

HERZFELD CARIBBEAN BASIN FUND INC  
Form N-CSR  
August 29, 2012

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

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-06445

The Herzfeld Caribbean Basin Fund, Inc.  
(Exact name of registrant as specified in charter)

P.O. BOX 161465, MIAMI, FLORIDA 33116  
(Address of principal executive offices) (Zip code)

THOMAS J. HERZFELD  
P.O. BOX 161465, MIAMI, FL 33116  
(Name and address of agent for service)

Registrant's telephone number, including area code: 305-271-1900

Date of fiscal year end: 06/30/12

Date of reporting period: 7/01/11 - 6/30/12

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget ("OMB") control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. ss. 3507.

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ITEM 1. SHAREHOLDER REPORT

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The Herzfeld Caribbean Basin Fund, Inc.  
119 Washington Avenue, Suite 504  
Miami Beach, FL 33139  
(305) 271-1900

Investment Advisor  
HERZFELD/CUBA  
a division of Thomas J. Herzfeld Advisors, Inc.  
119 Washington Avenue, Suite 504  
Miami Beach, FL 33139  
(305) 271-1900

Transfer Agent & Registrar  
State Street Bank and Trust  
200 Clarendon Street, 16th Floor  
Boston, MA 02116  
(617) 662-2760

Custodian  
State Street Bank and Trust  
200 Clarendon Street, 5th Floor  
Boston, MA 02116

Counsel  
Pepper Hamilton LLP  
3000 Two Logan Square  
18th and Arch Streets  
Philadelphia, PA 19103

Independent Auditors  
Rothstein Kass  
500 Ygnacio Valley Road, Suite 200  
Walnut Creek, CA 94596

The Herzfeld Caribbean Basin Fund Inc.'s investment objective is long-term capital appreciation. To achieve its objective, the Fund invests in issuers that are likely, in the Advisor's view, to benefit from economic, political, structural and technological developments in the countries in the Caribbean Basin, which include, among others, Cuba, Jamaica, Trinidad and Tobago, the Bahamas, the Dominican Republic, Barbados, Aruba, Haiti, the Netherlands Antilles, the Commonwealth of Puerto Rico, Mexico, Honduras, Guatemala, Belize, Costa Rica, Panama, Colombia, the United States and Venezuela ("Caribbean Basin Countries"). The Fund invests at least 80% of its total assets in equity and equity-linked securities of issuers, including U.S.-based companies which engage in substantial trade with, and derive substantial revenue from, operations in the Caribbean Basin Countries.

Listed NASDAQ Capital Market  
Symbol: CUBA

Letter to Stockholders

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August 15, 2012

Dear Fellow Stockholders:

We are pleased to present our Annual Report for the period ended June 30, 2012. On that date the net asset value of The Herzfeld Caribbean Basin Fund, Inc. (CUBA) was \$7.90 per share, up 10.18% for the six months then ended, adjusted for the year-end distribution of \$0.0634 per share and down 1.84% for the one year period (also adjusted for the distribution). The Fund's share price closed at \$6.97 per share, a gain of 8.57% for six months, and down 1.39% for the fiscal year, adjusted for the distribution.

The Herzfeld Caribbean Basin Fund seeks long-term capital appreciation through investment in companies which the Advisor believes are poised to benefit from economic, political, structural and technological developments in countries of the Caribbean Basin. As part of that strategy we have focused specifically on companies that are positioned to benefit from the resumption of U.S. trade with Cuba, once the U.S. embargo prohibiting trade with that country is eased or lifted. Since it is impossible to predict the future path of the U.S. embargo, we have further concentrated on investments which we believe can do well even if there is no political or economic change with respect to Cuba.

It has been a slow year for dialogue between Washington DC and Havana, but this has not slowed down our investment activity. Many of our long-time investors have become familiar with our investment style of adding to favorite positions in times of weakness and reducing positions in times of euphoria. The first half of 2012 provided opportunities to capitalize on this strategy.

In late April, a scandal broke in the Mexican subsidiary of Wal-Mart Stores, Wal-Mart de Mexico, also known as Walmex. Allegations that the company bribed local officials in order to build its business within Mexico sent shares of Walmex

Thomas J. Herzfeld  
Chairman, President and  
Portfolio Manager

Letter to Stockholders (continued)

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Erik M. Herzfeld  
Portfolio Manager

plummeting. By no means do we condone this type of illegal activity, however, Walmex remains an extremely strong company, and we took advantage of the collapse in share price to add 100,000 shares in the company on the following day.

On the flip side, during April and May 2012, we slightly reduced our long term position in Copa Holdings (CPA), a Panama-based company that provides airline passenger and cargo services. Copa Holdings had a strong advance during the first half of 2012 and we sold into the strength, maintaining our core holding. Latin America GDP continues to expand. Air traffic growth in the region is among the highest in the world.

Shortly after our fiscal year-end, Rail America (RA), which makes up approximately 2.5% of our holdings, announced an agreement to be purchased by Genesee & Wyoming Inc. (GWR) for \$27.50 a share. Rail America closed at \$27.25 on the day of announcement. We began accumulating this stock in 2009; our average price is \$13.42. This is the second time the Fund's stake in a railroad stock has been acquired; Florida East Coast Railroad was the first.

#### Economic Activity Within Cuba

Although the first half of 2012 has been slow for global GDP growth, there have been signs of a rebound within Cuba. Cuban exports increased 11% during the first quarter, year over year. In addition, the Pope's visit in March resulted in a major surge in tourism. The island benefitted from visits by more than 1.24 million tourists between January through April 2012 alone, a 5.2% increase in international worldwide tourism to the nation.

Separately, India sent a top diplomat to discuss investment in offshore oil exploration and drilling. We believe that Mexico would be a natural partner for such exploration in Cuban waters.

#### Discount to Net Asset Value

During the fiscal year-ended June 30, 2012, Herzfeld Caribbean consistently traded at a discount to net asset value, ranging from -3.32% in April, 2012 to its widest level of -14.68% in late July, 2011. Aside from being the investment advisor

## Letter to Stockholders (continued)

to Herzfeld Caribbean, Thomas J. Herzfeld Advisors, Inc. is well-known for its expertise in research and trading of closed-end funds. A basic tenet of our trading philosophy is to buy a fund when the discount is unusually wide.

In late July 2012, we found the Fund's discount to be compelling and your Fund's president purchased a total of 12,000 shares for his personal account at prices ranging from \$6.80 to 6.8132 per share. You can access insider holding reports from our website at [www.herzfeld.com](http://www.herzfeld.com).

## Largest Allocations

The following tables present our largest investment and geographic allocations as of June 30, 2012.

Geographic Allocation	% of Net Assets	Largest Portfolio Positions	% of Net Assets
USA	54.94%	Seaboard Corporation	9.61%
Mexico	20.27%	Coca Cola Femsa, S.A.B. de C.V. ADR	8.26%
Panama	9.89%	Copa Holdings, S.A.	6.89%
Colombia	4.17%	Watsco Incorporated	6.06%
Bahamas	3.40%	Carnival Corp.	4.79%
Cayman Island	2.29%	Norfolk Southern Corporation	4.53%
Puerto Rico	1.54%	Bancolombia, S.A.	4.17%
Belize	0.08%	América Móvil, S.A.B. de C.V. ADR	3.97%
Cuba	0.00%	Lennar Corp.	3.95%
Cash and Other Countries	3.42%	Royal Caribbean Cruises Ltd.	3.90%

Daily net asset values and press releases by the Fund are available on the Internet at [www.herzfeld.com](http://www.herzfeld.com).

We would like to thank the members of the Board of Directors for their hard work and guidance and also thank our fellow stockholders for their continued support and suggestions.

Sincerely,

Thomas J. Herzfeld

Chairman of the Board, President and Portfolio Manager

Erik M. Herzfeld

Portfolio Manager

## Schedule of Investments as of June 30, 2012

Shares or Principal Amount	Description	Fair Value
Common stocks - 96.82% of net assets		
Airlines - 6.89%		
24,500	Copa Holdings, S.A.	\$ 2,020,760
Banking and finance - 8.71%		
19,780	Bancolombia, S.A.	1,223,195
41,000	Banco Latinoamericano de Exportaciones, S.A.	878,630
11,500	Doral Financial Corp.*	17,250
6,000	Popular Inc.*	99,660
3,844	W Holding Co. Inc.*	346
20,000	Western Union Company	336,800
Communications - 9.88%		
44,690	América Móvil, S.A.B. de C.V. ADR	1,164,621
71,200	América Móvil, S.A.B. de C.V. Series A	91,215
209,144	América Móvil, S.A.B. de C.V. Series L	271,674
12,698	Atlantic Tele-Network, Inc.	428,303
377,100	Fuego Enterprises Inc.*	4,902
168	Garmin Limited	6,433
23,666	Grupo Radio Centro, S.A.B. ADR	201,398
32,400	Grupo Televisa, S.A.B. ADR	695,952
8,030	Spanish Broadcasting System, Inc.*	32,602
Conglomerates and holding companies - 0.08%		
250,000	Admiralty Holding Company (Note 2)*	--
70,348	BCB Holdings Ltd.*	20,964
3,250	Shellshock Ltd. Ord.*	2,447
Construction and related - 7.22%		
57,655	Cemex S.A.B. de C.V. ADR*	388,018
58,021	Cemex S.A.B. de C.V. Series CPO*	38,808
20	Ceramica Carabobo Class A ADR (Note 2)*	--
4,100	Homex Development Corp. ADR*	63,140
74,132	Mastec, Inc.*	1,114,945
5,400	Vulcan Materials	214,434
3,800	Martin Marietta Materials	299,516

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\*Non-income producing

See accompanying notes.





## Schedule of Investments as of June 30, 2012

Shares or Principal Amount	Description	Fair Value
Consumer products and related manufacturing - 6.43%		
15,273	Grupo Casa Saba, S.A.B. de C.V. ADR*	\$ 106,758
24,100	Watsco Incorporated	1,778,580
Food, beverages and tobacco - 12.27%		
20,000	Chiquita Brands International Inc.*	100,000
53,874	Cleanpath Resources Corp.*	5
18,500	Coca Cola Femsas, S.A.B. de C.V. ADR	2,421,280
18,900	Fomento Económico Mexicano, S.A.B. de C.V. Series UBD	167,688
5,000	Fomento Económico Mexicano, S.A.B. de C.V. ADR	446,250
19,690	Fresh Del Monte Produce Inc.	462,124
Housing - 3.95%		
37,500	Lennar Corporation	1,159,125
Investment companies - 0.01%		
4,420	Shellproof Limited*	3,189
70,348	Waterloo Investment Holdings Ltd. (Note 2)*	--