent Global Corporation Plan. Under this plan, Canon aims to facilitate growth through structural transformation by reinforcing existing businesses and taking steps to cultivate and strengthen new businesses.

The global economy in 2021 is expected to recover moderately with the various economic measures and fiscal policies in each country and region over the long term.

In the markets in which Canon operates, for office MFDs, demand for the imageRUNNER ADVANCE DX series with advanced scan functions and cloud functionality is expected to increase and print volumes are expected to recover. For laser printers, demand is also expected to increase due to signs of recovery of operating conditions in office. As for interchangeable-lens digital cameras, although the overall market is expected to continue to shrink, sales promotion efforts will be strengthened amid the shift to mirrorless and the product mix will be improved. As for inkjet printers, demand is expected not to decrease significantly given the increase of print volumes while remote working and education needs remain stable due to the ongoing pandemic. As for the medical equipment market, demand is expected to remain at around the same level as the previous year due to the risk of additional COVID-19 infections. For semiconductor lithography equipment, while demand for memory devices is expected to remain firm, demand for image sensors and automotive devices is expected to continue to increase. For FPD lithography equipment and OLED panel manufacturing equipment, demand will remain solid as panel manufacturers are expected to increase capital investments. As for network cameras, the market is also expected to trend towards expansion due to increasing demand for high-resolution cameras and the video analysis solutions that require them.

In 2021, under a new five-year management plan, Phase VI of the "Excellent Global Corporation Plan," which begins in 2021, we will implement the following measures under the basic policy of group-wide productivity improvement and the enhancement of new businesses.

(1) *Printing group*

While expanding commercial printing business including catalog printing, the Printing Group will also firmly establish itself in the industrial printing field including label printing, package printing and the like. In the office market, Canon will expand and strengthen the product lineup by exploiting the advantages of both electrophotographic technology and inkjet technology. In addition, Canon will effectively respond to DX.

(2) *Optical Industry Group*

Canon will enter in-car camera business by leveraging the optical and network technology that Canon has refined over its long history and will aim to expand its business domains focusing on social infrastructure, such as observation camera systems to support the realization of smart city.

(3) *Industrial Equipment Group*

Canon will further expand the competitiveness of OLED manufacturing equipment through innovation and cost reduction. In addition, Canon will strive to increase our share in semiconductor lithography equipment and FPD lithography equipment.

(4) *Medical Group*

Canon will strengthen the competitiveness of our core products including CT, MRI, and ultrasound diagnostic systems, as well as diagnostic solutions and image analysis applications that make use of AI, to

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expand medical diagnostic equipment business. Canon will also aim to boldly enter domains on the periphery of diagnostic equipment, such as test reagents, and accelerate the growth of its business.

For a discussion of the trend by business segments, see "Item 4 B. Business overview" and "Item 5 A. Operating Results".

E. Off-balance sheet arrangements

As part of its ongoing business, Canon does not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

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

Canon would have to perform under a guarantee if the borrower defaults on a payment within the contract terms. The contract terms are 1 year to 15 years in case of employees with housing loans, and 1 year to 5 years in case of affiliates and other companies with lease obligations and bank loans. The maximum amount of undiscounted payments Canon would have had to make in the event of default is ¥2,568 million at December 31, 2020. The carrying amounts of the liabilities recognized for Canon's obligations as a guarantor under those guarantees at December 31, 2020 were not significant.

F. Contractual obligations

The following summarizes Canon's contractual obligations at December 31, 2020.

		Payments Due By Period			
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
		(Millions of yen)			
Contractual obligations:					
Long-Term Debt:					
Loan from the banks	344,000	344,000	—	—	—
Other debt	6,608	1,774	1,570	665	2,599
Operating Lease Obligations	115,813	35,769	43,545	20,970	15,529
Purchase commitments for:					
Property, Plant and Equipment	42,434	42,434	—	—	—
Parts and Raw Materials	121,031	121,031	—	—	—
Other long-term liabilities					
Contribution to Defined Benefit Pension Plans	30,846	30,846	—	—	—
Total	660,732	575,854	45,115	21,635	18,128

Note: The table does not include provisions for uncertain tax positions and related accrued interest and penalties, as the specific timing of future payments related to these obligations cannot be projected with reasonable certainty. See Note 11, Income Taxes in the Notes to Consolidated Financial Statements for further details.

Contribution to defined benefit pension plans reflects the expected amount only for the next fiscal year, since contributions beyond the next fiscal year are not currently determinable due to uncertainties related to changes in actuarial assumptions, returns on plan assets and changes to plan membership.

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Canon provides warranties of generally less than one year against defects in materials and workmanship on most of its consumer products. Estimated product warranty related 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 primarily based on historical experience, and are affected by ongoing product failure rates, specific product class failures outside of the baseline experience, material usage and service delivery costs incurred in correcting a product failure. As of December 31, 2020 accrued product warranty costs are included in accrued expenses and amounted to ¥14,300 million.

At December 31, 2020, commitments outstanding for the purchase of property, plant and equipment were approximately ¥42,434 million, and commitments outstanding for the purchase of parts and raw materials were approximately ¥121,031 million, both for use in the ordinary course of its business. Canon anticipates that funds needed to fulfill these commitments will be generated internally through operations.

During 2021, Canon expects to contribute ¥14,414 million to its Japanese defined benefit pension plans and ¥16,432 million to its foreign defined benefit pension plans.

Canon's management believes that current financial resources, cash generated from operations and Canon's potential capacity for additional debt and/or equity financing will be sufficient to fund current and future capital requirements.

EXHIBIT "G"

HUNTER
Business Systems
CONNECT WITH US
Canon
AUTHORIZED DEALER
Copiers • Printers • Plotters
Sales • Service • Supplies
www.hunterbiz.net

EXHIBIT "H"

From: Yoshihito Saji
Sent: Friday, May 22, 2020 12:16 PM
To: Tori Novack
Cc: Steve Martin ; Jerry Hsiao
Subject: RE: dropship order

CAUTION: THIS EMAIL IS FROM AN EXTERNAL SOURCE OUTSIDE OF YOUR ORGANIZATION

Tori,
Thank you for providing us the drop ship address. Is this end user location?? I just wanted to make it sure.
Thanks
Brad

From: Tori Novack <vnovack@hunterbiz.net>
Sent: Friday, May 22, 2020 11:17 AM
To: Yoshihito Saji <ysaji@cusa.canon.com>
Cc: Steve Martin <smartin@hunterbiz.net>
Subject: RE: dropship order
Email was not sent from a Canon Network!
Brad
I have attached the PO- can you ship the 575 units to the dropship address on the attached PO- we have dropshipped there before.
Thank you
Tori Novack
o:609.371.8120| f: 609.336.7640
direct: 609.469.1463
164 Applegarth Rd., Monroe NJ 08831

HUNTER BUSINESS SYSTEMS

From: Steve Martin <smartin@hunterbiz.net>
Sent: Friday, May 22, 2020 11:08 AM
To: Tori Novack <vnovack@hunterbiz.net>
Subject: Fwd: dropship order

Begin forwarded message:

> **From:** Yoshihito Saji <ysaji@cusa.canon.com>
> **Date:** May 22, 2020 at 10:53:28 AM EDT
> **To:** Steve Martin <smartin@hunterbiz.net>
> **Subject: RE: dropship order**

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H

Good morning Sir, Hope you are feeling OK.
I fully understand everyone is facing tough situation need to help each other. And also Canon should respect our long term relationship and I personally appreciate your support.
We will be able to release 3) Cartridge 055H' s in addition to 1) Yellow highlighted orders soon. 2) For 575 units of Cartridge 119II, it seems we had shipped 212 units to the address of IG BURTON CHEVY OF MILFORD before. Can we use same address for this 575 units as drop ship address?? or provide us the other ship address please.
Thanks
Brad

From: Steve Martin <smartin@hunterbiz.net>
Sent: Thursday, May 21, 2020 9:27 PM
To: Yoshihito Saji <ysaji@cusa.canon.com>
Subject: Re: dropship order
Email was not sent from a Canon Network!
Brad
Good Morning,
I have most of my company employees on furlough.
My wife has been furloughed and the kids are home from college and everyone is helping to keep the doors open . I have orders in can fill and my customers have been supportive. At this time , my company needs to survive any way possible. If that is selling copiers , toner , printer ect , I have to do it . I ordered product because in need them , and can deliver them and keep my doors open . If you can use the business , fill the orders , if you can't , I'll cancel the po s tomorrow at 12 .

Sent from my iPhone

On May 21, 2020, at 7:51 PM, Yoshihito Saji <ysaji@cusa.canon.com> wrote:

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Hi Steve, Hope you and your family stay healthy. You must be busy while you returning to normal life. Hope our life come back to normal soon.
We also have been working so hard under work from home situation. Fortunately our desktop type machine business keep good trend due to work from home trend.
Please see the attached sheet including all of current pending orders for Hunter/Lasertone. All of other orders before 5/13 have been released.
1) Yellow highlighted orders will be released soon, 2) For 575 units of Cartridge 119II, that would be very helpful if you can provide us MIF & Print volume information
Or you can pick drop ship option, 3) For Cartridge 055H' s, would it be possible to change the drop shipment for those orders simply??
I understand you are concerning the freight cost for Drop shipment. As long as I know, Canon Admin team use competitive freight rate for Drop shipment.
We need to investigate further with our Admin team based on your information
Thank you for your support to our business. We will keep in touch with you.
Have a great night
Brad

Order No.	Qty	Merchandise	Merchandise Nm	Sell to	Ship to	Ship to Nm
CPOT0864	40	3017C001AA	CARTRIDGE 055 H YELLOW	H25S	H25S	HUNTER BUSINESS SYSTEMS OF
CPOT0864	40	3019C001AA	CARTRIDGE 055 H CYAN	H25S	H25S	HUNTER BUSINESS SYSTEMS OF
CPOT0865	175	3480B001AA	CARTRIDGE 119 II	H25S	H25S	HUNTER BUSINESS SYSTEMS OF
CPOT9073	400	3480B001AA	CARTRIDGE 119 II	H25S	H25S	HUNTER BUSINESS SYSTEMS OF
CPOU3859	1	0865C001AA	PAPER FEEDER PF-C1	H25S	H25S	HUNTER BUSINESS SYSTEMS OF

CPOT4832	30	3020C001AA	CARTRIDGE 055 H BLACK	L3ZT	L3ZT	LASER TONE BUSINESS SYSTEMS
CPOT4832	30	3017C001AA	CARTRIDGE 055 H YELLOW	L3ZT	L3ZT	LASER TONE BUSINESS SYSTEMS
CPOT4832	30	3018C001AA	CARTRIDGE 055 H MAGENTA	L3ZT	L3ZT	LASER TONE BUSINESS SYSTEMS
CPOT4832	30	3019C001AA	CARTRIDGE 055 H CYAN	L3ZT	L3ZT	LASER TONE BUSINESS SYSTEMS
CPOT4832	20	3480B001AA	CARTRIDGE 119 II	L3ZT	L3ZT	LASER TONE BUSINESS SYSTEMS

From: Steve Martin <smartin@hunterbiz.net>
Sent: Thursday, May 21, 2020 11:40 AM
To: Jerry Hsiao <jhsiao@cusa.canon.com>
Cc: Yoshihito Saji <ysaji@cusa.canon.com>
Subject: Re: dropship order
Email was not sent from a Canon Network!
Jerry
We received a partial order again . We ordered sets and you released partials . I can't have this . You must ship complete or complete sets . You can't send 30 of one color and 10 of another . I have orders in the system that again on hold . Should I cancel the orders ? Do you not want the business during a major pandemic ?
Please advise if I have to buy more generic cartridges.
Steve
Sent from my iPhone

On Mar 24, 2020, at 6:48 PM, Jerry Hsiao <jhsiao@cusa.canon.com> wrote:

CAUTION: THIS EMAIL IS FROM AN EXTERNAL SOURCE OUTSIDE OF YOUR ORGANIZATION

Hi Steve. Sorry for the delay in getting back to you. Hope you are staying healthy and safe.
As you may understand, while DC21 is still open and operating, it is doing so with fewer folks on hand at any one moment.
We are also limiting the number of folks that comes to our facilities overall. We would much still prefer to fulfill your order through drop ship.
If splitting the order is not possible, then we will work to see when we can fill your pending orders as soon as possible.
Thank you for your understanding.

Jerry Hsiao
Sr. Manager, Business Planning
Enterprise & Desktop Solutions Division
Business Information Communications Group (BICG)
Canon U.S.A., Inc.
One Canon Park, Melville, NY, 11747
www.usa.canon.com
jhsiao@cusa.canon.com
T 631.330.8458

From: Steve Martin <smartin@hunterbiz.net>
Sent: Friday, March 20, 2020 10:21 AM

To: Jerry Hsiao <jhsiao@cusa.canon.com>
Subject: RE: dropship order
Email was not sent from a Canon Network!
Jerry
Since we are drop shipping , I can not break up the orders cause shipping killed me on the last drop ship. If we can pick up, I can get thru the month with the following

CRG 055 H Yellow	Hunter	63
	Laser Tone	26
CRG 055 H Magenta	Hunter	63
	Laser Tone	26
CRG 055 H Cyan	Hunter	63
	Laser Tone	26
CRG 055 H Black	Hunter	71
	Laser Tone	18

From: Jerry Hsiao <jhsiao@cusa.canon.com>
Sent: Tuesday, March 17, 2020 12:06 PM
To: Steve Martin <smartin@hunterbiz.net>
Subject: RE: dropship order

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This order is part of the total I sent you previously.
Please let us know how many of the following **needs** to be shipped, we will do so.

CRG 055 H Yellow	Hunter	93
	Laser Tone	32
CRG 055 H Magenta	Hunter	93
	Laser Tone	32
CRG 055 H Cyan	Hunter	93
	Laser Tone	32
CRG 055 H Black	Hunter	101
	Laser Tone	32

If you want to tell us by specific POs, we can coordinate that way as well.
Thank you Steve.

Jerry Hsiao
Sr. Manager, Business Planning
Enterprise & Desktop Solutions Division
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www.usa.canon.com
jhsiao@cusa.canon.com
T 631.330.8458

From: Steve Martin <smartin@hunterbiz.net>
Sent: Tuesday, March 17, 2020 11:43 AM
To: Jerry Hsiao <jhsiao@cusa.canon.com>
Subject: FW: dropship order

Email was not sent from a Canon Network!
Jerry ,
I have this one on back order since 2 25 2020 , this is the medical organization that just bought 40 units fall of 2019.
Is this order also on backorder?
Steve
Sent from Mail for Windows 10

From: Tori Novack
Sent: Tuesday, March 17, 2020 11:38 AM
To: Steve Martin
Subject: RE: dropship order
Tori Novack
o:609.371.8120| f: 609.336.7640
direct: 609.469.1463
164 Applegarth Rd., Monroe NJ 08831

From: Steve Martin <smartin@hunterbiz.net>
Sent: Tuesday, March 17, 2020 11:26 AM
To: Tori Novack <vnovack@hunterbiz.net>
Subject: FW: dropship order
Need a total of whats on back order.
Steve

From: Jerry Hsiao <jhsiao@cusa.canon.com>
Sent: Tuesday, March 17, 2020 11:19 AM
To: Steve Martin <smartin@hunterbiz.net>; Yoshihito Saji <ysaji@cusa.canon.com>
Cc: Tadasuke Sameshima <tsameshima@cusa.canon.com>
Subject: RE: dropship order

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Thank you for the note Steve.
As we all go into a slower pace, do you need all of your orders currently in the system to ship or can we pace some out into April?
Below are the total number of units per 055 H cartridge on order between the two dealerships (Hunter and Laser Tone).

CRG 055 H Yellow	Hunter	93
	Laser Tone	32
CRG 055 H Magenta	Hunter	93
	Laser Tone	32
CRG 055 H Cyan	Hunter	93
	Laser Tone	32
CRG 055 H Black	Hunter	101
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www.usa.canon.com

jhsiao@cusa.canon.com
T 631.330.8458

From: Steve Martin <smartin@hunterbiz.net>
Sent: Tuesday, March 17, 2020 9:47 AM
To: Jerry Hsiao <jhsiao@cusa.canon.com>; Yoshihito Saji <ysaji@cusa.canon.com>
Cc: Tadasuke Sameshima <tsameshima@cusa.canon.com>
Subject: RE: dropship order
Email was not sent from a Canon Network!

Jerry
Thanks for the update , based on the current corona virus situation , we should be fine till the end of the month . Im showing we should have stock til march 28th as of now due to the slow down. So when the product gets into New Jersey , you can ship. Thanks again and be safe during these crazy times.
Steve

Authorized Dealer
Steve Martin |
Hunter Business Systems | 164 Applegarth Road | Monroe NJ 08831
☎(Office) 609-371-8120 | 🖷(Fax) 609-336-7640
☎(Mobile) 732-735-0922 |✉smartin@hunterbiz.net
Visit us on the web at www.hunterbiz.net

From: Jerry Hsiao <jhsiao@cusa.canon.com>
Sent: Thursday, March 12, 2020 6:56 PM
To: Yoshihito Saji <ysaji@cusa.canon.com>; Steve Martin <smartin@hunterbiz.net>
Cc: Tadasuke Sameshima <tsameshima@cusa.canon.com>
Subject: RE: dropship order

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Hi Steve.
First off, we do not expect major disruption to our cartridge availability from the coronavirus in general and we have sufficient existing stock in country currently.
We are currently out of stock on the 055 cartridges (Cyan, Magenta and Black) due to a receiving delay of two weeks for one of our containers. We are scheduled to receive inventory into our California warehouse tomorrow (3/13) and then into New Jersey next Wednesday (3/18).
I understand that you usually request to ship in full. But if you are open to shipping partial and from alternate warehouse, then we can start filling your backorders tomorrow.
If not, we can start filling your orders next week.
Please let us know how you want to proceed or if you have any other questions. Thank you.

Jerry Hsiao
Sr. Manager, Business Planning
Enterprise & Desktop Solutions Division
Business Information Communications Group (BICG)
Canon U.S.A., Inc.
One Canon Park, Melville, NY, 11747
www.usa.canon.com

jhsiao@cusa.canon.com
T 631.330.8458

From: Yoshihito Saji <ysaji@cusa.canon.com>
Sent: Wednesday, March 11, 2020 8:56 PM
To: Steve Martin <smartin@hunterbiz.net>
Cc: Jerry Hsiao <jhsiao@cusa.canon.com>
Subject: Re: dropship order

Hi Steve, I'm on my vacation this week.
Sorry for my response delay.
Although Our team might send you email,
Those items are tight but we will be receiving some containers in East and west this week and next week.
We will keep you update it.
Thanks
Brad

On Mar 11, 2020, at 11:42 PM, Steve Martin <smartin@hunterbiz.net> wrote:

Email was not sent from a Canon Network!
Brad,
This order is three weeks old , What is the issue now? I have 3 more orders to put in , all can be drop shipped, are you back ordered on all these items ?
Steve

From: Tori Novack <vnovack@hunterbiz.net>
Sent: Wednesday, March 11, 2020 9:42 AM
To: Steve Martin <smartin@hunterbiz.net>
Subject: dropship order
Importance: High

Steve
This DROPSHIP order is still sitting there- no movement.
Tori Novack
o:609.371.8120| f: 609.336.7640
direct: 609.469.1463
164 Applegarth Rd., Monroe NJ 08831

Total Control Panel Login

To: sregan@ghclaw.com Remove this sender from my allow list
From: smartin@hunterbiz.net

You received this message because the sender is on your allow list.

Sean E. Regan

From: Steve Martin <smartin@hunterbiz.net>
Sent: Friday, September 17, 2021 2:41 PM
To: Sean E. Regan
Subject: FW: dropship order

From: Yoshihito Saji
Sent: Friday, May 22, 2020 12:16 PM
To: Tori Novack
Cc: Steve Martin ; Jerry Hsiao
Subject: RE: dropship order

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Tori,
Thank you for providing us the drop ship address. Is this end user location?? I just wanted to make it sure.
Thanks
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Sent: Friday, May 22, 2020 11:17 AM
To: Yoshihito Saji <ysaji@cusa.canon.com>
Cc: Steve Martin <smartin@hunterbiz.net>
Subject: RE: dropship order
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I have attached the PO- can you ship the 575 units to the dropship address on the attached PO- we have dropshipped there before.
Thank you
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direct: 609.469.1463
164 Applegarth Rd., Monroe NJ 08831

HUNTER BUSINESS SYSTEMS

From: Steve Martin <smartin@hunterbiz.net>
Sent: Friday, May 22, 2020 11:08 AM
To: Tori Novack <vnovack@hunterbiz.net>
Subject: Fwd: dropship order

Begin forwarded message:

> **From:** Yoshihito Saji <ysaji@cusa.canon.com>
> **Date:** May 22, 2020 at 10:53:28 AM EDT
> **To:** Steve Martin <smartin@hunterbiz.net>
> **Subject: RE: dropship order**

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We will be able to release 3) Cartridge 055H' s in addition to 1) Yellow highlighted orders soon. 2) For 575 units of Cartridge 119II, it seems we had shipped 212 units to the address of IG BURTON CHEVY OF MILFORD before. Can we use same address for this 575 units as drop ship address?? or provide us the other ship address please.
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Good Morning,
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My wife has been furloughed and the kids are home from college and everyone is helping to keep the doors open . I have orders in can fill and my customers have been supportive. At this time , my company needs to survive any way possible. If that is selling copiers , toner , printer ect , I have to do it . I ordered product because in need them , and can deliver them and keep my doors open . If you can use the business , fill the orders , if you can't , I'll cancel the po s tomorrow at 12 .

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On May 21, 2020, at 7:51 PM, Yoshihito Saji <ysaji@cusa.canon.com> wrote:

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Hi Steve, Hope you and your family stay healthy. You must be busy while you returning to normal life. Hope our life come back to normal soon.
We also have been working so hard under work from home situation. Fortunately our desktop type machine business keep good trend due to work from home trend.
Please see the attached sheet including all of current pending orders for Hunter/Lasertone. All of other orders before 5/13 have been released.
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CPOT4832	20	3480B001AA	CARTRIDGE 119 II	L3ZT	L3ZT	LASER TONE BUSINESS SYSTEMS

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Cc: Yoshihito Saji <ysaji@cusa.canon.com>
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We are also limiting the number of folks that comes to our facilities overall. We would much still prefer to fulfill your order through drop ship.
If splitting the order is not possible, then we will work to see when we can fill your pending orders as soon as possible.
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Jerry Hsiao
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www.usa.canon.com
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T 631.330.8458

From: Steve Martin <smartin@hunterbiz.net>
Sent: Friday, March 20, 2020 10:21 AM

To: Jerry Hsiao <jhsiao@cusa.canon.com>
Subject: RE: dropship order
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Jerry
Since we are drop shipping , I can not break up the orders cause shipping killed me on the last drop ship. If we can pick up, I can get thru the month with the following

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Steve Martin |
Hunter Business Systems | 164 Applegarth Road | Monroe NJ 08831
☎(Office) 609-371-8120 | 🖷(Fax) 609-336-7640
☎(Mobile) 732-735-0922 |✉smartin@hunterbiz.net
Visit us on the web at www.hunterbiz.net

From: Jerry Hsiao <jhsiao@cusa.canon.com>
Sent: Thursday, March 12, 2020 6:56 PM
To: Yoshihito Saji <ysaji@cusa.canon.com>; Steve Martin <smartin@hunterbiz.net>
Cc: Tadasuke Sameshima <tsameshima@cusa.canon.com>
Subject: RE: dropship order

CAUTION: THIS EMAIL IS FROM AN EXTERNAL SOURCE OUTSIDE OF YOUR ORGANIZATION

Hi Steve.
First off, we do not expect major disruption to our cartridge availability from the coronavirus in general and we have sufficient existing stock in country currently.
We are currently out of stock on the 055 cartridges (Cyan, Magenta and Black) due to a receiving delay of two weeks for one of our containers. We are scheduled to receive inventory into our California warehouse tomorrow (3/13) and then into New Jersey next Wednesday (3/18).
I understand that you usually request to ship in full. But if you are open to shipping partial and from alternate warehouse, then we can start filling your backorders tomorrow.
If not, we can start filling your orders next week.
Please let us know how you want to proceed or if you have any other questions. Thank you.

Jerry Hsiao
Sr. Manager, Business Planning
Enterprise & Desktop Solutions Division
Business Information Communications Group (BICG)
Canon U.S.A., Inc.
One Canon Park, Melville, NY, 11747
www.usa.canon.com

jhsiao@cusa.canon.com
T 631.330.8458

From: Yoshihito Saji <ysaji@cusa.canon.com>
Sent: Wednesday, March 11, 2020 8:56 PM
To: Steve Martin <smartin@hunterbiz.net>
Cc: Jerry Hsiao <jhsiao@cusa.canon.com>
Subject: Re: dropship order

Hi Steve, I'm on my vacation this week.
Sorry for my response delay.
Although Our team might send you email,
Those items are tight but we will be receiving some containers in East and west this week and next week.
We will keep you update it.
Thanks
Brad

On Mar 11, 2020, at 11:42 PM, Steve Martin <smartin@hunterbiz.net> wrote:

Email was not sent from a Canon Network!
Brad,
This order is three weeks old , What is the issue now? I have 3 more orders to put in , all can be drop shipped, are you back ordered on all these items ?
Steve

From: Tori Novack <vnovack@hunterbiz.net>
Sent: Wednesday, March 11, 2020 9:42 AM
To: Steve Martin <smartin@hunterbiz.net>
Subject: dropship order
Importance: High

Steve
This DROPSHIP order is still sitting there- no movement.
Tori Novack
o:609.371.8120| f: 609.336.7640
direct: 609.469.1463
164 Applegarth Rd., Monroe NJ 08831

Total Control Panel Login

To: sregan@ghclaw.com Remove this sender from my allow list
From: smartin@hunterbiz.net

You received this message because the sender is on your allow list.

EXHIBIT "I"

Canon

Canon U.S.A., Inc.
One Canon Park
Melville, NY 11747
Tel: 631.330.5000

DIRECT DIAL: (631) 330-5122
DIRECT FAX: (631) 330-5129

July 28, 2021

BY MAIL & E-MAIL (smartin@hunterbiz.net)

Steve Martin, President
Hunter Business Systems of Delaware LLC
164 Applegate Road
Monroe, NJ 08831

Re: Office Imaging Retailer Dealer Agreement between Hunter Business Systems of Delaware LLC and Canon U.S.A., Inc. dated as of December 17, 2012

Dear Mr. Martin:

It has been brought to my attention that by e-mail sent July 15, 2021, a copy of which is enclosed, Canon U.S.A., Inc.'s Audit & Business Consultation Department provided notice that it intended to conduct an audit of the financial records of Hunter Business Systems of Delaware LLC ("Hunter Business Systems") in accordance with Section 13 of the above-referenced dealer agreement. It has been more than ten days since that request was made without any response from your company. I further understand that the Audit & Business Consultation Department followed up on that request yesterday. Please note that Section 13 of the dealer agreement allows for such audit upon 5 business days notice.

Please be advised that unless Hunter Business Systems promptly complies with such request, Canon will have no choice but to terminate the above-referenced dealer agreement in accordance with Section 14.2.1 of the agreement because of Hunter Business Systems' breach.

Given the significant potential consequences of your company's continued failure to comply, I suggest that you provide a copy of this letter to your company's legal counsel.

Very truly yours,

CANON U.S.A., INC.

Jeffrey D. Fields
Senior Associate General Counsel

Enclosure

I

Subject: FW: Request from Canon USA

From: Marie Abbondondolo
Sent: Thursday, July 15, 2021 4:54 PM
To: STEVE MARTIN <smartin@hunterbiz.net>
Subject: Request from Canon USA

Hello Mr. Martin,

I hope all is well with you.

My name is Marie Abbondondolo. I am the Vice President of the Canon U.S.A., Inc. Audit & Business Consultation Department - based out of our America's Headquarters in Melville, NY. The function that I lead within the organization covers Canon America's, including our Canon USA Entity, which includes our Printer Organization BICG (Business Information Communications Group). We are separate from the Sales and Product Groups and act as an independent governance, risk, compliance, and internal consultation function.

As part of our routine monitoring of the Company's accounts, activities, and transactions, we perform quality checks on certain aspects of activity from our Dealers to understand market trends, activity, compliance, etc. As a result of our monitoring, we would like to execute our right (in accordance with Section 13 of the Office Imaging agreement dated 12/17/12) to obtain copies of the following financial records for both Hunter Business Systems and Laser Tone Business Systems:

- (Audited) Financial statements (Balance Sheet and P&L) for the last 3 years.
- System generated report of all Canon sales. This report should include fields such as (but not limited to), Purchase order number, serial number(where applicable), invoice date, invoice number, shipment date, customer name, customer address, merchandise item number, merchandise item description, sales amount, etc.
- System generate report of all Canon machines that are currently and have been serviced by either Hunter Business Systems or Laser Tone for the last 4 years with serial numbers, customer address locations
    - From this report, we will select a sample of signed and executed contracts between with Hunter Business Systems/ Laser Tone System and the customer.

If you can please send these documents to me by end of day, Friday, July 23rd.
Feel free to reach out to me with any questions.

Thanks,
Marie

Note: Please note that since we are an independent function and authorized to do so – we inform BICG Management, but separate the business unit staff and Management from these types of customer inquiries/procedures.

Canon

Marie Abbondondolo
Vice President
Audit, Credit and Risk
Canon U.S.A., Inc.
One Canon Park, Melville, NY, 11747
www.usa.canon.com
mabbondondolo@cusa.canon.com
T 631.330.4750 F 631.330.5229

EXHIBIT "J"

Sean E. Regan

From: Sean E. Regan
Sent: Tuesday, September 14, 2021 9:24 AM
To: 'Jeffrey David Fields'
Subject: RE: Canon Termination Notices

Thank you for your reply. Nevertheless, I find the position of Canon to be both callus and an intentional attempt to damage my clients. After 27 years of making money for Canon, and investing everything into building the brand and franchise this is the action a "partner" takes when a dispute arises. I will send you a copy of the mediation demand, and the complaint that will surely follow.

Giordano Halleran & Ciesla
Attorneys at Law

Sean E. Regan, Esq. **website | biography | vcard**
Shareholder
Co-chair, Construction Law & Litigation Department
Certified Civil Trial Attorney
Due to the National Emergency surrounding COVID-19,
Please use my cell number as the preferred method to reach me
Cell: (732) 299-6733
www.ghclaw.com
Direct Dial: (732) 219-5492 · F: (732) 224-6599
125 Half Mile Road · Suite 300 · Red Bank, NJ 07701

From: Jeffrey David Fields [mailto:jfields@cusa.canon.com]
Sent: Tuesday, September 14, 2021 9:19 AM
To: Sean E. Regan <SRegan@ghclaw.com>
Subject: RE: Canon Termination Notices

Sean,

I have spoken to management and they have denied your client's request for a stay of the terminations of the Hunter Business Systems of Delaware, LLC and Laser Tone, LLC dealership agreements.

Jeff

Jeffrey D. Fields
Sr. Associate General Counsel
Legal Administration Division

Canon U.S.A., Inc.
One Canon Park, Melville, NY, 11747
www.usa.canon.com
jfields@cusa.canon.com
T 631.330.5122 C 516.314.8543 F 631.330.5129

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J

-----Original Message-----
From: Sean E. Regan <SRegan@ghclaw.com>
Sent: Monday, September 13, 2021 8:39 PM
To: Jeffrey David Fields <jfields@cusa.canon.com>
Subject: Canon Termination Notices

Email was not sent from a Canon Network!

Jeffrey
Thank you for returning my call. Please let me know if your client will consider a stay of the termination of Hunter Business Systems of Delaware, LLC and Laser Tone, LLC during the mediation process.

Sent from my iPhone

On Sep 8, 2021, at 11:37 AM, Jeffrey David Fields <jfields@cusa.canon.com> wrote:

I will be out of the office for the Labor Day Holiday on Monday (Septmeber 6) and then out for the holidays Tuesday and Wednesday (September 7 & 8). I will be returning to the office on Thursday (September 9). If you need immediate assistance, please contact Jessica at 631-330-5140, Melanie at 631-330-4596 or Yvette at 631-330-5120.

Total Control Panel Login

To: sregan@ghclaw.com Remove this sender from my allow list
From: jfields@cusa.canon.com

You received this message because the sender is on your allow list.

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Total Control Panel

To: sregan@ghclaw.com Remove this sender from my allow list
From: jfields@cusa.canon.com

You received this message because the sender is on your allow list.

Sean E. Regan

From: Sean E. Regan
Sent: Wednesday, September 08, 2021 11:37 AM
To: 'Jeffrey David Fields'
Cc: 'Marie Abbondondolo'; 'Steve Martin'; Eyisha Butler
Subject: RE: Canon Audit Notice

Jeffrey

I left a voicemail message. I would like to speak with you before this gets out of hand.

Giordano Halleran & Ciesla
Attorneys at Law

Sean E. Regan, Esq. **website | biography | vcard**
Shareholder
Co-chair, Construction Law & Litigation Department
Certified Civil Trial Attorney
Due to the National Emergency surrounding COVID-19,
Please use my cell number as the preferred method to reach me
Cell: (732) 299-6733
www.ghclaw.com
Direct Dial: (732) 219-5492 · F: (732) 224-6599
125 Half Mile Road · Suite 300 · Red Bank, NJ 07701

From: Sean E. Regan
Sent: Thursday, July 29, 2021 2:23 PM
To: 'Jeffrey David Fields' <jfields@cusa.canon.com>
Cc: Marie Abbondondolo <mabbondondolo@cusa.canon.com>; 'Steve Martin' <smartin@hunterbiz.net>; Eyisha Butler <Ebutler@ghclaw.com>
Subject: RE: Canon Audit Notice

Jeff,

Mr. Martin and Ms. Abbondondolo will talk, and coordinate what is needed as you requested.

Mr. Martin's concerns over disclosure of customers, particularly to Cannon Solutions America, is a valid one, and an NDA would be fair. As Mr. Martin said Hunter just moved into its new location (also located in Monroe Twp.) and is still unpacking. Added to this move is that the demand is extensive, and the office comptroller is on vacation. Nevertheless, Mr. Martin will contact Ms. Abbondondolo to coordinate the exchange of the information in as expeditious of a time frame that is able to be accommodated under the situation.

Please give me a call so we can see if we can get some initial information together once the comptroller returns next week while Mr. Martin and Ms. Abbondondolo discuss the client list disclosure.

Giordano Halleran & Ciesla
Attorneys at Law

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Direct Dial: (732) 219-5492 · F: (732) 224-6599
125 Half Mile Road · Suite 300 · Red Bank, NJ 07701

From: Jeffrey David Fields [mailto:jfields@cusa.canon.com]
Sent: Thursday, July 29, 2021 9:32 AM
To: STEVE MARTIN
Cc: Sean E. Regan ; Marie Abbondondolo
Subject: RE: Canon Audit Notice

Steve,

An NDA will not be necessary nor is it called for in this situation, since your compliance with the audit is required by the Dealer Agreement. I suggest that you contact Marie Abbondondolo, who I am copying on this e-mail, as she heads up the Audit & Business Consultation Department at Canon and it is her team that will be conducting the audit. They can answer any questions you may have about the documentation they have requested.

Jeff

Canon

Jeffrey D. Fields
Sr. Associate General Counsel
Legal Administration Division
Canon U.S.A., Inc.
One Canon Park, Melville, NY, 11747
www.usa.canon.com
jfields@cusa.canon.com
T 631.330.5122 C 516.314.8543 F 631.330.5129

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From: Steve Martin <smartin@hunterbiz.net>
Sent: Wednesday, July 28, 2021 5:49 PM
To: Jeffrey David Fields <jfields@cusa.canon.com>
Cc: Sean Regan <SRegan@ghclaw.com>
Subject: Re: Canon Audit Notice

Email was not sent from a Canon Network!
Jeff
We have been moving to a new location over the past 3 weeks with our servers finally back up and running 100 percent. This is the first email I'm seeing so I forward your letter to council and our controller is on vacation til August 3 rd . So when she returns , I will have the p & l ran .
Will you be the only eyes on this information? I expect council will want NDA s signed by anyone with access to this private information.
Please correspond directly with the attached email address on this communication.

Steve Martin

Sent from my iPhone

On Jul 28, 2021, at 4:50 PM, Jeffrey David Fields <jfields@cusa.canon.com> wrote:

CAUTION: THIS EMAIL IS FROM AN EXTERNAL SOURCE OUTSIDE OF YOUR ORGANIZATION

Dear Mr. Martin,

Please see attached letter.

Jeffrey D. Fields
Sr. Associate General Counsel
Legal Administration Division

Canon U.S.A., Inc.
One Canon Park, Melville, NY, 11747
www.usa.canon.com
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Total Control Panel Login

To: sregan@ghclaw.com
From: jfields@cusa.canon.com

Message Score: 1
My Spam Blocking Level: High

Block this sender
Block cusa.canon.com

High (60): Pass
Medium (75): Pass
Low (90): Pass

This message was delivered because the content filter score did not exceed your filter level.

Sean E. Regan

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Sent: Thursday, July 29, 2021 2:23 PM
To: 'Jeffrey David Fields'
Cc: Marie Abbondondolo; 'Steve Martin'; Eyisha Butler
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Message Score: 1
My Spam Blocking Level: High

Block this sender
Block cusa.canon.com

High (60): Pass
Medium (75): Pass
Low (90): Pass

This message was delivered because the content filter score did not exceed your filter level.

HUNTER BUSINESS SYSTEMS OF DELAWARE, LLC, Plaintiff, v. CANON U.S.A., INC. Defendant.	SUPERIOR COURT OF NEW JERSEY CHANCERY DIVISION: GEN. EQ. PART MIDDLESEX COUNTY DOCKET NO. MID-C-141-21 Civil Action

BRIEF ON BEHALF OF PLAINTIFF IN SUPPORT OF ORDER TO SHOW CAUSE SEEKING TEMPORARY AND PRELIMINIARY RESTRAINTS

Filing Attorney's Name – NJ Attorney ID Number
GIORDANO, HALLERAN & CIESLA
A Professional Corporation
125 Half Mile Road, Suite 300
Red Bank, N.J. 07701-6777
(732) 741-3900
Attorneys for Plaintiff, Hunter Business Systems of Delaware LLC

SEAN E. REGAN, ESQ.
Of Counsel and On the Brief

PETER J. GUASTELLA, ESQ.
On the Brief

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POINT I

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PRELIMINARY STATEMENT

Beginning in 1995, Plaintiff, Hunter Business Systems of Delaware LLC ("Plaintiff" or "Hunter") was granted a license to purchase, market, sell and service Canon products of Defendant Canon U.S.A., Inc. ("Defendant" or "Canon") in New Jersey. Canon wrongfully terminated Hunter's dealership and franchise in violation of the Franchise Protection Act, and otherwise for illegitimate reasons not within its contractual rights. Hunter hereby moves to stay the termination pending a mediation scheduled with the American Arbitration Association, and to stay termination during the pendency of the above-captioned action. Plaintiff has a likelihood of success as the law favors Plaintiff's claim, and the factual predicate claimed by Defendant as a basis for termination is false, and not within its rights per the dealership agreement at issue, and is precluded by the Franchise Protection Act. The status quo during the pendency of the case, i.e., the dealership and franchise, should be preserved.

STATEMENT OF FACTS

The verified complaint and certification of Steve Martin are incorporated herein by reference. Those pleadings set forth the applicable facts, and demonstrate that Plaintiff has a likelihood of success, and that the law favors the Plaintiff. Since 1995 Plaintiff has been a Canon authorized dealer. Plaintiff entered into the current "Retail Office Imaging Dealership Agreement" ("Agreement") in 2012, and it has renewed ever since per the Agreement. Plaintiff devotes all of its efforts in promoting and building up the Canon name in New Jersey, and in selling and servicing the Canon products. Plaintiff has invested more than $10,000,000 in just the past 5-6 years in the Canon business in reliance upon the continued right to purchase, promote, sell, and service Canon products in New Jersey. Plaintiff has regularly surpassed its sales requirements, and has been awarded numerous awards from Canon for its achievements on behalf of Canon. Plaintiff has 18 full time employees all of whom will be hurt by Canon's action.

On August 30, 2021, in violation of the New Jersey Franchise Practices Act, N.J. S.A. 56:10-1, *et seq.* ("*F.P.A.*"), Defendant sent a letter to Plaintiff terminating Plaintiff's Agreement (the "*Wrongful Termination Letter*"). The Wrongful Termination Letter contained false statements, and was predicated upon incorrect fact. The letter also failed to set forth any specific facts that supported the alleged breach by Plaintiff of the Agreement by vaguely claiming Plaintiff "sold aftermarket products at wholesale in violation of Section 1.1 which provides in pertinent part that 'Dealer agrees to perform a retain function only (that is, marketing the Products solely to end-users who are unaffiliated with Dealer and who acquire Products solely for their own use) and Dealer shall not sell any Products to other dealers or other remarketers.'" The allegation is not supported by a reference to any specific sale. Moreover, as demonstrated in the Certification of Steve Martin Canon approved the sale that Plaintiff believes it now complains about. Canon also claims in the Wrongful Termination letter that Plaintiff did not turn over information, i.e., customer lists, that Canon has no right to receive from Plaintiff. Despite the fact that Canon through its own sales arm, Canon Solutions America ("CSA"), competes for sales to the same customers, Plaintiff offered to provide the customer lists if Canon provided a non-disclosure agreement ("NDA"). Canon refused.

Procedurally, the purported termination is unlawful as Defendant failed to provide the 60 days' notice to terminate required under N.J.S.A. 56:10-5, and because Defendant failed to provide the required termination notice under any of the three Dealer Agreements. Further, the F.P.A. requires a franchise be given an opportunity to cure. Canon unlawfully and unilaterally advised it would not give an opportunity to cure. Even after 25 years of loyal partnership-like service to Canon, when Plaintiff asked for a stay of the termination pending mediation (See Section 15 of Agreement), Canon refused to do so. Substantively, the purported termination is unlawful as there

was no good cause for the termination. Hunter has substantially complied with the material requirements imposed upon it by Canon. Plaintiff is a franchise under the F.P.A., and the termination of Plaintiff as a franchisee without good cause violates N.J.S.A. 56:10-5.

If Canon is not restrained from terminating Plaintiff as a dealer in New Jersey its business will be destroyed, its 18 employees will lose their jobs, and its 25-year investment in Canon, at a cost of over $10,000,000 in just the past 5-6 years, will be forfeited. Injunctive relief is necessary to prevent this irreparable harm, and to preserve the status quo.

LEGAL ARGUMENT

POINT I

THE IMPOSITION OF TEMPORARY RESTRAINTS AND THE ISSUANCE OF A PRELIMINARY INJUNCTION IS REQUIRED TO PREVENT PLAINTIFF FROM SUFFERING THE IRREPARABLE INJURY OF THE DESTRUCTION OF ITS BUSINESS INTERESTS

Simply stated, if Defendant is not immediately restrained from terminating Plaintiff as a dealer of Canon products in New Jersey, Plaintiff's business will effectively be destroyed. If it is terminated, it will lose its primary revenue source which will be tantamount to a destruction of the business. This will result in the loss of jobs for Plaintiff's 18 employees. This will also result in the forfeiture of the more than $10,000,000 over the past 5-6 years, which Plaintiff has invested in purchasing, marketing, selling and promoting the Canon products. All of the good will that Plaintiff has generated over the past 25 years as a "Canon" authorized dealer, and in connection with the sale of Canon products will be irrevocably lost. To prevent the destruction of the business and the aforementioned irreparable harm, the Court should immediately restrain Defendant from proceeding with its substantively and procedurally defective termination.

The New Jersey Supreme Court has held that an interlocutory injunction shall issue where the applicant demonstrates: (a) a reasonable probability of success on the merits of the underlying

action; (b) that an injunction is necessary to prevent substantial and irreparable harm or to preserve the *status quo*; and (c) the balancing of the equities favors granting the injunction. Crowe v. DeGioia, 90 N.J. 126, 132-134 (1982). See also Subcarrier Communications, Inc. v. Day, 299 N.J. Super, 634, 638 (App. Div. 1997); Weinstein v. Township of Franklin, New Jersey, 898 F.Supp. 271 (D.N.J. 1995); Atlantic Coast Demolition and Recycling, Inc. v. Board of Chosen Freeholders of Atlantic County, 893 F.Supp. 301 (D.N.J. 1995). In ascertaining the relief requested, there must be no adequate remedy at law. Green v. Piper, 80 N.J. Eq. 288 (Ch. 1912). In ascertaining the adequacy of a legal remedy, a court of equity may act if the legal remedy is illusory under the specific circumstances of a specific case. The mere fact that that the relief ultimately sought by the movant may be equated with money damages does not necessarily mean that a Court will withhold its equitable powers. Apollo Technologies Corp. v. Centrosphere Indus Corp., 805 F.Supp. 1157, 1207-08 (D.N.J. 1992). Examination is not confined to simply terming relief as money damages; those money damages must be "adequate" under the given circumstances. Cf. First Nat'l State Bank of N.J. v. Commonwealth Federal Savings and Loan Ass'n., 455 F.Supp. 464, 470 (D.N.J. 1978), aff'd 610 F.2d. 164, 171 (3rd Cir. 1979).

Preliminary injunctions are intended to "prevent some threatening, irreparable mischief which should be averted pending a full and deliberate investigation of the case, and acts which destroy a complainant's business, custom and profits are in this category and authorize the issue of a preliminary injunction." R. 4:52-1; Sunbeam Corp. v. Windsor-Fifth Ave., 14 N.J. 222, 224 (1953). New Jersey courts have uniformly held that issuance of an interlocutory injunction is proper where doing so is necessary to preserve the power of the court to grant relief. As the Supreme Court put it in Feraiullo v. Manno, 1 N.J. 105, 108-109 (1948), "the court, having jurisdiction, will always intervene to protect the *res* from destruction, loss or impairment, so as to

prevent the decree of the court, upon the merits, from becoming futile or inefficacious in operation. Particularly is this so where it appears that the damage resulting to the complainant by a continuance of the alleged wrong may prove to be irreparable." Accord Naylor v. Harkins, 11 N.J. 435, 442-43 (1953); Haines v. Burlington County Bridge Commission, 1 N.J. Super. 163, 174 (App. Div. 1949).

The court's analysis in this context must be further guided by the principle that "equity abhors a forfeiture." It is well settled that a court of equity has inherent jurisdiction to relieve against a forfeiture, where equitable rights or equitable defenses are involved. Galka v. Tide Water Associated Oil Co., 133 N.J. Eq. 137, 141 (Ch. 1943).

To prevent a forfeiture of Plaintiff's 25 year investment in promoting, marketing, selling and installing the, and to prevent the destruction of its business, the Court should enter the requested injunctive relief to prevent irreparable harm.

A. There is a Reasonable Probability that Plaintiff will Succeed on the Merits.

Generally a court will conclude that a movant has demonstrated a reasonable probability of success when the facts material to the relief sought are not in dispute and the legal claim upon which the claim is based is settled and free from doubt. See Crowe, supra.; Subcarrier Comm., supra.; Ispahani v. Allied Domecq Retailing, 320 N.J. Super. 494, 498-99 (App. Div. 1999); Accident Index Bureau, Inc. v. Male, 95 N.J. Super. 39, 50 (App. Div. 1967), aff'd 51 N.J. 107 (1968), app. dis. 393 U.S. 530 (1969). In the case sub judice, there is a reasonable likelihood that Plaintiff will prevail on the merit of each of the causes of action, all of which are well recognized and settled areas of law.

i. Defendant is a Franchise Entitled to the Protection of the New Jersey Franchise Practices Act, N.J.S.A. 56:10-1, *et seq*.

In enacting the F.P.A., effective December 21, 1971, the New Jersey Legislature expressed the public policy of the State of New Jersey with respect to franchise arrangements. The Legislature declared in the Act that:

> Distribution and sales through franchise arrangements in the State of New Jersey mightily affect the general economy of the state, the public interest and public welfare.

The F.P.A. is remedial legislation. Maintainco v. Mitsubishi, 408 N.J. Super. 461, 475 (App. Div. 2009), citing Kubis & Perszyk Assocs. v. Sun Microsystems, Inc., 146 N.J. 176, 193 (1996). Its objectives are "protecting franchisees from the superior bargaining power of franchisors and providing swift and effective judicial relief against franchisors that violate" its provisions. Id. The meaning of what a franchisee is, and what protection the F.P.A. affords is liberally construed in New Jersey courts, and both case law and the legislation have expaned the F.P.A.'s protection since 1971. Indeed, in 2010 the Legislature amended N.J.S.A. 56:10-2, which states: "Further, the Legislature declares that the courts have in some cases more narrowly construed the Franchise Practices Act than was intended by the Legislature."

At common law, freedom of contract was the rule applicable to franchise agreements. However, "The effects of termination were starkly simple – the franchisee would be ousted from the franchise, essentially forfeiting his investment…the franchisor would then regain full control of the terminated business and would be free to begin a relationship with a new franchisee." Instructional Systems v. CCC, 139 N.J. 324, 339 (1992) citing Dunkin Donuts of Am., Inc. v. Middletown Donut Corp., 100 N.J. 166, 176 (1985). Recognizing that the market place was not the best protector of franchisees with substantially inferior bargaining power, the New Jersey Supreme Court held:

> Where there is grossly disproportionate bargaining power, the principle of freedom to contract is non-existent and unilateral terms

> result. In such a situation courts will not hesitate to declare void as against public policy grossly unfair contractual provisions which clearly tend to the injury of the public in some way.

Id. citing Shell Oil Co. v. Marinello, 63 N.J. 402, 408 (1973), cert. denied, 415 U.S. 920, 94 S.Ct. 1421, 39 L.Ed. 2d 475 (1974). In 1992 in the case Instructional Systems, supra., the New Jersey Supreme Court recognized that franchise arrangements take many different forms but:

> In its simplest form, franchising involves a company with a product or service which arranges for a group of dealers to handle its distribution. The company with the product, product line or service is known as the franchisor, and the dealers who acquire the right to sell the product or service exclusively are known as franchisees.

Id. at 338 citing Ernest Gellhorn, Limitations on Contract Termination Rights – Franchise Cancellations, 1967 Duke L.J. 465, 465 n.1 (quoting Lewis & Hancock, The Franchise System of Distribution No. 1 (1963) (Gellhorn)). The Supreme Court's definition applies exactly to the Plaintiff's relationship with Canon.

In Instructional Systems, the court recognized that there are three general categories of business franchises:

> (1) Product Franchises, under which a 'franchisee distribute[s] goods produced by the franchisor…and which bear the franchisor's trademark. …Typical product franchises include automobile and truck dealers, gasoline service stations, and soft drink bottlers.'
>
> (2) Package or Format Franchises, under which 'the franchisee is licensed to do business under a pre-packaged business format established by the franchisor and identified with the franchisor's trademark…Examples of format franchises include fast food outlets and automotive products or services.'
>
> (3) Fractional Franchises, under which 'franchisees market a manufacturer's or supplier's trademarked products. In contrast to product or format franchises, the fractional franchisor exerts minimal control over the franchisee's business operations and the franchisee often operates under [its] own tradename. Common fractional franchises include independent hardware stores…that sell a variety of products [belonging to different manufacturers].'

Id. at 338-339 citing Kevin S. Dittmar, Foerster, Inc. v. Atlas Metal Parts – the Wisconsin Supreme Court Takes a Narrow View of the Dealer's Financial Interest Protected by the Wisconsin Fair Dealership Law, 1985 Wis.L. Rev. 155, 167-68 (footnotes omitted) (Dittmar). Clearly, Plaintiff's relationship with Canon is a Fractional Franchisee.

Nevertheless, in Instructional Systems, supra., the New Jersey Supreme Court recognized that the label that the parties may affix to their relationship is not dispositive of the actual legal relationship, stating:

> The name which the parties give to their relationship is not relevant in determining whether the relationship is within the scope of the rule. Thus, a relationship described by the parties as a 'franchise' will not be covered by the rule unless it meets the definitional criteria of the rule; conversely, a self-described 'distributorship' will be covered by the rule if the definitional elements are satisfied.

Id. at 340 citing Glickman, Franchising, supra., § 2.02[2] at 2-8 n.7 (quoting Final Guides to Compliance with Franchising Rule, § IA44 Fed. Reg. No. 166, p. 49966).

The F.P.A. reflects the legislative concern over long-standing abuses in the franchise relationship, particularly provisions giving the franchisor the right to terminate, cancel or fail to renew the franchise. To that extent the provisions of the Act merely put into statutory form the extant public policy of the State of New Jersey. Shell Oil Co. v. Marinello, 63 N.J. 402, 409 (1973), cert. den. 415 U.S. 920, 39 L.Ed. 2d 475, 94 S.Ct. 1421 (1974). In Shell Oil Co., the New Jersey Supreme Court found that the F.P.A. did not directly control a franchise relationship presented before the court since the franchise arrangement predated the effective date of the statute. Even though the Act itself was not applicable, since the Act merely reflected the extant public policy of the State of New Jersey, the court found that the franchise arrangement would have legal existence for an indefinite period and could only be terminated upon good cause (the failure to

substantially perform the obligations under the dealer agreement). The public policy factors prohibiting termination of franchises without good cause were found to be applicable to the franchise even though the F.P.A. was not yet effective.

Likewise, in Dunkin Donuts of Am. v. Middletown Donut Corp., 100 N.J. 166 (1985), the New Jersey Supreme Court applied the F.P.A. even though the franchisee did not satisfy the requirements of N.J.S.A. 56:10-4 in that its gross sales for the 12 months preceding institution of suit did not exceed $35,000. Although the Supreme Court in Dunkin Donuts found that the franchises at issue were not subject to the Act, it went on to state:

> Nonetheless, to the extent that the Act reflects the prevalent public policy of this State, it applies to all franchises established or maintained in New Jersey.

[Id. at 178, citing Marinello, supra., at 409.]

Consistent with the above law, even though in this case the Dealer Agreement provides that: "This is a license and supply agreement and not a franchise"; the name which Defendant arbitrarily affixes to the Agreement is not dispositive of the nature of the relationship. Instructional Systems, supra. at 340. The form of the franchise arrangement between Plaintiff and Canon is exactly as described in Instructional Systems, that is, "A company with a product or service which arranges for a group of dealers to handle its distribution. The company with the product, product line or service is known as the franchisor, and the dealers who acquire the right to sell the product or service exclusively are known as franchisees." Id. at 338.

Thus, as a franchise, Plaintiff is entitled to the protection of the F.P.A. This is so irrespective of whether it strictly complies with the definition of franchise in the F.P.A. Marinello, supra., Duncan Donuts, supra. However, as discussed next, Plaintiff meets the statutory definition of franchise under the F.P.A.

a. Plaintiff is a Franchise as Defined in the F.P.A.

Under the F.P.A., a franchise is defined as:

> Franchise means a written arrangement for a definite or indefinite period, in which a person grants to another person a license to use a trade name, trademark, service mark or related characteristics, and in which there is a community of interest in the marketing of goods or services at wholesale, retail, by lease, agreement or otherwise.

[N.J.S.A. 56:10-3(a).]

Under the above definition, Plaintiff is a franchise under the F.P.A.

First, the Agreement is a written arrangement for a definite or indefinite period of time.

Second, in the Agreement Canon expressly grants to Plaintiff the right to use Canon's name, logos and trademarks in connection with its marketing of the Canon products. As set forth in the Hunter certification, (a) Plaintiff's company vehicles all have lettering that states: "Canon Authorized Dealer", or some notation of being a Canon Dealer on its cars and trucks, on its building, and other marking materials; (b) Plaintiff's employees wear "Canon" golf shirts and T-shirts at times; and (c) Canon assigns a Sales Manager to Plaintiff. His job is to update Hunter as to pricing, new products, etc., and work with Hunter to meet its minimum purchase requirements, and increase Canon sales.

Finally, there is a community of interest between Plaintiff and Canon in the marketing of the Canon products. "The community-of-interest requirement addresses the inequality of bargaining power between the parties and is critical in distinguishing franchises from other types of business relationships." Instructional Systems, 130 N.J. at 356. In Neptune T.V. & Appliance Service, Inc. v. Litton Microwave Cooking Products Division, 190 N.J. Super. 153 (App. Div. 1983) the court found that the community-of-interest inquiry emphasizes the "vulnerability of the alleged franchisee to an unconscionable loss of his tangible and intangible equities." [Page 165.]

The court further found that the community-of-interest standard "is based on the complex of mutual and continuing advantages which induces the franchisor to reach his ultimate consumer through entities other than his own which, although legally separate, are nevertheless economically dependent upon him." Id. at 163.

In Instructional Systems, supra., the New Jersey Supreme Court found that the requisite community-of-interest standard was satisfied where the plaintiff was the exclusive distributor of a computerized educational learning system. The court cited with approval to the Wisconsin case of Ziegler Co. v. Rexnord, Inc., 139 Wis. 2d 593, 407 N.W. 2d 873 (1987), reh'g granted on other grounds, 147 Wis. 2d 308, 433 N.W. 2d 8 (1988), in which the court concluded that the percentage of income derived from a particular supplier is an important indicator of community-of-interest. The court found that a community-of-interest is shown by "interdependence" between the parties, which refers to the "degree to which the dealer and grantor cooperate, coordinate their activities and share common goals in their business relationship." Id. at 360, citing Ziegler at 407 N.W. 2d at 879. The New Jersey Supreme Court in Instructional Systems said that the interpretations of community-of-interest suggested by the Neptune T.V. and Ziegler courts are similar with each looking beyond the "telltale trappings of the traditional franchise." Id. at 361, citing Ziegler at 407 N.W. 2d at 878. The Instructional Systems court noted that the "symbiotic relationship" discussed by the Neptune T.V. court was similar to the "interdependence" requirement urged by the Ziegler court. The court further found that the requirement articulated in Ziegler that the franchisee "demonstrate a stake in the relationship large enough to make the grantor's power to terminate, cancel or not renew a threat to the economic health of the person", Ziegler, supra., 407 N.W. 2d at 879, echoes the extent of the franchise-specific investment discussed by other courts as a hallmark of the franchise relationship. Instructional Systems, 130 N.J. at 362.

In finding that a franchise relationship existed in Instructional Systems, the court recognized that if terminated, the franchisee, ISI, would have no alternative line of products that it could substitute and sell in place of the CCC product line which, for close to 20 years, it had persuaded its customers to purchase. The good will it had developed over the many years it sold the product would vanish in the event of a termination. The court noted that the franchisor would reap the benefits of all the good will and various projects that the franchisee had undertaken to generate additional sales. Id. at 364.

Moreover, the court found that ISI's and CCC's interdependence was evident in that the franchisee was prohibited from developing or designing any products that might compete with CCC's products. Unlike a department store that sold both Sony and Zenith televisions, or marketed both Apple and IBM computers, ISI could sell only CCC's products and "could develop only a clientele that was wedded to the CCC product line." The court further found significant that ISI and CCC jointly cooperated in sales and marketing activities. CCC supplied ISI with brochures and with information regarding potential customers within its territory. Id. at 365.

Finally, CCC prohibited ISI from selling any products which were competitive with CCC's products which the Supreme Court stated, "And perhaps most important, 97% of ISI's revenue came from the sale of CCC's products." Id. at 365.

In this matter nearly all of the factors which led the Supreme Court in Instructional Systems to find that the community-of-interest standard was satisfied are present. The interdependence between Plaintiff and Canon is clear. For the past 25 years Plaintiff has been given the right license to sell Canon products in New Jersey. Accordingly, "and perhaps most important" as stated by the Supreme Court in Instructional Systems, 95% of its revenues are generated from the sale of the Canon products in New Jersey.

Like the franchisee in Instructional Systems, Plaintiff has no alternative line of products that it can substitute and sell in place of the Canon products at this juncture. It has spent essentially its entire existence since it was formed in 1995 for the purpose of purchasing, marketing, promoting and selling the Canon products. It has spent its entire existence in convincing customers to purchase the Canon products as compared to competitors' products. As in Instructional Systems, all of the good will and contacts that Plaintiff has developed over the past eight years "would vanish in the event of a termination." Id. at 363. This would allow Canon to "reap the benefit…of all the good will and various projects that [Plaintiff] has undertaken to generate additional sales." Id. at 364.

Further, as in Instructional Systems, Plaintiff has spent substantial money on franchise-specific investments which it will not be able to recoup if it is terminated, which the Instructional Systems court referred to as "sunk investments." Id. at 363. The "sunk investments" by Plaintiff include the following minimum yearly purchase requirements (with affiliate Laser Tone, LLC treated as one purchasing unit) in the past four years as follows:

a. 2018 $2,000,000.

b. 2019 $2,000,000.

c. 2020 $1,700,000 (with a COVID reduction).

d. 2021 $1,700,000 (with a COVID reduction).

This means Hunter paid Canon the above minimum amounts, $7.4 million. Plaintiff has invested over $7.4 million in these "sunk investments" in the past four years alone, and over $10,000 in the past six years.

Most significantly, after 25 years Canon, a multi-billion dollar international Japanese conglomerate, still has all of the power, inequitably, over Plaintiff a small local dealer. Plaintiff

satisfies each of the three statutory criteria for a franchise under N.J.S.A. 56:10-3(a) as there is a written arrangement for a definite or indefinite period, Canon has granted Plaintiff the right to use its trade name, trademark and logo, and there is a community of interest between Plaintiff and Canon in marketing and selling the Canon products. Accordingly, Plaintiff is entitled to the protection of the F.P.A.

Plaintiff further satisfies the statutory criteria of N.J.S.A. 56:10-4 which provides:

> This Act applies only
>
> a. to a franchise (1) the performance of which contemplates or requires a franchisee to establish or maintain a place of business within the State of New Jersey; (2) their gross sales of products or services between a franchisor and franchisee covered by such franchise shall have exceeded $35,000 for the 12 months next preceding the institution of suit pursuant to this Act; and (3) where more than 20% of the franchisee's gross sales are intended to be or are derived from such franchise.

Here, Plaintiff satisfies each of the three statutory criteria. It maintains a place of business in Monroe Township, Middlesex County, New Jersey. Plaintiff's gross purchases of Canon products from Canon, and Plaintiff's sale of them exceeded $35,000 in the 12 months preceding the institution of this action. Finally, Plaintiff derives 95% of its gross revenues from the sale of Canon products.

b. Defendant Has Procedurally Violated N.J.S.A. 56:10-5

N.J.S.A. 56:10-5 provides the exclusive basis for terminating a franchise in New Jersey. It provides:

> It shall be a violation of this Act for any franchisor directly or indirectly through any officer, agent, or employee to terminate, cancel, or fail to renew a franchise without having first given written notice setting forth all the reasons for such termination, cancellation, or intent not to renew to the franchisee at least 60 days in advance

> of such termination, cancellation, or failure to renew, except (1) where the alleged grounds are voluntary abandonment by the franchisee of the franchise relationship in which event the aforementioned written notice may be given 15 days in advance of such termination, cancellation, or the failure to renew; and (2) where the alleged grounds are the conviction of a franchisee in a court of competent jurisdiction of an indictable offense directly related to the business conducted pursuant to the franchise in which event the aforementioned termination, cancellation or failure to renew may be effective immediately upon the delivery and receipt of written notice of same at any time following the aforementioned conviction. It shall be a violation of this Act for a franchisor to terminate, cancel or fail to renew a franchise without good cause. For the purposes of this Act, good cause for terminating, cancelling, or failing to renew a franchise shall be limited to failure by the franchisee to substantially comply with those requirements imposed upon him by the franchise.

Here, Defendant failed to comply with the 60-day notice period prior to purporting to terminate the franchise. In the Wrongful Termination Letter Defendant gave only 30 days' notice. Such termination is allowed under the Act only where there has been a voluntary abandonment by the franchisee, which is inapplicable here, or where there has been a conviction of an indictable offense directly related to the operation of the business, which also is inapplicable here. The purported attempt to terminate the franchise based upon an alleged breach of contract, which explained below was approved by Canon, is not a basis for a termination of the franchise, let alone for the short notice termination of the franchise.

As Defendant failed to provide 60 days' notice of a purported termination, its purported termination is invalid and ineffective and the franchise remains in full force and effect.

c. Defendant Violated N.J.S.A. 56:10-5 in Purporting to Terminate the Franchise Without Good Cause

In New Jersey, under N.J.S.A. 56:10-5, a franchisor may only terminate a franchise for "good cause" which is defined as "failure by the franchisee to substantially comply with those requirements imposed upon him by the franchise." Here, over the 25 years of its contractual relationship, Plaintiff has substantially complied with the requirements imposed upon it by Canon. It has successfully developed and marketed the Canon name and Canon products, at substantial cost to it. It has built up the Canon name and Canon products in its New Jersey territory. It has increased its revenue to Canon significantly since its inception as a franchisee in 1995. In recognition of the outstanding services provided by Plaintiff for Canon, Plaintiff has won numerous awards from Canon, and was, among other things a "Top Dealer" in 2016, and was recognized as an "Outstanding Partner" in 2013, 2014 and 2017.

As detailed above, the purported basis for the termination of the franchise because Plaintiff allegedly breached the Agreement as follows:

> 1. By failing and refusing to comply with an audit as set forth in Section 13 which requires that you "furnish, from time to time when requested by Canon USA, a full and detailed statement of Dealer's business and operations…and afford[ing] access… to enable Canon USA to audit Dealer… and verify any Dealer statements or remittances sent to Canon USA"; and
>
> 2. By selling aftermarket products at wholesale in violation of Section 1.1 which provides in pertinent part that "Dealer agrees to perform a retain function only (that is, marketing the Products solely to end-users who are unaffiliated with Dealer and who acquire Products solely for their own use) and Dealer shall not sell any Products to other dealers or other remarketers."

Plaintiff, in response to Defendant Cannon's earlier inquiries from July 28, 2021, provided the required information pursuant to Sec. 13 of the Agreement. Moreover, Hunter advised that Section 13 of the Agreement did not entitle Canon to customer information, but nevertheless, Plaintiff offered to provide such information as a show of good faith. Thus, the first reason for the wrongful termination is baseless

Plaintiff also denies it breached the Agreement by selling "aftermarket products at wholesale," and requested specifics as none were provided. Canon still has not provided any factual specifics. Canon simply does not have, and does not provide any lawful grounds for forfeiture and termination of the franchise that Plaintiff has spent 25 years building at a cost of over $10,000,000. As there was no good cause for the termination of the Plaintiff's franchise, the termination violates N.J.S.A. 56:10-5, and Canon's actions are invalid and ineffective.

d. Since Plaintiff is a Franchisee Under the F.P.A., New Jersey Law Applies.

The December 2012 Dealer Agreements has a choice of law provision providing for the application of New York law and a forum selection clause providing for any action to be brought in the State of New York. However, as made clear by the New Jersey Supreme Court in Instructional Systems, supra., the state in which the franchisee is located has a significant policy interest in governing the relations between the parties and the law of that state applies rather than the law of the contractually-agreed-on forum. Instructional Systems, 130 N.J. at 343, citing Winer Motors, Inc. v. Jaguar Rover Triumph, Inc., 208 N.J. Super. 666, 671-73. The Supreme Court in Instructional Systems stated:

> That a franchisee's principal place of business in a given state will afford the franchisee the protection of that state's law in connection with all products sold by the franchisee is implicit in other decisions as well. See Swan Sales Corp. v. Jos. Schlitz Brewing, 126 Wis. 2d 16, 374 N.W. 2d 640, 644 (Ct. App. 1985) (because dealer did not do any business in Wisconsin, that state's franchise act cannot be applied to Swan's overseas beer sales). Despite some contrary precedent, '[m]ost courts…have held that the parties to a franchise agreement cannot avoid the franchise law of the state in which the franchisee is located by providing in their agreement that the laws of another state will govern.' Thomas M. Pitegoff, Choice of Law in Franchise Agreements, 9 Franchise Law Journal 15, 19 (1989).

Thus, as Plaintiff's principal place of business is in Middlesex County, New Jersey, and since its sales are primarily in New Jersey, the New Jersey Franchise Practices Act applies to this dispute.

ii. Defendant Has Violated its Duty of Good Faith and Fair Dealing in Wrongfully Terminating the Dealer Agreements.

Every contract in New Jersey contains an implied covenant of good faith and fair dealing. Sons of Thunder, Inc. v. Borden, Inc., 148 N.J. 396, 420 (1997); Pickett v. Lloyds Pickett, 131 N.J. 457, 467 (1993); Onderdonk v. Presbyterian Homes, 85 N.J. 171, 182 (1981); Bak-A-Lum Corp. v. Alcoa Bldg. Prods., Inc., 69 N.J. 123, 129-30 (1976); Association Group Life, Inc. v. Catholic War Veterans, 61 N.J. 150, 152 (1972); Palisades Properties, Inc. v. Brunetti, 44 N.J. 117, 130 (1965). "In every contract there is an implied covenant that 'neither party shall do anything which will have the effect of destroying or injuring the right of the other party to receive the fruits of the contract.'" Sons of Thunder, 148 N.J. at 420, citing Palisades Properties, supra., 44 N.J. at 130 (citing 5 Williston on Contracts § 670, at 159-60 (3d ed. 1961). As noted above, the Agreement provides for a duty of good faith on Canon obligating it to act in good faith, with commercial reasonableness and to make all efforts to rectify any non-compliance issues before it can exercise its contractual right to terminate.

In Sons of Thunder, the New Jersey Supreme Court found that the obligation to perform in good faith exists in every contract, including those contracts that contain express and unambiguous provisions permitting either party to terminate the contract without cause. Id. at 421. In Sons of Thunder, Plaintiff purchased a boat in reliance upon the assurances by defendant Borden that it would continue to buy clams from it. Its ability to repay a loan it obtained in order to purchase the boat was dependent upon the income it expected to receive by continuing to sell clams to Borden. Borden was aware that plaintiff was incurring significant costs in reliance upon the continued

performance of the contract, but nonetheless terminated the agreement. Because its conduct destroyed plaintiff's reasonable expectations and right to receive the fruits of its contract, the New Jersey Supreme Court found that defendant violated the implied covenant of good faith found in New Jersey's common law.

So, too, here, the actions of Can in terminating its Agreements with Plaintiff has destroyed Plaintiff's reasonable expectations and right to receive the fruits of its contracts with Canon. For the past 25 years Plaintiff has built up the Canon name and Canon products, invested over $10,000,000 in so doing over the past 5-6 years, and built a company with 18 employees. Defendant has been aware at all times that Plaintiff relies exclusively upon it for its revenues, and Canon has given awards to Plaintiff recognizing Plaintiff as an "outstanding partner." Defendant has breached its duty of good faith and fair dealing in terminating the Agreement based on a vague and amorphous allegation that Plaintiff sold products improperly, without any actual evidence of same. Accordingly, Defendant has breached its duty of good faith and fair dealing in its wrongful termination of the Dealer Agreement.

B. Plaintiff Will Suffer Irreparable Harm if Defendant is Not Restrained from Terminating the Dealer Agreements.

The second element an applicant for a temporary or preliminary injunction must show is that it faces immediate, substantial and irreparable injury if the requested interlocutory injunction does not issue. See Crowe, 90 N.J. at 132; Citizens Coach Co. v. Camden Horse R.R. Co., 29 N.J. Eq. 299, 303-304 (E&A 1878). Irreparable harm has been defined as an injury that cannot be adequately compensated in damages or for which there exists no certain pecuniary standard for the measurement of the damage. See Sherman v. Stern, 93 N.J. Eq. 626, 631 (E&A 1922). The inadequacy of damages as compensation may be due to the nature of the injury itself or the nature of the right or property injured. Id. In other words, harm may even be considered irreparable

where it cannot be adequately remedied by monetary damages such that "severe personal inconvenience can constitute irreparable injury justifying the issuance of injunctive relief." Crowe, 90 N.J. at 132-33. Accordingly, an injunction usually issues "to prevent an anticipated or threatened injury, either to protect against a repetition of unlawful conduct or to guard against reasonably apprehended misconduct or infringement of a legal right." Sheahan v. Upper Greenwood Lake Prop. Owners Ass'n, 36 N.J. Super. 133, 136 (App. Div. 1955) (quoting Hoffman-LaRoche, Inc. v. Weissbard, 11 N.J. 541, 555 (1953)).

It is well settled that injury to or destruction of a business constitutes irreparable harm for which preliminary and permanent injunctive relief may be appropriate. A. Hollander & Sons, Inc. v. Imperial Fur Blending Corp., 2 N.J. 235, 249 (1949) (in which the court stated that it will presume irreparable injury will ensue from the breach of a contract which would lead to the destruction of the plaintiff's business). See also, Professional Plan Examiners of New Jersey, Inc. v. Lefante, 750 F.2d 282 (3d Cir. 1984), in which the district court granted a temporary restraining order, based upon the affidavits submitted, finding that "the corporate plaintiff is in imminent danger of going out of business." The Third Circuit reversed on appeal because the district court failed to make required findings of law and fact. However, in so doing, the Third Circuit found that "the finding of irreparable harm, supported as it is by the affidavits, would suffice" for the issuance of a preliminary injunction. 750 F.2d at 289.

Plaintiff faces immediate and irreparable damage to its business if Defendant is not immediately restrained from terminating the Dealer Agreement. The primary products that Plaintiff has marketed, sold and installed over the past 25 years has been the Canon products. It generates 95% of its revenue from the sale and installation of the Canon products. It will forfeit the more than $10,000,000 it has spent on purchasing, marketing, developing and promoting the

Canon name and Canon products, and the resultant good will it has generated over the past 25 years. It will be forced to terminate the employment of its 18 employees. The termination of the Dealer Agreement will unquestionably lead to the destruction of the Plaintiff's business, which damage is patently irreparable and cannot be remedied by monetary damages. This Court should exercise its equity jurisdiction and enjoin Defendant from taking any action that will result in the destruction of Plaintiff's business and dramatically and negatively impact the lives of the people who work for Plaintiff.

C. Balancing the Equities Weighs Heavily in Favor of Granting the Requested Injunctive Relief.

The third requirement for the issuance of injunctive relief is that the harm to the applicant if the requested relief is not granted outweighs the harm to the Defendant if the injunction is issued. See Crowe, supra. The Court must balance the equities associated with Plaintiff's interest in continuing to operate its business with Defendant's rights to terminate the Dealer Agreement under the F.P.A. and under the Dealer Agreement. This balance weighs heavily in favor of Plaintiff.

Here, the irreparable injury to Plaintiff if a restraint is not granted is clear and obvious – its business will be destroyed. Canon, a multi-billion dollar Japanese conglomerate will not skip a beat if Plaintiff is not terminated. If Plaintiff is not allowed to sell and install the Canon products, it will go out of business, immediately. Canon will continue in business with or without Plaintiff. Plaintiff has spent its time in developing the Canon products to essentially the exclusion of any competitors. Canon has no such limitations.

If the product line is taken away from it, it will have no business. All of the employees of the Plaintiff will be let go. Conversely, there will be no harm to Defendant if the restraints are issued since it will only be required to do that which it is already contractually obligated to do. There will be no harm to Defendant in continuing in the relationship with the Plaintiff which has

served as its "outstanding partner" and dealer in New Jersey for the past 25 years, and which has provided millions of dollars in revenue to Canon.

Accordingly, as the balancing of the equities weighs heavily in Plaintiff's favor, the Court should exercise its equitable powers and issue the requested Temporary Restraining Order.

CONCLUSION

For the foregoing reasons, Plaintiff requests that the Court grant Plaintiff's request for temporary and preliminary restraints.

GIORDANO, HALLERAN & CIESLA
A Professional Corporation
Attorneys for Plaintiff, Hunter Business Systems of Delaware, LLC

By:_____
SEAN E. REGAN, ESQ.

Dated: October 4, 2021

Docs #5312680-v1

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October 4, 2021

Client/Matter No. 14487/5

Via Electronic Filing
Clerk, Superior Court of New Jersey
Chancery Division - Middlesex County
56 Paterson Street
New Brunswick, NJ 08903

Re: Hunter Business Systems of Delaware v. Canon U.S.A., Inc.
MID-C-141-21

Dear Sir/Madam:

Giordano, Halleran & Ciesla, P.C. and the undersigned represent Plaintiff Hunter Business Systems of Delaware, P.C. ("Plaintiff"), in the above captioned action. Plaintiff seeks temporary restraints related to the termination of a franchise under the New Jersey Franchise Protection Act. Enclosed is an order to show cause with temporary restraints. I am serving a copy on the Defendant Canon U.S.A., Inc. ("Canon") by sending the same to Canon directly and to its attorney.

Please advise when you will sign the order so I can look out for it on ecourts if applicable, or if you will require argument before the temporary restraints are ordered.

Thank you.

Very truly yours,

SEAN E. REGAN

SER/eyb
Encl.
cc: Hunter Business Systems of Delaware, LLC
Canon U.S.A., LLC

Docs #5338682-v1