

JAPAN SMALLER CAPITALIZATION FUND INC
Form N-Q
January 22, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED
MANAGEMENT INVESTMENT COMPANY

Investment Company Act file number: 811-5992

JAPAN SMALLER CAPITALIZATION FUND, INC.

(Exact name of registrant as specified in charter)

Two World Financial Center
Building B, 18th Floor
New York, New York 10281-1712

(Address of principal executive offices)

Shigeru Shinohara
Japan Smaller Capitalization Fund, Inc.
Two World Financial Center
Building B, 18th Floor
New York, New York 10281-1712

(Name and address of agent for service)

Registrant's telephone number, including area code: (800) 833-0018

Date of fiscal year end: February 28, 2009

Date of reporting period: September 1, 2008 - November 30, 2008

Item 1. Schedule of Investments

JAPAN SMALLER CAPITALIZATION FUND, INC.
SCHEDULE OF INVESTMENTS
IN SECURITIES OF UNAFFILIATED ISSUERS
November 30, 2008

| | Shares | Cost | Market Value | Unrealized Gain/Loss | % of Net Assets |
|--|--------|------|--------------|----------------------|-----------------|
|--|--------|------|--------------|----------------------|-----------------|

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COMMON STOCKS

Banks and Finance

| | | | | | |
|---|---------|--------------|--------------|--------------|-----|
| The Aichi Bank, Ltd. General banking services | 22,400 | \$ 2,188,303 | \$ 1,741,127 | \$ (447,176) | 1.1 |
| The Hachijuni Bank, Ltd. General banking services | 291,000 | 2,102,821 | 1,487,618 | (615,203) | 1.0 |
| The Mie Bank, Ltd. General banking services | 399,000 | 1,985,668 | 1,621,747 | (363,921) | 1.1 |
| The Musashino Bank, Ltd. Regional bank | 63,000 | 2,504,563 | 2,032,684 | (471,879) | 1.3 |
| Seven Bank, Ltd. General banking services | 693 | 1,370,222 | 2,453,740 | 1,083,518 | 1.6 |
| The Tokyo Tomin Bank, Limited General banking services | 131,800 | 2,836,693 | 1,478,712 | (1,357,981) | 1.0 |
| Total Banks and Finance | | 12,988,270 | 10,815,628 | (2,172,642) | 7.1 |

Chemicals and Pharmaceuticals

| | | | | | |
|---|---------|------------|------------|-------------|------|
| Adeka Corporation Resin products | 327,900 | 3,187,915 | 2,012,879 | (1,175,036) | 1.3 |
| Air Water Inc. Industrial gases | 360,000 | 3,404,778 | 3,001,886 | (402,892) | 2.0 |
| Kobayashi Pharmaceutical Co., Ltd. Pharmaceuticals and medical equipment | 66,500 | 2,066,508 | 2,438,194 | 371,686 | 1.6 |
| Kuraray Co., Ltd. Synthetic and chemical fibers | 471,000 | 5,542,606 | 3,818,919 | (1,723,687) | 2.5 |
| Rohto Pharmaceutical Co., Ltd. Pharmaceuticals manufacturer | 386,000 | 4,554,704 | 5,038,299 | 483,595 | 3.3 |
| Towa Pharmaceutical Co., Ltd. Generic medicine | 46,000 | 1,734,726 | 1,744,396 | 9,670 | 1.1 |
| Total Chemicals and Pharmaceuticals | | 20,491,237 | 18,054,573 | (2,436,664) | 11.8 |

Electronics

| | | | | | |
|--|--------|-----------|-----------|-------------|-----|
| Hamamatsu Photonics K.K. Semiconductors | 98,100 | 2,846,429 | 1,840,531 | (1,005,898) | 1.2 |
| Total Electronics | | 2,846,429 | 1,840,531 | (1,005,898) | 1.2 |

Food Manufacturing

| | | | | | |
|---|---------|-----------|-----------|---------|-----|
| Doutor Nichires Holdings Co., Ltd. Coffee and restaurant chain | 102,700 | 1,696,525 | 1,846,147 | 149,622 | 1.2 |
| Total Food Manufacturing | | 1,696,525 | 1,846,147 | 149,622 | 1.2 |

Information and Software

| | | | | | |
|---|---------|-----------|-----------|-----------|-----|
| Fujitsu Business Systems Ltd. Business systems network | 118,600 | 1,788,152 | 1,615,127 | (173,025) | 1.1 |
| Itochu Techno-Solutions Corporation Computer network systems | 82,400 | 2,848,450 | 2,110,497 | (737,953) | 1.4 |
| Total Information and Software | | 4,636,602 | 3,725,624 | (910,978) | 2.4 |

Iron and Steel

| | | | | | |
|--|---------|-----------|-----------|-------------|-----|
| Hanwa Co., Ltd. Steel imports/exports | 653,000 | 2,938,953 | 1,853,792 | (1,085,161) | 1.2 |
|--|---------|-----------|-----------|-------------|-----|

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| | | | | | |
|-------------------------------|---------|-----------|-----------|-----------|-----|
| Neturen Co., Ltd. | 255,500 | 2,453,892 | 1,544,348 | (909,544) | 1.0 |
| Induction hardening equipment | | | | | |

JAPAN SMALLER CAPITALIZATION FUND, INC.
SCHEDULE OF INVESTMENTS
IN SECURITIES OF UNAFFILIATED ISSUERS
November 30, 2008

| | Shares | Cost | Market Value | Unrealized Gain/Loss | % of Net Assets |
|---|---------|--------------|--------------|----------------------|-----------------|
| Osaka Steel Co., Ltd. Electric furnace steelmaker | 166,800 | \$ 2,813,563 | \$ 2,019,912 | \$ (793,651) | 1.3 |
| Yamato Kogyo Co., Ltd. Railroad related products | 87,200 | 3,889,129 | 1,945,695 | (1,943,434) | 1.3 |
| Total Iron and Steel | | 12,095,537 | 7,363,747 | (4,731,790) | 4.8 |
| Miscellaneous Manufacturing | | | | | |
| Mani, Inc. Medical goods and equipment | 29,100 | 1,279,364 | 1,832,087 | 552,723 | 1.2 |
| Nippon Paper Group, Inc. Paper and pulp | 613 | 1,703,641 | 2,035,627 | 331,986 | 1.3 |
| Total Miscellaneous Manufacturing | | 2,983,005 | 3,867,714 | 884,709 | 2.5 |
| Real Estate and Warehouse | | | | | |
| Daibiru Corporation Leases office buildings, apartments and hotels | 319,100 | 3,192,891 | 2,436,873 | (756,018) | 1.6 |
| Sekisui Chemical Co., Ltd. Prefabricated residential housing | 431,000 | 2,861,895 | 2,388,424 | (473,471) | 1.5 |
| Total Real Estate and Warehouse | | 6,054,786 | 4,825,297 | (1,229,489) | 3.1 |
| Restaurants | | | | | |
| Hiday Hidaka Corp Chinese restaurant chain | 247,400 | 2,187,821 | 2,122,571 | (65,250) | 1.4 |
| Total Restaurants | | 2,187,821 | 2,122,571 | (65,250) | 1.4 |
| Retail | | | | | |
| Cawachi Limited Drug store chain | 134,300 | 3,495,514 | 2,101,867 | (1,393,647) | 1.4 |
| Felissimo Corporation Catalog shopping | 99,800 | 2,444,393 | 2,101,383 | (343,010) | 1.4 |
| Shimachu Co., Ltd. Furniture store chain | 90,600 | 2,137,962 | 2,178,158 | 40,196 | 1.4 |
| Sugi Holdings Co., Ltd. Drug store chain | 81,800 | 1,941,608 | 1,778,075 | (163,533) | 1.1 |
| Total Retail | | 10,019,477 | 8,159,483 | (1,859,994) | 5.3 |
| Services | | | | | |
| EPS Co., Ltd. Clinical testing | 570 | 2,580,067 | 2,221,245 | (358,822) | 1.5 |

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| | | | | | |
|---|---------|------------|------------|-------------|------|
| Meiko Network Japan Co., Ltd. Private schools and academic tutoring | 497,900 | 2,847,349 | 2,571,387 | (275,962) | 1.7 |
| Moshi Moshi Hotline, Inc. Marketing | 215,600 | 5,290,554 | 4,347,685 | (942,869) | 2.8 |
| NEC Networks & System Integration Corporation Communication systems | 159,100 | 1,977,172 | 1,810,000 | (167,172) | 1.2 |
| OBIC Co., Ltd. Computer system integration | 24,910 | 4,302,405 | 3,890,720 | (411,685) | 2.5 |
| Taihei Dengyo Kaisha, Ltd. Chemical plant engineering | 182,000 | 1,502,626 | 1,641,546 | 138,920 | 1.1 |
| Toppan Forms Co., Ltd. Business form printing | 158,300 | 1,832,844 | 1,913,662 | 80,818 | 1.2 |
| Total Services | | 20,333,017 | 18,396,245 | (1,936,772) | 12.0 |

JAPAN SMALLER CAPITALIZATION FUND, INC.
SCHEDULE OF INVESTMENTS
IN SECURITIES OF UNAFFILIATED ISSUERS
November 30, 2008

| | Shares | Cost | Market Value | Unrealized Gain/Loss | % of Net Assets |
|---------------------------------------|---------|----------------|----------------|----------------------|-----------------|
| Telecommunications | | | | | |
| Daimei Telecom Engineering Corp | 187,000 | \$ 1,896,410 | \$ 1,584,779 | \$ (311,631) | 1.0 |
| Wire installations and related works | | | | | |
| Jupiter Telecommunications Co., Ltd. | 8,363 | 6,310,207 | 6,447,903 | 137,696 | 4.2 |
| Cable television broadcasting | | | | | |
| Total Telecommunications | | 8,206,617 | 8,032,682 | (173,935) | 5.2 |
| Textiles and Apparel | | | | | |
| Workman Co., Ltd. | 179,600 | 1,952,032 | 2,031,930 | 79,898 | 1.3 |
| Uniforms | | | | | |
| Total Textiles and Apparel | | 1,952,032 | 2,031,930 | 79,898 | 1.3 |
| Transportation | | | | | |
| Senko Co., Ltd. | 437,000 | 1,530,192 | 1,840,289 | 310,097 | 1.2 |
| Trucking and warehousing | | | | | |
| Total Transportation | | 1,530,192 | 1,840,289 | 310,097 | 1.2 |
| Wholesale | | | | | |
| Hitachi High-Technologies Corporation | 142,200 | 2,885,732 | 2,667,926 | (217,806) | 1.7 |
| Electronic components | | | | | |
| Total Wholesale | | 2,885,732 | 2,667,926 | (217,806) | 1.7 |
| TOTAL INVESTMENTS IN COMMON STOCKS | | 110,907,279 | 95,590,387 | (15,316,892) | 62.2 |
| TOTAL INVESTMENTS | | \$ 110,907,279 | \$ 95,590,387 | \$ (15,316,892) | 62.2 |
| OTHER ASSETS LESS LIABILITIES, NET. | | | 58,079,419 | | 37.8 |
| NET ASSETS | | | \$ 153,669,806 | | 100.0 |

* Aggregate gross unrealized appreciation for all securities in which there is an exceed of value over tax cost was \$ 3,770,425 .

Aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value was \$ 19,087,317.

Portfolio securities and foreign currency holdings were translated at the

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following exchange rate as of November 30,
2008.

| | | |
|--------------|--------|---------|
| Japanese Yen | 95.460 | =\$1.00 |
|--------------|--------|---------|

Financial Accounting Standards Board Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("FAS 157") is effective for financial statements issued for fiscal years beginning after November 15, 2007. FAS 157 establishes a framework for measuring fair value and expands disclosure about fair value measurements.

FAS 157 provides that fair value should be based on a hierarchy that distinguishes among the following levels of input used in determining the value of an asset or liability:

Level 1 - quoted (unadjusted) prices in active markets for identical securities;

Level 2 - prices determined using observable inputs such as quoted prices for similar securities or interest rates; and

Level 3 - prices determined using unobservable inputs (e.g., reflecting the reporting entity's own assumptions about the criteria that market participants would use in pricing such security).

The following table summarizes the valuation of the Registrant's investments by the above fair value hierarchy levels as of November 30, 2008.

| Level | Investments in Securities |
|---------|---------------------------|
| Level 1 | \$151,424,276 |
| Level 2 | |
| Level 3 | |
| Total | \$151,424,276 |

Item 2. Controls and Procedures.

(a) The Registrant's Principal Executive Officer and Principal Financial Officer evaluated the Registrant's disclosure controls and procedures within 90 days of the filing of this report and concluded that they were effective in providing reasonable assurance that the information required to be disclosed by the Registrant in its reports or statements filed under the 1934 Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

(b) There were no changes in the Registrant's internal control over financial reporting that occurred during the Registrant's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting.

Item 3. Exhibits.

(a) Certifications of Principal Executive Officer and Principal Financial Officer pursuant to Rule 30a-2(a) under the Investment Company Act of 1940 are attached hereto as an exhibit.

Japan Smaller Capitalization Fund, Inc.

Two World Financial Center, Building B
New York, New York 10281

Telephone
(800) 833-0018

CERTIFICATIONS

I, Shigeru Shinohara, certify that:

1. I have reviewed this report on Form N-Q of Japan Smaller Capitalization Fund, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the schedules of investments included in this report fairly present in all material respects the investments of the registrant as of the end of the fiscal quarter for which the report is filed;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940) and internal control over financial reporting (as defined in Rule 30a-3(d) under the Investment Company Act of 1940) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of a date within 90 days prior to the filing date of this report based on such evaluation; and

- d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer(s) and I have disclosed to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 22, 2009

/s/ Shigeru Shinohara

Shigeru Shinohara
President (Principal Executive
Officer)

Japan Smaller Capitalization Fund, Inc.

Two World Financial Center, Building B
New York, New York 10281

Telephone
(800) 833-0018

CERTIFICATIONS

I, Rita Chopra-Brathwaite, certify that:

1. I have reviewed this report on Form N-Q of Japan Smaller Capitalization Fund, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the schedules of investments included in this report fairly present in all material respects the investments of the registrant as of the end of the fiscal quarter for which the report is filed;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940) and internal control over financial reporting (as defined in Rule 30a-3(d) under the Investment Company Act of 1940) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purpose in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of a date within 90 days prior to the filing date of this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter

that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer(s) and I have disclosed to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 22, 2009

/s/ Rita
Chopra-Brathwaite
Rita Chopra-Brathwaite
Treasurer (Principal Financial
Officer)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

JAPAN SMALLER CAPITALIZATION FUND, INC.

By: /s/ Shigeru Shinohara
Shigeru Shinohara, President
(Principal Executive Officer)

Date: January 22, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following person on behalf of the Registrant and in the capacities and on the dates indicated.

By: /s/ Rita Chopra-Brathwaite
Rita Chopra-Brathwaite, Treasurer
(Principal Financial Officer)

Date: January 22, 2009
