

A stylized, light blue background illustration. On the right side, a palm tree trunk and fronds are depicted. In the center, a rainbow arches over a beach area. The beach is represented by a series of horizontal lines, suggesting sand or water. The overall style is minimalist and graphic.

# **THE HERZFELD CARIBBEAN BASIN FUND, INC.**

*ANNUAL REPORT  
JUNE 30, 2010*

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**The Herzfeld Caribbean Basin Fund, Inc.**

The Herzfeld Building  
PO Box 161465  
Miami, FL 33116  
(305) 271-1900

**Investment Advisor**

HERZFELD/CUBA  
a division of Thomas J. Herzfeld Advisors, Inc.  
PO Box 161465  
Miami, FL 33116  
(305) 271-1900

**Transfer Agent & Registrar**

State Street Bank and Trust  
200 Clarendon Street, 16th Floor  
Boston, MA 02116  
(617) 443-6870

**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 & Company, P.C.  
4 Becker Farm Road  
Roseland, NJ 07068

*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*

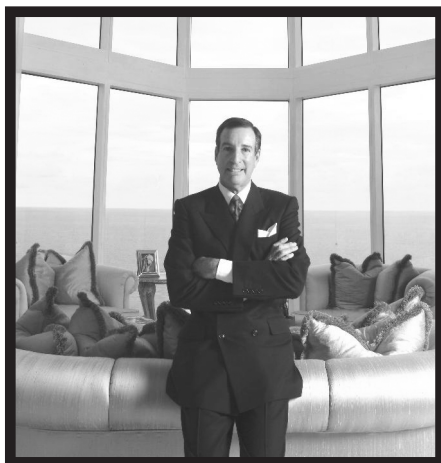
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August 4, 2010

Dear Fellow Stockholders:

We are pleased to present our annual report for the period ending June 30, 2010. On that date the Fund's net asset value was \$6.12 per share, which represents a gain of 14.39% for the one-year period then ended. The Fund's share price closed the fiscal year at \$5.67 per share, a decline of 6.59% for the twelve-month period.

Our focus on the Caribbean is two-fold: first, we look for companies which we believe will benefit from a resumption of trade with Cuba, and second, for companies in the region which we believe have good prospects even if there is no change in U.S. policy towards Cuba.



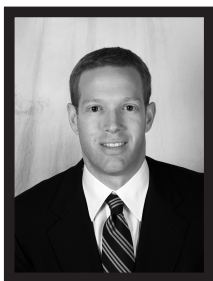
*Thomas J. Herzfeld  
Chairman, President and  
Portfolio Manager*

Cuba has been in the news lately, and we are excited about the prospect of a warming of political relations. We continue to believe that the most important growth opportunities for the region will be tied to resumption of U.S. trade with Cuba, which has been prohibited by the U.S. trade embargo since 1962.

In July, Cuba announced it will release 52 political prisoners, the largest number we can recall ever being released at once. This overture is expected to encourage U.S. political accommodation.

For instance, the Committee on Agriculture in the U.S. House recently proposed legislation that could lead to a lifting of the travel ban. *The Travel Restriction Reform and Export Enhancement Act* (H.R. 4645) still has two committees to pass as well as the Senate. If it does win approval, it would boost sales of agricultural products to Cuba, as well as lift travel restrictions for U.S. citizens. Tourism-related companies, which include the Caribbean in their offerings, have been a cornerstone

## Letter to Stockholders (continued)



*Erik M. Herzfeld*  
*Portfolio Manager*

of our portfolio, and in our opinion, the cruise lines are undoubtedly the best positioned of all our investments to be the first sector to profit from the passage of the Act.

There are indications that Cuba is also preparing for an increase in tourism, which may have already begun. Last year, it was the only country in the Caribbean to see an increase in the number of visitors, of which half a million are believed to have been American. In addition, its tourism industry, which includes hotels and restaurants, was the strongest sector of GDP growth.

### Largest Allocations

The following tables present our largest investment and geographic allocations as of June 30, 2010.

<b><i>Geographic Allocation</i></b>	<b><i>% of Net Assets</i></b>	<b><i>Largest Portfolio Positions</i></b>	<b><i>% of Net Assets</i></b>
USA	57.86%	Seaboard Corporation	8.78%
Mexico	17.83%	Watsco Incorporated	7.55%
Panama	8.08%	Freeport McMoran Copper & Gold	7.03%
Colombia	5.36%	Coca Cola Femsa, S.A.B.	
Bahamas	4.76%	de C.V. ADR	6.20%
Cayman Island	3.80%	Copa Holdings S.A.	5.94%
Puerto Rico	0.85%	Bancolombia, S.A.	5.36%
Belize	0.44%	Carnival Corp.	5.26%
Netherlands Antilles	0.11%	America Movil, S.A.B. de C.V. ADR	4.94%
Cuba	0.00%	Norfolk Southern Corporation	4.91%
Cash and Other Countries	0.91%	Royal Caribbean Cruises Ltd.	3.66%

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

## *Letter to Stockholders (continued)*

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We are pleased to announced that Ted S. Williams has joined the Board of Directors of the Fund, this time as an Independent Director, expanding the board to five members.

Ted was an officer of Thomas J. Herzfeld Advisors, Inc. from 1991 to 2007 and briefly served as an interested director of the Fund from 1997 to 1998. Ted brings 24 years of experience in the securities industry, which includes five years on the floor of the New York Stock Exchange as a specialist. We look forward to the opportunity to work with Ted once again in this new capacity.

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, 2010*

Shares or Principal Amount	Description	Fair Value
Common stocks - 99.19% of net assets		
Airlines - 6.35%		
30,500	Copa Holdings, S.A.	\$ 1,348,710
19,000	AirTran Holdings Inc.*	92,150
Banking and finance - 8.95%		
24,280	Bancolombia, S.A.	1,217,156
39,000	Banco Latinoamericano de Exportaciones, S.A.	487,110
11,500	Doral Financial Corp.*	28,060
50,000	Popular Inc.	134,000
3,844	W Holding Co. Inc.*	961
11,000	Western Union Company	164,010
Communications - 12.93%		
23,595	América Móvil, S.A.B. de C.V. ADR	1,120,763
35,600	América Móvil, S.A.B. de C.V. Series A	86,704
104,572	América Móvil, S.A.B. de C.V. Series L	248,355
8,698	Atlantic Tele-Network, Inc.	359,227
377,100	Fuego Enterprises Inc.*	6,034
22,516	Grupo Radio Centro, S.A.B. ADR	147,480
32,400	Grupo Televisa, S.A.B. ADR	564,084
40,000	Level 3 Communications*	43,600
80,304	Spanish Broadcasting System, Inc.*	91,546
15,000	Telefonos de Mexico, S.A.B. de C.V. ADR Series L	211,650
78,600	Telefonos de Mexico, S.A.B. de C.V. Series L	56,063
Conglomerates and holding companies - 0.44%		
250,000	Admiralty Holding Company*	250
70,348	BCB Holdings Ltd.*	97,354
3,250	Shellshock Ltd. Ord.*	2,553
Construction and related - 5.07%		
37,806	Cemex S.A.B. de C.V. ADR	365,584
53,645	Cemex S.A.B. de C.V. Series CPO	52,211
20	Ceramica Carabobo Class A ADR (Note 2)*	--
78,132	Mastec, Inc.*	734,441

\*Non-income producing

*See accompanying notes.*

## *Schedule of Investments as of June 30, 2010 (continued)*

Shares or Principal Amount	Description	Fair Value
Consumer products and related manufacturing - 8.16%		
13,273	Grupo Casa Saba, S.A.B. de C.V. ADR	\$ 139,499
29,600	Watsco Incorporated	1,714,432
Food, beverages and tobacco - 8.80%		
14,000	Chiquita Brands International Inc.*	170,100
53,874	Cleanpath Resources Corp.*	593
22,500	Coca Cola Femsa, S.A.B. de C.V. ADR	1,408,275
18,900	Fomento Económico Mexicano, S.A.B. de C.V. Series UBD	82,161
16,690	Fresh Del Monte Produce Inc.*	337,806
Housing - 2.60%		
42,500	Lennar Corporation	591,175
Investment companies - 0.01%		
4,420	Shellproof Limited*	2,645
Leisure - 10.28%		
39,500	Carnival Corp.	1,194,480
36,500	Royal Caribbean Cruises Ltd.*	831,105
8,029	Steiner Leisure Ltd.*	308,635
Medical - 0.34%		
8,386	Micromet Inc.*	52,328
800	Orthofix International N.V.*	25,640
Mining - 7.07%		
27,000	Freeport McMoran Copper & Gold, Inc.	1,596,510
3,863	Grupo México, S.A.B. de C.V. Series B	9,204
Pulp and paper - 0.17%		
6,100	Kimberly-Clark de México, S.A.B. de C.V. Series A	35,560
Railroad - 5.78%		
21,000	Norfolk Southern Corporation	1,114,050
20,000	Rail America Inc.*	198,400

\*Non-income producing

*See accompanying notes.*

## ***Schedule of Investments as of June 30, 2010 (continued)***

<u>Shares or Principal Amount</u>	<u>Description</u>	<u>Fair Value</u>
Retail - 1.11%		
1,270	Grupo Elektra, S.A.B. de C.V. Series CPO	\$ 51,059
90,222	Wal-Mart de México, S.A.B. de C.V. Series V	200,619
Service - 0.01%		
700	Grupo Aeroportuario del Sureste, S.A.B. de C.V. Series B	3,206
Trucking and marine freight - 14.42%		
12,280	Grupo TMM, S.A.B. ADR*	28,244
1,321	Seaboard Corporation	1,994,710
2,000	Seacor Holdings, Inc.	141,320
20,000	Teekay Corporation	523,400
8,361	Teekay LNG Partners LP	248,823
76,497	Trailer Bridge, Inc.*	237,906
23,000	Ultrapetrol Bahamas Ltd.*	100,050
Utilities - 6.49%		
12,000	Caribbean Utilities Ltd. Class A	101,520
66,841	Consolidated Water, Inc.	760,651
700	Cuban Electric Company (Note 2)*	420
40,500	Teco Energy Inc.	610,335
Other - 0.21%		
100,000	Cuba Business Development (Note 2)*	--
13,000	Impellam Group*	16,337
55,921	Margo Caribe, Inc.*	29,638
895	Siderurgica Venezolana Sivensa, S.A. ADR*	2,148
79	Siderurgica Venezolana Sivensa, S.A. Series B*	189
45,000	Xcelera, Inc. (Note 2)*	--
<b>Total common stocks (cost \$25,024,075)</b>		<b>\$22,523,229</b>

\*Non-income producing

*See accompanying notes.*



## *Schedule of Investments as of June 30, 2010 (continued)*

Shares or Principal Amount	Description	Fair Value
Bonds - 0% of net assets		
\$165,000	Republic of Cuba - 4.5%, 1977 - in default (Cost \$63,038) (Note 2)*	--
<b>Other assets less liabilities - 0.81% of net assets</b>		<b>\$ 183,919</b>
<b>Net assets - 100%</b>		<b>\$22,707,148</b>

The investments are concentrated in the following geographic regions (as percentages of net assets):

United States of America	57.86%
Mexico	17.83%
Panama	8.08%
Colombia	5.36%
Other, individually under 5%**	10.87%
	<u>100.00%</u>

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\*Non-income producing

\*\*Amount includes other assets less liabilities of 0.81%

*See accompanying notes.*

## ***Statement of Assets and Liabilities as of June 30, 2010***

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### **ASSETS**

Investments in securities, at fair value (cost \$25,087,113) (Notes 1 and 2)	\$ 22,523,229
Cash	1,287,474
Dividends receivable	18,718
Other assets	<u>18,867</u>
<b>TOTAL ASSETS</b>	<b>23,848,288</b>

### **LIABILITIES**

Payable for investments purchased	\$ 1,026,471
Accrued investment advisor fee (Note 3)	90,924
Other payables	<u>23,745</u>
<b>TOTAL LIABILITIES</b>	<b><u>1,141,140</u></b>

<b>NET ASSETS</b> (Equivalent to \$6.12 per share based on 3,713,071 shares outstanding)	<b><u>\$ 22,707,148</u></b>
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### **Net assets consist of the following:**

Common stock, \$.001 par value; 100,000,000 shares authorized; 3,713,071* shares issued and outstanding	\$ 3,713
Additional paid-in capital	26,856,478
Accumulated net investment loss and net realized loss on investments	(1,589,159)
Net unrealized loss on investments (Notes 4 and 5)	<u>(2,563,884)</u>
<b>NET ASSETS</b>	<b><u>\$ 22,707,148</u></b>

\* 213,222 shares issued through dividend reinvestment plan and 1,812,293 shares issued through rights offering (Note 6)

*See accompanying notes.*

## ***Statement of Operations Year Ended June 30, 2010***

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### **INVESTMENT INCOME AND EXPENSES**

Dividends and interest		\$ 405,522
Investment advisor fees (Note 3)	\$ 345,712	
Professional fees	99,331	
Custodian fees	54,000	
Insurance	44,131	
CCO salary	26,913	
Printing and postage	20,464	
Transfer agent fees	17,500	
Director fees	15,600	
Listing fees	15,000	
Proxy services	4,636	
Other	9,165	
Total investment expenses		<u>652,452</u>

**NET INVESTMENT LOSS** (246,930)

### **REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FOREIGN CURRENCY**

Net realized gain on investments and foreign currency	1,631,231
Net increase in unrealized appreciation (depreciation) on investments and foreign currency	<u>1,441,347</u>

**NET GAIN ON INVESTMENTS** 3,072,578

**NET INCREASE IN NET ASSETS RESULTING  
FROM OPERATIONS** \$ 2,825,648

*See accompanying notes.*

# ***Statements of Changes in Net Assets***

## ***Years Ended June 30, 2010 and 2009***

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	2010	2009
<b>INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS</b>		
Net investment loss	(\$ 246,930)	(\$ 170,012)
Net realized gain (loss) on investments and foreign currency	1,631,231	( 2,917,743)
Net increase (decrease) in unrealized appreciation (depreciation) on investments and foreign currency	<u>1,441,347</u>	<u>( 3,377,841)</u>
<b>NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS</b>	2,825,648	( 6,465,596)
<b>DISTRIBUTIONS TO STOCKHOLDERS</b>		
Net investment income	--	( 600,032)
Long-term realized gains	<u>--</u>	<u>( 183,426)</u>
<b>NET DISTRIBUTIONS TO STOCKHOLDERS</b>	<u>--</u>	<u>( 783,458)</u>
<b>TOTAL INCREASE (DECREASE) IN NET ASSETS</b>	<u><b>2,825,648</b></u>	<u><b>( 7,249,054)</b></u>
<b>NET ASSETS</b>		
Beginning	19,881,500	27,130,554
Ending	<u><u>\$ 22,707,148</u></u>	<u><u>\$19,881,500</u></u>

*See accompanying notes.*

# Financial Highlights

## Years Ended June 30, 2006 through 2010

	2010	2009	2008	2007	2006
<b>PER SHARE OPERATING PERFORMANCE</b>					
<b>(For a share of capital stock outstanding for the year)</b>					
Net asset value, beginning of year	<u>\$5.35</u>	<u>\$7.31</u>	<u>\$9.77</u>	<u>\$8.08</u>	<u>\$7.33</u>
Operations:					
Net investment income (loss) <sup>1</sup>	(0.07)	(0.05)	0.22	(0.14)	(0.16)
Net realized and unrealized gain (loss) on investment transactions <sup>1</sup>	<u>0.84</u>	<u>(1.70)</u>	<u>(1.40)</u>	<u>2.83</u>	<u>1.08</u>
Total from operations	<u>0.77</u>	<u>(1.75)</u>	<u>(1.18)</u>	<u>2.69</u>	<u>0.92</u>
Distributions:					
From net investment income	--	(0.16)	(0.06)	--	--
From net realized gains	--	(0.05)	(1.22)	(1.00)	(0.17)
Total distributions	--	(0.21)	(1.28)	(1.00)	(0.17)
Net asset value, end of year	<u>\$6.12</u>	<u>\$5.35</u>	<u>\$7.31</u>	<u>\$9.77</u>	<u>\$8.08</u>
Per share market value, end of year	<u>\$5.67</u>	<u>\$6.07</u>	<u>\$7.69</u>	<u>\$13.59</u>	<u>\$7.57</u>
Total investment return (loss) based on market value per share	<u>(6.59%)</u>	<u>(17.73%)</u>	<u>(34.29%)</u>	<u>94.61%</u>	<u>22.86%</u>
<b>RATIOS AND SUPPLEMENTAL DATA</b>					
Net assets, end of year (in 000's)	<u>\$22.707</u>	<u>\$19.882</u>	<u>\$27.131</u>	<u>\$16.481</u>	<u>\$13.553</u>
Ratio of expenses to average net assets	<u>2.78%</u>	<u>3.02%</u>	<u>2.74%</u>	<u>3.28%</u>	<u>3.37%</u>
Ratio of net investment income (loss) to average net assets	<u>(1.05%)</u>	<u>(0.84%)</u>	<u>1.70%</u>	<u>(1.83%)</u>	<u>(1.95%)</u>
Portfolio turnover rate	<u>27%</u>	<u>17%</u>	<u>25%</u>	<u>28%</u>	<u>40%</u>

<sup>1</sup>Computed by dividing the respective year's amounts from the Statement of Operations by the average outstanding shares for each year presented. For 2008, amounts were computed using the weighted average outstanding shares due to the significant one-time increase in shares from the rights offering.

See accompanying notes.

# *Notes to Financial Statements*

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## **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Organization and Related Matters**

The Herzfeld Caribbean Basin Fund, Inc. (the “Fund”) is a non-diversified, closed-end management investment company incorporated under the laws of the State of Maryland on March 10, 1992, and registered under the Investment Company Act of 1940. The Fund commenced investing activities in January 1994. The Fund is listed on the NASDAQ Capital Market and trades under the symbol “CUBA”.

The Fund’s investment objective is to obtain long-term capital appreciation. The Fund pursues its objective by investing primarily in equity and equity-linked securities of public and private companies, including U.S.-based companies, (i) whose securities are traded principally on a stock exchange in a Caribbean Basin Country or (ii) that have at least 50% of the value of their assets in a Caribbean Basin Country or (iii) that derive at least 50% of their total revenue from operations in a Caribbean Basin Country (collectively, “Caribbean Basin Companies”). Under normal conditions, the Fund invests at least 80% of its total assets in equity and equity-linked securities of Caribbean Basin Countries. This 80% policy may be changed without stockholder approval upon sixty days written notice to stockholders. The Fund’s investment objective is fundamental and may not be changed without the approval of a majority of the Fund’s outstanding voting securities.

At June 30, 2010, the Fund had foreign investments in companies operating principally in Mexico and Panama representing approximately 18% and 8% of the Fund’s net assets, respectively.

The Fund’s custodian and transfer agent is State Street Bank & Trust Company (“SSBT”), 200 Clarendon Street, PO Box 9130, Boston, Massachusetts 02117.

### **Security Valuation**

In accordance with accounting principles generally accepted in the United States of America (“GAAP”), fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date.

In determining fair value, the Fund uses various valuation approaches. In accordance with GAAP, a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available.

## *Notes to Financial Statements*

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Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Fund. Unobservable inputs reflect the Fund's assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

- Level 1: quoted prices in active markets for identical investments
- Level 2: other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3: significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors including, the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed. Accordingly, the degree of judgment exercised by the Fund in determining fair value is greatest for securities categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls, is determined based on the lowest level input that is significant to the fair value measurement.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Fund's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. The Fund uses prices and inputs that are current as of the measurement date, including periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many securities. This condition could cause a security to be reclassified to a lower level within the fair value hierarchy.

Investments in securities traded on a national securities exchange (or reported on the NASDAQ National Market or Capital Market) are stated at the last reported sales price on the day of valuation (or at the NASDAQ official closing price); other securities traded in the over-the-counter market and listed securities for which no sale was reported on that date

## *Notes to Financial Statements*

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are stated at the last quoted bid price. Restricted securities and other securities for which quotations are not readily available are valued at fair value as determined by the Board of Directors.

The following table summarizes the classification of the Fund's investments by the above fair value hierarchy levels as of June 30, 2010:

<u>LEVEL</u>	<u>Investments in Securities</u>
Level 1	\$22,176,875
Level 2	\$346,354
Level 3	\$0*

\*See Note 2, non-marketable securities owned

The following is a reconciliation of assets in which significant unobservable inputs (Level 3) were used in determining fair value:

	<u>Investment in Securities at Value</u>
Balance as of 6/30/09	\$0
Unrealized gain/(loss)	(29,657)
Net purchases/(sales)	25,000
Transfer in/out of Level 3	<u>4,657</u>
Balance as of 6/30/10	<u>\$0</u>

### **Income Recognition**

Security transactions are recorded on the trade date. Gains and losses on securities sold are determined on the basis of identified cost. Dividend income is recognized on the ex-dividend date or in the case of certain foreign securities, as soon as the Fund is notified, and interest income is recognized on an accrual basis. Pursuant to a custodian agreement, SSBT receives a fee reduced by credits which are determined based on the average daily cash balance the Fund maintains with SSBT. Credit balances used to reduce the Fund's custodian fees for the year ended June 30, 2010 were approximately \$11. Discounts and premiums on debt securities purchased are amortized over the life of the respective securities. It is the Fund's practice to include the portion of realized and unrealized gains and losses on investments denominated in foreign currencies as components of realized and unrealized gains and losses on investments and foreign currency.



# *Notes to Financial Statements*

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## **Deposits with Financial Institutions**

The Fund may, during the course of its operations, maintain account balances with financial institutions in excess of federally insured limits.

## **Counterparty Brokers**

In the normal course of business, substantially all of the Fund's money balances and security positions are custodied with the Fund's custodial broker, SSBT. The Fund transacts with other brokers, including its introducing broker, Thomas J. Herzfeld & Co., Inc. The Fund is subject to credit risk to the extent any broker with which it conducts business is unable to fulfill contractual obligations on its behalf. The Fund's management monitors the financial condition of such brokers and does not anticipate any losses from these counterparties.

## **Use of Estimates in the Preparation of Financial Statements**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## **Income Taxes**

The Fund's policy is to continue to comply with the provisions of the Internal Revenue Code that are applicable to regulated investment companies and to distribute all its taxable income to its stockholders. Under these provisions, the Fund is not subject to federal income tax on its taxable income and no federal income tax provision is required.

The Fund has adopted a June 30 year-end for federal income tax purposes.

## **Distributions to Stockholders**

Distributions to stockholders are recorded on the ex-dividend date. Income and capital gain distributions are determined in accordance with income tax regulations which may differ from accounting principles generally accepted in the United States of America. For the year ended June 30, 2010, the Fund did not declare a distribution.

## ***Notes to Financial Statements***

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### **NOTE 2. NON-MARKETABLE AND RESTRICTED SECURITIES OWNED**

Investments in securities, include \$165,000 principal, 4.5%, 1977 Republic of Cuba bonds purchased for \$63,038. The bonds were listed on the New York Stock Exchange and had been trading in default since 1960. A “regulatory halt” on trading was imposed by the New York Stock Exchange in July 1995 and trading in the bonds was suspended as of December 28, 2006. The New York Stock Exchange has stated that following the suspension of trading, application will be made to the Securities and Exchange Commission to delist the issue. As of June 30, 2010, the position was valued at \$0 by the Board of Directors, which approximates the bonds’ fair value.

Investments in securities also include 45,000 shares of Xcelera, Inc., 20 shares of Ceramica Carabobo Class A ADR and 100,000 shares of Cuba Business Development. As of June 30, 2010, the positions were valued at \$0 by the Board of Directors, which approximates their fair value.

Two of the Fund’s holdings are currently segregated and restricted from transfer because they appear on the OFAC list. These securities are: \$165,000 principal value Republic of Cuba, 4.5%, 1977 in default with a fair value of \$0, and 700 shares of Cuban Electric Company with a fair value of \$420.

### **NOTE 3. TRANSACTIONS WITH AFFILIATES**

HERZFELD / CUBA (the “Advisor”), a division of Thomas J. Herzfeld Advisors, Inc., is the Fund’s investment advisor and charges a monthly fee at the annual rate of 1.45% of the Fund’s average daily net assets. Total fees for the year ended June 30, 2010 amounted to \$345,712, of which \$90,924 is payable as of June 30, 2010.

During the year ended June 30, 2010, the Fund paid \$13,367 of brokerage commissions to Thomas J. Herzfeld & Co., Inc., an affiliate of the Advisor, at an average cost per share of \$0.021.

A director of the Fund serves on the Board of Directors of Margo Caribe, Inc., a company in which the Fund has an investment.

A director of the Fund is the owner of the Advisor and Thomas J. Herzfeld & Co., Inc.

The Fund reimbursed the Advisor in the amount of \$26,913 for the portion of the chief compliance officer’s (the “CCO”) salary determined to be attributable to the services provided as CCO of the Fund.

### **NOTE 4. INVESTMENT TRANSACTIONS**

During the year ended June 30, 2010, purchases and sales of investment securities were \$7,275,202 and \$5,797,402, respectively.

## Notes to Financial Statements

At June 30, 2010, the Fund's investment portfolio had gross unrealized gains of \$2,761,723 and gross unrealized losses of \$5,325,607, resulting in a net unrealized loss of \$2,563,884 for financial statement purposes.

### NOTE 5. INCOME TAX INFORMATION

For financial statement purposes, the Fund's net investment loss for the year ended June 30, 2010 does not differ from the net investment loss for tax purposes. Realized gains differ for financial statement and tax purposes primarily due to differing treatments of wash sales.

As of June 30, 2010, for tax purposes the Fund's undistributed net investment loss was \$0 and its undistributed realized loss ("capital loss carryforward") on investments was \$735,871. This capital loss carryforward will expire, if unutilized, as of December 31, 2018. Additionally, the Fund has Post October capital losses as of June 30, 2010, which is deferred until 2011 for tax purposes, of \$31,756.

The cost basis of securities owned for financial statement purposes is lower than the cost basis for income tax purposes by \$532,903 due to wash sale adjustments. As of June 30, 2010, gross unrealized gains were \$2,228,820 and gross unrealized losses were \$5,325,607 for income tax purposes.

Permanent differences accounted for during the year ended June 30, 2010 result from differences between book and tax accounting for the characterization of distributions and the write-off of the Fund's net investment loss for tax purposes. Such amounts have been reclassified as follows:

	Accumulated Net Investment Loss	Accumulated Net Realized Loss on Investments	Additional Paid in Capital
Year ended June 30, 2010	\$246,930	\$41,698	(\$288,628)

In accordance with GAAP, the Fund is required to determine whether a tax position is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The Fund files an income tax return in the U.S. federal jurisdiction, and may file income tax returns in various U.S. states and foreign jurisdictions. Generally the Fund is no longer subject to income tax examinations by major taxing authorities for years before June 30, 2007. The tax benefit recognized is measured as the largest amount of benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. De-recognition of a tax benefit previously recognized results in the Fund recording a tax liability that reduces ending net assets. This policy has been applied to all existing tax positions upon the Fund's initial adoption for the period ended June 30, 2008. Based on its analysis, the Fund has determined that the adoption of this policy did not have

## *Notes to Financial Statements*

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a material impact on the Fund's financial statements upon adoption. However, the Fund's conclusions regarding this policy may be subject to review and adjustment at a later date based on factors including, but not limited to, ongoing analyses of and changes to tax laws, regulations and interpretations thereof.

The Fund's policy would be to recognize accrued interest expense to unrecognized tax benefits in interest expense and penalties in operating expenses. There were none for the period ended June 30, 2010.

### **NOTE 6. CAPITAL SHARE TRANSACTIONS**

#### *Rights Offering*

On October 26, 2007, the Fund issued 1,812,293 common shares in connection with a rights offering. Stockholders of record September 26, 2007 were issued one non-transferable right for every share owned on that date. The rights entitled the stockholders to purchase one new common share for every right held. In addition, the Fund had the discretion to increase the number of shares of common stock subject to subscription by up to 100% of the shares offered, or up to an additional 1,678,556 additional shares of common stock.

The subscription price was equal to 85% of the average volume-weighted sales price per share of the Fund's common stock on the NASDAQ Capital Market on October 26, 2007 and the four preceding trading days. The final subscription price was \$10.04 per share. Net proceeds to the Fund were \$18,075,138 after deducting rights offering costs of \$120,284. The net asset value of the Fund's common shares was increased by approximately \$0.09 per share as a result of the share issuance.

#### *Year-End Distributions*

On January 5, 2009, the Fund paid a year-end distribution of \$0.211 per share paid in stock. Stockholders were also given the option of receiving the payment in cash. Shares were purchased in the open market to pay the distribution at a reinvestment price of \$4.9896 per share including brokerage commissions.

On January 9, 2008, the Fund issued 213,222 common shares in connection with a year-end distribution of \$1.28 per share paid in stock. Stockholders were also given the option of receiving the payment in cash. Shares were issued at \$7.94 per share, equal to the net asset value of the Fund on the payable date of January 9, 2008. New shares were issued at net asset value per share, therefore the reinvestment of distributions had no effect on net asset value.

No distribution was declared during the fiscal year ended June 30, 2010.

## Rothstein Kass

### **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of The Herzfeld Caribbean Basin Fund, Inc.

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of The Herzfeld Caribbean Basin Fund, Inc. (the "Fund") as of June 30, 2010, and the related statement of operations for the year then ended, the statement of changes in net assets for each of the two years then ended, and financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of June 30, 2010, by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of The Herzfeld Caribbean Basin Fund, Inc. as of June 30, 2010, the results of its operations for the year then ended, the changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

*Rothstein, Kass & Company, P.C.*

Roseland, New Jersey  
August 16, 2010

## *Directors and Officers of the Fund*

<b>Name Address and Age</b>	<b>Position(s) Held with Fund</b>	<b>Term of Office and Length of Time Served</b>
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### Interested Director

<b>Thomas J. Herzfeld*</b> PO Box 161465 Miami, FL 33116 Age: 65	President, Portfolio Manager, Chairman, Director	three years; 1993 to present
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### Independent Directors

<b>Ann S. Lieff</b> c/o The Herzfeld Caribbean Basin Fund, Inc. PO Box 161465 Miami, FL 33116 Age: 58	Director	three years; 1998 to present
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<b>Michael A. Rubin</b> c/o The Herzfeld Caribbean Basin Fund, Inc. PO Box 161465 Miami, FL 33116 Age: 68	Director	three years; 2002 to present
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<b>Kay W. Tatum, Ph.D., CPA</b> c/o The Herzfeld Caribbean Basin Fund, Inc. PO Box 161465 Miami, FL 33116 Age: 58	Director	three years; 2007 to present
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<b>Ted S. Williams</b> c/o The Herzfeld Caribbean Basin Fund, Inc. PO Box 161465 Miami, FL 33116 Age: 48	Director	three years; 2010 to present
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<b>Principal Occupation(s) During Past 5 Years</b>	<b>Number of Portfolios In Complex Overseen By Director</b>	<b>Other Directorships Held by Director</b>
Chairman and President of Thomas J. Herzfeld & Co., Inc., a broker dealer, and Thomas J. Herzfeld Advisors, Inc.	2	The Cuba Fund, Inc. (in registration)
President of the Lieff Company, a management consulting firm that offers ongoing advisory services as a corporate director to several retail operations, 1998-present; former CEO Spec's Music 1980-1998, a retailer of recorded music.	1	Hastings Entertainment, Inc.; Birks & Mayors, Inc.; Furniture Brands International, Inc.
Partner of Michael A. Rubin P.A., attorney at law; Broker, Oaks Management & Real Estate Corp., a real estate corporation	1	Margo Caribe, Inc.
Associate Professor of Accounting, University of Miami School of Business Administration, 1992-present; Chair, Department of Accounting, 2004-2008; Assistant Professor of Accounting, University of Miami, 1986-1992.	1	None
Vice President, Thomas J. Herzfeld Advisors, Inc. 1991-2007	1	None

<b>Name Address and Age</b>	<b>Position(s) Held with Fund</b>	<b>Term of Office and Length of Time Served</b>
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***Officers***

<b>Erik M. Herzfeld</b> PO Box 161465 Miami, FL 33116 Age: 37	Portfolio Manager	2008 to present
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<b>Cecilia L. Gondor</b> PO Box 161465 Miami, FL 33116 Age: 48	Secretary, Treasurer	1993 to present
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\* Mr. Thomas J. Herzfeld is considered an “interested person” of the Fund, as defined in Section 2(a)(19) of the 1940 Act and the rules thereunder because of his position with the Advisor.

## ***NASDAQ Listing***

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On May 19, 2010, Ann S. Lieff, an independent director of the Fund, resigned from her position on the Fund’s audit committee, but she remains as a member of the Board. The resignation resulted in the audit committee being composed of two independent members rather than the required three independent members. Accordingly, the Fund notified the NASDAQ that the composition of its audit committee did not comply with the audit committee composition requirement under NASDAQ Listing Rule 5605(c)(2)(A) (“Rule”) due to one vacancy on the audit committee. On July 1, 2010, during the relevant cure period, Ted S. Williams was appointed as an independent director to the Fund’s Board of Directors, expanding the Board to five members. Mr. Williams was also appointed to the nominating committee and audit committee. Mr. Williams’ appointment to the audit committee satisfied the NASDAQ Listing Rule. On July 6, 2010, the Fund received notification from NASDAQ that the Fund now complies with the Rule.

## ***Additional Portfolio Manager***

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In November 2008, Mr. Erik M. Herzfeld was appointed as a portfolio manager of the Fund. Prior to his appointment as a portfolio manager, Mr. Thomas J. Herzfeld was sole portfolio manager of the Fund. Erik joined Thomas J. Herzfeld Advisors, Inc. in February, 2007. Before Thomas J. Herzfeld Advisors, Inc., Erik served in quantitative research and trading roles with both Lehman Brothers and JPMorgan, where he served as a Vice President in New York and Asia. Erik is a graduate of Johns Hopkins University with a degree in Economics and holds a Masters Degree from the MIT Sloan School of Management.



Principal Occupation(s) During Past 5 Years	Number of Portfolios In Complex Overseen By Director	Other Directorships Held by Director
Portfolio Manager and Head of Alternative Strategies, Thomas J. Herzfeld Advisors, Inc. 2007-present; Vice President JPMorgan Chase 2000-2007, foreign exchange option trading		N/A
Executive Vice President of Thomas J. Herzfeld & Co., Inc., a broker dealer, and Thomas J. Herzfeld Advisors, Inc.		N/A

## ***Privacy Policy***

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### **Information We Collect**

We collect nonpublic information about you from applications or other account forms you complete, from your transactions with us, our affiliates or others through transactions and conversations over the telephone.

### **Information We Disclose**

We do not disclose information about you, or our former customers, to our affiliates or to service providers or other third parties except on the limited basis permitted by law. For example, we may disclose nonpublic information about you to third parties to assist us in servicing your account with us and to send transaction confirmations, annual reports, prospectuses and tax forms to you. We may also disclose nonpublic information about you to government entities in response to subpoenas.

### **Our Security Procedures**

To ensure the highest level of confidentiality and security, we maintain physical, electronic and procedural safeguards that comply with federal standards to guard your personal information. We also restrict access to your personal and account information to those employees who need to know that information to provide services to you.

## ***Proxy Voting Policies and Procedures***

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A description of the policies and procedures used to determine how to vote proxies relating to portfolio securities is available without charge, upon request, by calling the Fund at 800-TJH-FUND, or by accessing the SEC's website at [www.sec.gov](http://www.sec.gov).

Information on how the investment adviser voted proxies on the Fund's behalf for the twelve month period ended June 30 is provided in the Fund's Form N-PX which is available on the SEC's EDGAR database at [www.sec.gov](http://www.sec.gov). In addition, the Form N-PX can be reviewed and copied at the SEC's public reference room in Washington, D.C. More information about the SEC's website or the operation of the public reference room can be obtained by calling the SEC at 800-732-0330.

## ***Quarterly Portfolio Reports***

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The Fund files quarterly schedules of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Form N-Q is available by link on the Fund's website at [www.herzfeld.com/cuba.htm](http://www.herzfeld.com/cuba.htm), by calling the Fund at 800-TJH-FUND, or on the SEC's EDGAR database at [www.sec.gov](http://www.sec.gov). In addition, the Form N-Q can be reviewed and copied at the SEC's public reference room in Washington, D.C. More information about the SEC's website or the operation of the public reference room can be obtained by calling the SEC at 800-732-0330.

**THE HERZFELD CARIBBEAN BASIN FUND, INC.**

The Herzfeld Building

P.O. Box 161465

Miami, FL 33116