JAPAN EQUITY FUND INC
Form 40-17F2
March 18, 2009

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

FORM N-17f-2

Certificate of Accounting of
Securities and Similar
Investments in the Custody of
Management Investment
Companies
Pursuant to Rule 17f-2 [17
CFR 270.17F-2]

OMB APPROVAL
OMB Number: 3235-0360
Expires: July 31, 1994
Estimated average
burden
hours per response
?0.05

1. Investment Company Act File Number:

811-06142
Date examination
completed:

August 7, 2008
2. State identification Number:

AL
AK
AZ
AR
CA
CO

CT
DE
DC
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GA
HI

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NJ
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OH

OK
OR
PA
RI
SC
SD

TN
TX
UT
VT
VA
WA

WV
WI
WY
PUERTO RICO

Other (specify):
3. Exact name of investment company as specified in registration statement:

The Japan Equity Fund, Inc.
4. Address of principal executive office (number, street, city, state, zip code):

John O?Keefe One Evertrust Plaza 9th Floor, Jersey City, NJ 07302

INSTRUCTIONS

This Form must be completed by investment companies that have custody of securities or similar investments.

Investment Company

1. All items must be completed by the investment company.

2. Give this Form to the independent public accountant who, in compliance with Rule 17f-2 under the Act and applicable state law, examines securities and similar investments in the custody of the investment company.

Accountant

3. Submit this Form to the Securities and Exchange Commission and appropriate state securities administrators when filing the certificate of accounting required by Rule 17f-2 under the Act and applicable state law. File the original and one copy with the Securities and Exchange Commission's principal office in Washington, D.C., one copy with the regional office for the region in which the investment company's principal business operations are conducted, and one copy with the appropriate state administrator(s), if applicable.

THIS FORM MUST BE GIVEN TO YOUR INDEPENDENT PUBLIC ACCOUNTANT
SEC 2198 (11-91)

gn="right">**(10.7) (10.2)**

Selling and administrative expenses
(30.8) (36.5)

Total research, development, selling and administrative expenses
(41.5) (46.7)
Amortization of identifiable intangible assets
(1.5) (1.4)
Restructuring charges
(1.1) (3.3)

Operating (loss) income
(6.4) 7.7
Interest income
0.4
Interest expense
(0.5) (0.7)

(Loss) income before provision for income taxes
(6.9) 7.4
Provision for income taxes
(0.9) (0.9)

Net (loss) income
$(7.8) $6.5

Net (loss) income per common share of Class A and Class B common stock (Notes 1 and 2):

Basic
$(0.13) $0.11

Diluted
$(0.13) $0.10

Basic weighted average shares outstanding
58.9 58.5

Diluted weighted average shares outstanding
58.9 58.5

(1) The net (loss) income per common share amounts were the same for Class A and Class B in the quarter ended September 26, 2008 because the holders of each class were legally entitled to equal per share distributions whether through dividends or in liquidation. There were no shares of Class B common stock during the quarter ended October 2, 2009.

(2) For the quarter ended

September 26, 2008, the calculation of diluted earnings per share includes a potential deduction to net income of $0.2 million for the assumed after-tax effect of the change in fair value of warrants using the treasury stock method.

See accompanying Notes to Condensed Consolidated Financial Statements.

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HARRIS STRATEX NETWORKS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions, except share amounts)	October 2, 2009	July 3, 2009
Assets		
Current Assets		
Cash and cash equivalents	$ 133.0	$ 136.8
Short-term investments		0.3
Receivables	114.3	142.9
Unbilled costs	35.5	27.8
Inventories	92.7	98.6
Other current assets	32.2	29.7
Total current assets	407.7	436.1
Long-Term Assets		
Property, plant and equipment	57.1	57.4
Goodwill	3.2	3.2
Identifiable intangible assets	80.8	84.1
Non-current deferred income taxes	8.0	8.0
Capitalized software and other assets	12.1	11.4
Total long-term assets	161.2	164.1
Total assets	$ 568.9	$ 600.2
Liabilities and Shareholders Equity		
Current Liabilities		
Short-term debt	$ 10.0	$ 10.0
Accounts payable	63.6	69.6
Compensation and benefits	13.7	16.6
Other accrued items	47.1	55.6
Advance payments and unearned income	30.2	37.3
Restructuring liabilities	5.1	5.3
Total Current Liabilities	169.7	194.4
Long-Term Liabilities		
Restructuring and other long-term liabilities	3.1	4.3
Redeemable preference shares	8.3	8.3
Reserve for uncertain tax positions	4.8	4.4
Deferred income taxes	0.9	0.9
Total Liabilities	186.8	212.3
Commitments and contingencies		
Shareholders Equity		
Preferred stock, $0.01 par value; 50,000,000 shares authorized; none issued		
	0.6	0.6

Common stock, Class A, $0.01 par value; 300,000,000 shares authorized; issued and outstanding 58,904,179 shares as of October 2, 2009 and 58,903,177 shares as of July 3, 2009		
Common stock, Class B $0.01 par value; 100,000,000 shares authorized; none issued		
Additional paid-in-capital	**784.1**	783.2
Accumulated deficit	**(398.9)**	(391.1)
Accumulated other comprehensive loss	**(3.7)**	(4.8)
Total Shareholders Equity	**382.1**	387.9
Total Liabilities And Shareholders Equity	**$ 568.9**	$ 600.2

See accompanying Notes to Condensed Consolidated Financial Statements.

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HARRIS STRATEX NETWORKS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW (Unaudited)

	Quarter Ended	
	October 2, 2009	**September 26, 2008**
	(In millions)	
Operating Activities		
Net (loss) income	$ (7.8)	$ 6.5
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Amortization of identifiable intangible assets	3.7	3.4
Depreciation and amortization of property, plant and equipment and capitalized software	6.0	5.6
Non-cash share-based compensation expense	1.0	1.0
Decrease in fair value of warrants		(0.3)
Deferred income tax expense (benefit)	0.4	(0.7)
Changes in operating assets and liabilities:		
Receivables	28.8	5.5
Unbilled costs and inventories	(1.9)	(13.6)
Accounts payable and accrued expenses	(13.4)	4.3
Advance payments and unearned income	(7.2)	1.0
Restructuring liabilities and other	(5.2)	(8.8)
Net cash provided by operating activities	4.4	3.9
Investing Activities		
Cash paid related to acquisition of Telsima in prior fiscal year	(4.2)	
Purchases of short-term investments		(1.2)
Sales and maturities of short-term investments	0.3	1.8
Additions of property, plant and equipment	(3.9)	(4.4)
Additions of capitalized software	(0.9)	(1.0)
Net cash used in investing activities	(8.7)	(4.8)
Financing Activities		
Increase in short-term debt		10.0
Payments on long-term debt		(8.8)
Net cash provided by financing activities		1.2
Effect of exchange rate changes on cash and cash equivalents	0.5	(0.9)
Net decrease in cash and cash equivalents	(3.8)	(0.6)
Cash and cash equivalents, beginning of year	136.8	95.0
Cash and cash equivalents, end of quarter	$ 133.0	$ 94.4

See accompanying Notes to Condensed Consolidated Financial Statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
October 2, 2009
(Unaudited)

Note A Basis of Presentation and Nature of Operations

The accompanying condensed consolidated financial statements of Harris Stratex Networks, Inc. and its subsidiaries (we, us, and our) have been prepared by us, without an audit, in accordance with U.S. generally accepted accounting principles for interim financial information and with the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, they do not include all information and footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with U.S. generally accepted accounting principles. In the opinion of management, such interim financial statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of financial position, results of operations and cash flows for such periods.

The results for the quarter ended October 2, 2009 (the first quarter of fiscal 2010) are not necessarily indicative of the results that may be expected for the full fiscal year or any subsequent period. The balance sheet as of July 3, 2009 has been derived from the audited financial statements but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for annual financial statements. We provide complete financial statements in our Annual Report on Form 10-K, which includes information and footnotes required by the rules and regulations of the SEC. The information included in this Quarterly Report on Form 10-Q (this Report) should be read in conjunction with the Management s Discussion and Analysis of Financial Condition and Results of Operations, and the Consolidated Financial Statements and accompanying Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended July 3, 2009 (Fiscal 2009 Form 10-K).

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires us to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates and assumptions.

Revenue from product sales is generated predominately from the sales of products manufactured by us and by third party manufacturers with whom we have outsourced our manufacturing processes. In general, printed circuit assemblies, mechanical housings, and packaged modules are manufactured by strategically selected contract manufacturing partners, with periodic business reviews of material levels and obsolescence. Product assembly, product test, complete system integration and system test may either be performed within our own facilities or at partner locations.

Revenue from services includes certain installation, extended warranty, customer support, consulting, training and education. It also includes revenue generated from the resale of equipment purchased on behalf of customers for installation service contracts we perform for customers. Such equipment includes towers, antennas, and other related materials.

We have evaluated any subsequent events through the date of filing of this Report (November 10, 2009), and there was no impact to our financial position, results of operations or cash flows.

Out of Period Adjustments During the closing of our fiscal year 2009 accounts, we determined the need for an out of period adjustment related to the calculation of our currency translation expense that affected our previously reported Cost of product sales in each of the first three quarters of fiscal 2009. As disclosed in Note T of the Fiscal 2009 Form 10-K, our previously filed quarterly reports on Form 10-Q during 2009 included an adjustment for cumulative currency translation expense. We concluded that the impact of this adjustment was not material to the previously filed quarterly reports on Form 10-Q during fiscal 2009. We corrected this amount in this Quarterly Report on Form 10-Q. The quarterly impact of this translation adjustment reduced Cost of product sales by $0.9 million and increased net income per common share by $0.01 in the first quarter of fiscal 2009.

During the closing of our books for the first quarter of fiscal 2010, we determined the need for an out of period adjustment in the classification of revenue on our Condensed Consolidated Statement of Operations between line items of Revenue from services and Revenue from product sales and in the classification of cost of sales between Cost of services and Cost of product sales primarily affecting the fourth quarter of fiscal 2009. The impact to revenue in the fourth quarter was to decrease Revenue from product sales by $30.4 million and increase Revenue from services by

$30.4 million. The impact to cost of sales in the fourth quarter was to decrease Cost of product sales by $26.8 million and increase Cost of services by $26.8 million. This reclassification had no impact on gross margin. The impact on revenues and cost of revenues the first three quarters was negligible. We determined the effect of these adjustments were not material to our financial statements. However, we are correcting our fiscal 2009 reported amounts as we file our fiscal 2010 periodic reports.

Reclassification Prior to May 27, 2009, Harris Corporation (Harris) owned approximately 56% of our outstanding common stock. As such, Harris was our majority stockholder and a related party for financial reporting purposes. Effective May 27, 2009, Harris distributed its entire ownership of our common stock to its shareholders. Accordingly, effective with the first quarter of fiscal 2010, Harris ceased to be considered a related party for financial reporting purposes. We have reclassified all amounts previously disclosed as related party transactions with Harris on our Statements of Operations, Balance Sheets and Statements of Cash Flows to the appropriate line items in the current presentation.

For the first quarter of fiscal 2009 and as of September 26, 2008, these reclassifications from the previously disclosed line item to the current presentation included:

Condensed Consolidated Statement of Operations:

Revenue from product sales to Harris of $0.9 million to Revenue from product sales;
Cost of product sales with Harris of $1.3 million to Cost of product sales;
Cost of sales billed from Harris of $0.1 million to Cost of product sales:
Selling and administrative expenses with Harris of $1.5 million to Selling and administrative expenses

Condensed Consolidated Balance Sheet:

Current portion of long-term capital lease obligation to Harris of $1.4 million to Other accrued items
Due to Harris Corporation of $11.0 million to Other accrued items
Long-term portion of capital lease obligation to Harris of $1.2 million to Restructuring and other long-term liabilities

Condensed Consolidated Statement of Cash Flows:

Changes in operating assets and liabilities, Due to Harris of $5.8 million to changes in Restructuring liabilities and other

Change in Segment Reporting During the First Quarter of Fiscal 2010 We previously reported three operating segments in our public filings: North America Microwave, International Microwave and Network Operations. During the first quarter of fiscal 2010, we realigned the management structure of our Network Operations segment to geographically integrate with our North America Microwave and International Microwave segments to gain cost efficiencies. As a result, we eliminated the Network Operations segment as a separate reporting unit and consolidated this segment into our remaining two segments that are based on the geographical

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location where revenue is recognized. While our Network Operations products and services continue to be offered to customers as part of our strategy, this consolidation in management structure resulted in a change in our reportable operating segments.

Additionally, we have dropped the word Microwave from the name of our North America and International segments. Segment information for the first quarter of fiscal 2009 has been adjusted to reflect this change.

Nature of Operations We design, manufacture and sell a range of wireless networking products, solutions and services to mobile and fixed telephone service providers, private network operators, government agencies, transportation and utility companies, public safety agencies and broadcast system operators across the globe. Products include broadband wireless access base stations and customer premises equipment based upon the IEEE 802.16d-2004 and 16e-2005 standards for fixed and mobile WiMAX, point-to-point digital microwave radio systems for access, backhaul, trunking and license-exempt applications, supporting new network deployments, network expansion, and capacity upgrades.

Note B Accounting Changes and Recent Accounting Pronouncements

Initial Application of Accounting Standards

In the first quarter of fiscal 2010, we adopted the following accounting standards, none of which had a material impact on our financial position, results of operations or cash flows:

The Financial Accounting Standards Board (FASB) Accounting Standards Codification™ (Codification), which is now the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied for financial statements issued for periods ending after September 2009. Additionally, we are using the new guidelines prescribed by the Codification when referring to GAAP, including the elimination of pre-Codification GAAP references unless accompanied by Codification GAAP references.

The accounting standard deferring the effective date of the fair value measurement standard for disclosures related to nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. See *Note M Fair Value Measurements of Financial Assets and Financial Liabilities* in these Notes to Condensed Consolidated Financial Statements for fair value disclosures required by this standard.

The accounting standard requiring interim disclosures about fair value of financial instruments, which extends the annual disclosure requirements about fair value of financial instruments to interim reporting periods. See *Note M Fair Value Measurements of Financial Assets and Financial Liabilities* in these Notes to Condensed Consolidated Financial Statements for fair value disclosures required by this standard.

The accounting standard updating accounting, presentation and disclosure requirements for noncontrolling interests in consolidated financial statements, which requires that noncontrolling interests (previously referred to as minority interests) be clearly identified and presented as a component of equity, separate from the parent s equity. This standard also requires that the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income; that changes in ownership interest be accounted for as equity transactions; and that when a subsidiary is deconsolidated, any retained noncontrolling equity investment in that subsidiary and the gain or loss on the deconsolidation of that subsidiary be measured at fair value.

The accounting standard for determining whether instruments granted in share-based payment transactions are participating securities. There was no material change to our calculations of basic and diluted weighted average shares outstanding for prior periods.

The accounting standards for accounting for business combinations, which significantly change the accounting and reporting requirements related to business combinations, including the recognition of acquisition-related transaction and post-acquisition restructuring costs in our results of operations as incurred. While the adoption of these standards did not have a material impact on our financial position, results of operations or cash flows directly in the first quarter of fiscal 2010, it is expected to have a significant effect on the accounting for any future acquisitions we make.

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Accounting Standards Issued But Not Yet Effective

In October 2009, the FASB issued two new accounting standards updates that:

Revise accounting and reporting requirements for arrangements with multiple deliverables. This update allows the use of an estimated selling price to determine the selling price of a deliverable in cases where neither vendor-specific objective evidence nor third-party evidence is available, which is expected to increase the ability for entities to separate deliverables in multiple-deliverable arrangements and, accordingly, to decrease the amount of revenue deferred in these cases. Additionally, this update requires the total selling price of a multiple-deliverable arrangement to be allocated at the inception of the arrangement to all deliverables based on relative selling prices.

Clarify which revenue allocation and measurement guidance should be used for arrangements that contain both tangible products and software, in cases where the software is more than incidental to the tangible product as a whole. More specifically, if the software sold with or embedded within the tangible product is essential to the functionality of the tangible product, then this software, as well as undelivered related software elements are excluded from the scope of existing software revenue guidance, which is expected to decrease the amount of revenue deferred in these cases.

These updates are to be applied prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, which for us is our fiscal 2011, and must be adopted at the same time. Early adoption is permitted, and if these updates are adopted early in other than the first quarter of our fiscal year, then they must be applied retrospectively to the beginning of that fiscal year. We are currently evaluating the impact the adoption of these updates will have on our financial position, results of operations and cash flows.

Note C Accumulated Other Comprehensive (Loss) Income and Comprehensive (Loss) Income

The changes in components of our accumulated other comprehensive income (loss) during the quarters ended October 2, 2009 and September 26, 2008 were as follows:

	Foreign Currency Translation	Hedging Derivatives	Short-Term Investments and Available for Sale Securities	Total Accumulated Other Comprehensive Income
			(In millions)	
Balance as of July 3, 2009	$ (4.4)	$ (0.4)	$	$ (4.8)
Foreign currency translation gain	1.4			1.4
Net unrealized loss on hedging activities		(0.3)		(0.3)
Balance as of October 2, 2009	$ (3.0)	$ (0.7)	$	$ (3.7)
Balance as of June 27, 2008	$ 4.1	$ (0.3)	$	$ 3.8
Foreign currency translation loss	(4.2)			(4.2)
Net unrealized gain on hedging activities		1.4		1.4
Balance as of September 26, 2008	$ (0.1)	$ 1.1	$	$ 1.0

Total comprehensive (loss) income for the quarters ended October 2, 2009 and September 26, 2008 was comprised of the following:

Quarter Ended

	October 2, 2009	September 26, 2008
	(In millions)	
Net (loss) income	**$ (7.8)**	**$ 6.5**
Other comprehensive income (loss):		
Foreign currency translation gain (loss)	**1.4**	**(4.2)**
Net unrealized (loss) gain on hedging activities	**(0.3)**	**1.4**
Total comprehensive (loss) income	**$ (6.7)**	**$ 3.7**

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Note D Receivables

Our receivables are summarized below:

	October 2, 2009	July 3, 2009
	(In millions)	
Accounts receivable	$ 138.7	$ 163.1
Notes receivable due within one year net	3.5	6.8
	142.2	169.9
Less allowances for collection losses	(27.9)	(27.0)
	$ 114.3	$ 142.9

To comply with requests from our customers for payment terms, we often accept letters of credit with payment terms of up to one year or more, which we then discount with various financial institutions. Under these arrangements, collection risk is fully transferred to the financial institutions. We record the cost of discounting these letters of credit as interest expense. During the first quarter of fiscal 2010 and 2009 we discounted customer letters of credit totaling $20.8 million and $29.3 million and recorded related interest expense of $0.2 million and $0.2 million.

Note E Inventories

Our inventories are summarized below:

	October 2, 2009	July 3, 2009
	(In millions)	
Finished products	$ 73.3	$ 69.9
Work in process	8.6	13.6
Raw materials and supplies	51.8	65.0
	133.7	148.5
Inventory reserves	(41.0)	(49.9)
	$ 92.7	$ 98.6

Note F Property, Plant and Equipment

Our property, plant and equipment are summarized below:

	October 2, 2009	July 3, 2009
	(In millions)	
Land	$ 1.2	$ 1.2
Buildings	21.7	21.5
Software developed for internal use	12.5	11.6
Machinery and equipment	101.7	94.8
	137.1	129.1

Less accumulated depreciation and amortization	**(80.0)**	**(71.7)**
	$ 57.1	**$ 57.4**

Depreciation and amortization expense related to plant and equipment, including amortization of software developed for internal use, was $5.3 million and $4.7 million during the quarters ended October 2, 2009 and September 26, 2008.

Note G Credit Facility and Debt

Our debt consisted of short-term debt of $10.0 million as of October 2, 2009 and July 3, 2009.

Our credit facility provides for an initial committed amount of $70 million with an uncommitted option for an additional $50 million available with the same or additional banks. The initial term of our credit facility is three years expiring June 30, 2011 and provides for (1) demand borrowings (with no stated maturity date) with an interest rate of the greater of Bank of America s prime rate or the Federal Funds rate plus 0.5%, (2) fixed term Eurodollar loans for up to six months or more as agreed with the banks with an interest rate of LIBOR plus a spread of between 1.25% to 2.00% based on our current leverage ratio and (3) the issuance of standby or commercial letters of credit. The credit facility contains a minimum liquidity ratio covenant and a maximum leverage ratio covenant and is unsecured. As of October 2, 2009, we were in compliance with these financial covenants.

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The credit facility allows for borrowings of up to $70 million with available credit defined as $70 million less the outstanding balance of short-term borrowings ($10.0 million as of October 2, 2009) and letters of credit ($13.2 million as of October 2, 2009). Therefore, available credit as of October 2, 2009 was $46.8 million. The weighted average interest rate on our short-term borrowings was 1.94% as of October 2, 2009.

As of October 2, 2009, the amount under standby letters of credit outstanding totaled $2.1 million under a previous credit facility in effect as of the end of fiscal year 2008.

Note H Accrued Warranties

Changes in our warranty liability, which is included as a component of Other accrued items on the Condensed Consolidated Balance Sheets, during the first quarters of fiscal 2010 and 2009 are as follows:

	Quarter Ended	
	October 2, 2009	**September 26, 2008**
	(In millions)	
Balance as of the beginning of the fiscal year	**$ 5.5**	**$ 6.9**
Warranty provision for revenue recorded during the first quarter	**0.7**	**2.0**
Settlements made during the first quarter	**(0.9)**	**(2.0)**
Balance as of the end of the first quarter	**$ 5.3**	**$ 6.9**

Note I Restructuring Activities