

HERZFELD CARIBBEAN BASIN FUND INC
Form N-CSR
August 30, 2013

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)

119 Washington Ave. Suite 504, Miami Beach, FL 33139
(Address of principal executive offices) (Zip code)

THOMAS J. HERZFELD
119 Washington Ave. Suite 504, Miami Beach, FL 33139
(Name and address of agent for service)

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

Date of fiscal year end: 06/30/13

Date of reporting period: 7/01/12 - 6/30/13

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.

ITEM 1. SHAREHOLDER REPORT

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
2175 North California Blvd., 10th Floor
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

July 31, 2013

Dear Fellow Stockholders:

We are pleased to present our Annual Report for the period ended June 30, 2013. On that date, the net asset value of The Herzfeld Caribbean Basin Fund, Inc. (CUBA) was \$9.28 per share, up 20.56% for the fiscal year then ended, adjusted for the year-end distribution of \$0.196 per share. The Fund's share price gained 25.31% for the 12-month period, 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. U.S. relations with Cuba are particularly influential to the region and, therefore, we keep a close eye on any developments.

Cuban Relations

Although media attention has been sparse, there has been an undercurrent of activity surrounding Cuba. For instance, effective January 2013, Cuban President Raúl Castro made a historic change to the country's travel laws. Under the new policy, Cubans are eligible to apply for passports to travel abroad; previously, they had to acquire a formal letter of invitation and also obtain an exit visa.

We have also noticed substantive diplomatic outreach for the first time in years. Talks on immigration and the resumption of direct postal services between the U.S. and Cuba have been initiated. In June, the U.S. State Department granted special authorization for Cuban diplomats to visit Miami to hold meetings with migrants. Representatives of travel agencies and advocacy groups seeking to normalize U.S. relations with Cuba were in attendance. The State Department has not granted this type of permission to Cuban diplomats since 1998.

Letter to Stockholders (continued)

Cuban Minister of Economy and Planning, Marino Murillo, announced a 2014 economic plan to deregulate state-owned companies and attract more foreign investment. The plan would give companies more autonomy, allowing state-owned companies to keep 50% of profits, after taxes, for investment and wage increases. This is in contrast to the current system in which all company investment must first be approved by, and all profits go to, the state. The goal is to improve business efficiency and pay down the debt that has depressed Cuba's economy.

We continue to monitor developments in and related to Cuba with a view towards participating as an investor in the future rebuilding of that country, when permitted.

Portfolio Review

In the meantime, even without dramatic change, the Caribbean region has done well. Several of the Fund's holdings turned in good performances since we last wrote to you in our semi-annual report.

Mastec, Inc. (MTZ), an infrastructure construction company based in Florida, is our fourth largest holding. The company continued strong positive momentum, posting a 32.0% gain for the six months ended June 30, 2013. In March, the company issued \$400 million of 4.875% Senior Notes, using some of the proceeds to redeem a portion of its outstanding 7.625% Senior Notes, lowering borrowing costs and raising cash. MTZ also acquired Big Country Energy Services at the end of May 2013; Big Country Energy builds pipelines and develops oil fields. We believe the acquisition should benefit MTZ by taking advantage of the growing push for domestic U.S. energy production. We sold about a quarter of our holding in MTZ during the first half of the calendar year as we looked to rebalance our portfolio and realized some profits.

We are pleased to report that several of our other holdings also turned in gains in excess of 30% during the first six months of calendar 2013. These include: Copa Holdings (CPA), up 31.8%, a Panamanian airline providing passenger and cargo services, Atlantic Tele-Network (ATNI), up 36.6%, a provider of telecommunications services to North America, Bermuda and the Caribbean, and Chiquita Brands (CQB), up 32.4%, a fresh produce distributor. Consolidated Water Company

Letter to Stockholders (continued)

Limited (CWCO), was one of our stellar performers, up 56.5% in the first half of 2013. CWCO develops and operates water production and distribution systems in the Caribbean and is headquartered in the Cayman Islands. CWCO is looking to expand its operations globally.

For years we had been anticipating a public offering of Norwegian Cruise Line Holdings Ltd. (NCLH) and, in January 2013, it began trading on NASDAQ. In June 2013, we added NCLH as a new holding for the Fund. Caribbean cruises are typically split between East and West Caribbean itineraries, with both taking alternative routes around Cuba. The major cruise lines which operate in the region are NCLH, Royal Caribbean Cruises, Ltd. (RCL) and Carnival Corp. (CCL). We believe all are in a position to benefit from any relaxation of the U.S. embargo against Cuba and normalization of relations that would result in a boost to tourism. The Fund currently holds core positions in all three.

Mexican equity markets generally traded in lockstep with U.S. equity markets during the period from March 2009 to January 2013. Since rising to an all-time high in late January, however, the Mexican Bolsa has sold off while the U.S. equity market diverged, continuing its rally through May. The Fund's largest Mexican holding in local shares (those purchased on the Mexican Bolsa rather than traded on U.S. exchanges as American Depositary Receipts) is Wal-Mart de México, S.A.B. de C.V. Series V ("Walmex"), which represented 1.55% of the portfolio as of fiscal year-end. For the six months then ended, Walmex was down 12.8%, in U.S. dollars, hurt by the overall market trend and bad earnings. We continue to remain sanguine on Mexico and especially Walmex, given their growing footprint in the region.

Overall, for the calendar year through June 30, 2013, The Mexican IPC Index lost approximately 7% (measured in U.S. dollars). Mexican securities made up 23.36% of the Fund's holdings at the end of the fiscal year, so the negative trend has detracted from the Fund's performance.

The above commentary is for informational purposes only and does not represent an offer, recommendation or solicitation to buy, hold or sell any security. The specific securities identified and described do not represent all of the securities purchased or sold and you should not assume that investments in the securities identified and discussed will be profitable. Portfolio composition is subject to change.

Letter to Stockholders (continued)

Largest Allocations

The following tables present our largest investment and geographic allocations as of June 30, 2013.

| Geographic Allocation | % of Net Assets | Largest Portfolio Positions | % of Net Assets |
|--------------------------|-----------------|-------------------------------------|-----------------|
| USA | 56.46% | Seaboard Corporation | 9.29% |
| Mexico | 23.36% | Coca Cola Femsa, S.A.B. de C.V. ADR | 7.03% |
| Panama | 7.94% | Watsco Incorporated | 5.12% |
| Bahamas | 3.49% | Mastec, Inc. | 5.04% |
| Colombia | 3.16% | Royal Caribbean Cruises Ltd. | 4.94% |
| Cayman Island | 2.58% | Copa Holdings, S.A. | 4.76% |
| Puerto Rico | 1.10% | Lennar Corp. | 4.24% |
| Belize | 0.06% | Carnival Corp. | 3.88% |
| Cuba | 0.00% | Pricesmart Inc. | 3.56% |
| Cash and Other Countries | 1.85% | Norfolk Southern Corporation | 3.27% |

Daily net asset values and press releases by the Fund are available on the Internet at 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 | Erik M. Herzfeld |
| Chairman of the Board, | Portfolio Manager |
| President and Portfolio | |
| Manager | |

Schedule of Investments as of June 30, 2013

| Shares or Principal Amount | Description | Fair Value |
|---|--|--------------|
| Common stocks - 99.48% of net assets | | |
| Airlines - 4.91% | | |
| 12,500 | Copa Holdings, S.A. | \$ 1,639,000 |
| 2,000 | ERA Group Inc.* | 52,300 |
| Banking and finance - 8.42% | | |
| 19,280 | Bancolombia, S.A. | 1,089,320 |
| 49,000 | Banco Latinoamericano de Exportaciones, S.A. | 1,097,110 |
| 6,000 | Popular Inc.* | 181,980 |
| 3,844 | W Holding Co. Inc.* | 58 |
| 31,000 | Western Union Company | 530,410 |
| Communications - 9.07% | | |
| 44,690 | América Móvil, S.A.B. de C.V. ADR | 972,006 |
| 71,200 | América Móvil, S.A.B. de C.V. Series A | 77,017 |
| 209,144 | América Móvil, S.A.B. de C.V. Series L | 226,391 |
| 14,198 | Atlantic Tele-Network, Inc. | 705,073 |
| 512,639 | Fuego Enterprises Inc.* | 164,044 |
| 212,994 | Grupo Radio Centro S.A.B. de C.V.* | 245,438 |
| 28,400 | Grupo Televisa, S.A.B. ADR | 705,456 |
| 8,030 | Spanish Broadcasting System, Inc.* | 27,222 |
| Conglomerates and holding companies - 0.06% | | |
| 250,000 | Admiralty Holding Company (Note 2)* | -- |
| 70,348 | BCB Holdings Ltd.* | 19,205 |
| 3,250 | Shellshock Ltd. Ord.* | 1,775 |
| Construction and related - 8.57% | | |
| 54,561 | Cemex S.A.B. de C.V. ADR | 577,255 |
| 60,341 | Cemex S.A.B. de C.V. Series CPO | 63,649 |
| 20 | Ceramica Carabobo Class A ADR (Note 2)* | -- |
| 52,800 | Mastec, Inc.* | 1,737,120 |
| 8,000 | Vulcan Materials | 387,280 |
| 1,900 | Martin Marietta Materials | 186,998 |
| Consumer products and related manufacturing - 5.69% | | |
| 327,290 | Grupo Casa Saba, S.A.B. de C.V. | 195,984 |
| 21,000 | Watsco Incorporated | 1,763,160 |

* Non-income producing

See accompanying notes.

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Schedule of Investments as of June 30, 2013

| Shares or Principal Amount | Description | Fair Value |
|--------------------------------------|---|------------|
| Food, beverages and tobacco - 13.40% | | |
| 60,000 | Chiquita Brands International Inc.* | \$ 655,200 |
| 53,874 | Cleanpath Resources Corp.* | 108 |
| 17,260 | Coca Cola Femsa, S.A.B. de C.V. ADR | 2,421,405 |
| 18,900 | Fomento Económico Mexicano, S.A.B. de C.V. Series UBD | 194,719 |
| 8,500 | Fomento Económico Mexicano, S.A.B. de C.V. ADR | 877,115 |
| 16,690 | Fresh Del Monte Produce Inc. | 465,317 |
| Housing - 4.30% | | |
| 40,500 | Lennar Corporation | 1,459,620 |
| 6,100 | Homex Development Corp.* | 22,753 |
| Investment companies - 3.90% | | |
| 4,420 | Shellproof Limited* | 1,944 |
| 70,348 | Waterloo Investment Holdings Ltd. (Note 2)* | -- |
| 12,400 | iShares MSCI Mexico Capped Investable Market Index Fund | 808,480 |
| 800 | Latin American Discovery Fund | 10,712 |
| 10,000 | iShares S&P Latin America 40 Index Fund | 367,600 |
| 10,000 | Mexico Equity & Income Fund | 153,300 |
| Leisure - 12.28% | | |
| 39,000 | Carnival Corp. | 1,337,310 |
| 51,000 | Royal Caribbean Cruises Ltd. | 1,700,340 |
| 15,801 | Steiner Leisure Ltd.* | 835,241 |
| 11,834 | Norwegian Cruise Line Holdings Ltd.* | 358,689 |
| Mining - 3.30% | | |
| 3,872 | Grupo México, S.A.B. de C.V. Series B | 11,147 |
| 27,000 | Freeport McMoran Copper | 745,470 |
| 26,900 | Tahoe Resources, Inc.* | 380,635 |
| Pulp and paper - 0.17% | | |
| 18,300 | Kimberly-Clark de México, S.A.B. de C.V. Series A | 59,708 |
| Railroad - 3.27% | | |
| 15,500 | Norfolk Southern Corporation | 1,126,075 |

* Non-income producing

See accompanying notes.

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Schedule of Investments as of June 30, 2013

| Shares or Principal Amount | Description | Fair Value |
|--|--|---------------------|
| Retail - 5.22% | | |
| 1,270 | Grupo Elektra, S.A.B. de C.V. Series CPO | \$ 41,924 |
| 14,000 | Pricesmart Inc. | 1,226,820 |
| 190,222 | Wal-Mart de México, S.A.B. de C.V. Series V | 530,396 |
| Service - 0.35% | | |
| 1,000 | Grupo Aeroportuario del Sureste, S.A.B. de C.V. ADR | 111,240 |
| 700 | Grupo Aeroportuario del Sureste, S.A.B. de C.V. Series B | 7,771 |
| Trucking and marine freight - 11.09% | | |
| 12,280 | Grupo TMM, S.A.B. ADR* | 9,063 |
| 1,182 | Seaboard Corporation | 3,200,856 |
| 2,000 | Seacor Holdings, Inc. | 166,100 |
| 8,361 | Teekay LNG Partners LP | 365,376 |
| 28,000 | Ultrapetrol Bahamas Ltd.* | 79,800 |
| Utilities - 4.60% | | |
| 12,000 | Caribbean Utilities Ltd. Class A | 123,612 |
| 66,841 | Consolidated Water, Inc. | 763,993 |
| 700 | Cuban Electric Company (Note 2)* | -- |
| 40,500 | Teco Energy Inc. | 696,195 |
| Other - 0.88% | | |
| 25,000 | Geltech Solutions Inc.* | 28,750 |
| 13,000 | Impellam Group | 78,868 |
| 55,921 | Margo Caribe, Inc.* | 196,283 |
| 895 | Siderurgica Venezolana Sivensa, S.A. ADR (Note 2)* | -- |
| 79 | Siderurgica Venezolana Sivensa, S.A. Series B (Note 2)* | -- |
| Total common stocks (cost \$29,011,709) | | \$34,265,186 |

* Non-income producing

See accompanying notes.

Schedule of Investments as of June 30, 2013

| Shares or Principal Amount | Description | Fair Value |
|---|--|---------------|
| Bonds - 0% of net assets | | |
| \$ 165,000 | Republic of Cuba - 4.5%, 1977 - in default | \$ -- |
| Total bonds (cost \$63,038) (Note 2)* | | \$ -- |
| Other assets less liabilities - 0.52% of net assets | | \$ 180,148 |
| Net assets - 100% | | \$ 34,445,334 |

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

| | |
|--------------------------------|---------|
| United States of America | 56.46% |
| Mexico | 23.36% |
| Panama | 7.94% |
| Other, individually under 5%** | 12.24% |
| | 100.00% |

* Non-income producing

** Amount includes other assets less liabilities of 0.52%

See accompanying notes.

Statement of Assets and Liabilities as of June 30, 2013

ASSETS

| | |
|--|-------------------|
| Investments in securities, at fair value (cost \$29,074,747) (Notes 1 and 2) | \$34,265,186 |
| Cash | 245,420 |
| Dividends receivable | 56,581 |
| Other assets | 18,835 |
| TOTAL ASSETS | 34,586,022 |

LIABILITIES

| | |
|---|---------------------|
| Accrued investment advisor fee (Note 3) | \$125,995 |
| Foreign tax withholding | 341 |
| Other payables | 14,352 |
| TOTAL LIABILITIES | 140,688 |
| NET ASSETS (Equivalent to \$9.28 per share based on 3,713,071* shares outstanding) | \$34,445,334 |

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 | 25,958,591 |
| Accumulated net investment gain and net realized gain on investments | 3,292,591 |
| Net unrealized gain on investments (Notes 4 and 5) | 5,190,439 |

| | |
|-------------------|---------------------|
| NET ASSETS | \$34,445,334 |
|-------------------|---------------------|

* 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, 2013

INVESTMENT INCOME AND EXPENSES

| | | |
|--|-----------|--------------------|
| Dividends and interest | | \$687,463 |
| Investment advisor fees (Note 3) | \$472,075 | |
| Professional fees | 89,970 | |
| Custodian fees | 83,500 | |
| Insurance | 40,153 | |
| CCO salary (Note 3) | 26,913 | |
| Transfer agent fees | 23,667 | |
| Director fees | 20,800 | |
| Listing fees | 15,000 | |
| Printing and postage | 11,500 | |
| Proxy services | 7,792 | |
| Other | 20,192 | |
| Total investment expenses | | 811,562 |
| NET INVESTMENT LOSS | | (124,099) |
| REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FOREIGN CURRENCY | | |
| Net realized gain on investments and foreign currency | 4,553,333 | |
| Net increase in unrealized appreciation (depreciation) on investments and foreign currency | 1,413,639 | |
| NET GAIN ON INVESTMENTS | | 5,966,972 |
| NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS | | \$5,842,873 |

See accompanying notes.

Statements of Changes in Net Assets
 Years Ended June 30, 2013 and 2012

| | Year-Ended 2013 | Year-Ended 2012 |
|---|--------------------|---------------------|
| INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS | | |
| Net investment loss | \$(124,099 |) \$(227,400) |
| Net realized gain on investments and foreign currency | 4,553,333 | 25,955 |
| Net increase (decrease) in unrealized appreciation (depreciation) on investments and foreign currency | 1,413,639 | (402,004) |
| NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS | 5,842,873 | (603,449) |
| DISTRIBUTIONS TO STOCKHOLDERS | | |
| Net investment income | -- | -- |
| Long-term realized gains | (727,762 |) (235,409) |
| NET DISTRIBUTIONS TO STOCKHOLDERS | (727,762 |) (235,409) |
| TOTAL INCREASE (DECREASE) IN NET ASSETS | 5,115,111 | (838,858) |
| NET ASSETS | | |
| Beginning | 29,330,223 | 30,169,081 |
| Ending | \$34,445,334 | \$29,330,223 |

See accompanying notes.

Financial Highlights
Years Ended June 30, 2009 through 2013

| | 2013 | 2012 | Year Ended June 30 | | 2009 |
|---|---------|---------|--------------------|---------|---------|
| | | | 2011 | 2010 | |
| PER SHARE OPERATING PERFORMANCE | | | | | |
| (For a share of capital stock outstanding for each year) | | | | | |
| Net asset value, beginning of year | \$ 7.90 | \$ 8.13 | \$ 6.12 | \$ 5.35 | \$ 7.31 |
| Operations: | | | | | |
| Net investment loss ¹ | (0.03) | (0.06) | (0.06) | (0.07) | (0.05) |
| Net realized and unrealized gain (loss) on investment transactions ¹ | 1.61 | (0.11) | 2.07 | 0.84 | (1.70) |
| Total from operations | 1.58 | (0.17) | 2.01 | 0.77 | (1.75) |
| Distributions: | | | | | |
| From net investment income | -- | -- | -- | -- | (0.16) |
| From net realized gains | (0.20) | (0.06) | -- | -- | (0.05) |
| Total distributions | (0.20) | (0.06) | -- | -- | (0.21) |
| Net asset value, end of year | \$ 9.28 | \$ 7.90 | \$ 8.13 | \$ 6.12 | \$ 5.35 |
| Per share market value, end of year | \$ 8.51 | \$ 6.97 | \$ 7.14 | \$ 5.67 | |