

Edgar Filing: HERZFELD CARIBBEAN BASIN FUND INC - Form N-CSR

HERZFELD CARIBBEAN BASIN FUND INC  
Form N-CSR  
September 01, 2006

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: 06/30/06

Date of reporting period: 07/01/05 - 6/30/06

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

[GRAPHIC OMITTED]

THE HERZFELD  
CARIBBEAN BASIN  
FUND, INC.

Edgar Filing: HERZFELD CARIBBEAN BASIN FUND INC - Form N-CSR

ANNUAL REPORT  
JUNE 30, 2006

=====  
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  
Investors Bank & Trust Company  
200 Clarendon Street, 16th Floor  
Boston, MA 02116  
(617) 443-6870

Custodian  
Investors Bank & Trust Company  
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, LLP  
500 Ygnacio Valley Road, Suite 200  
Walnut Creek, CA 94596

-----  
The Herzfeld Caribbean Basin Fund'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 consist of 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 and Venezuela. The fund invests at least 80% of its total assets in a broad range of 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

Edgar Filing: HERZFELD CARIBBEAN BASIN FUND INC - Form N-CSR

-2-

Letter to Stockholders  
=====

[PHOTO]  
Thomas J. Herzfeld  
Chairman and President

July 24, 2006

Dear Fellow Stockholders:

We are pleased to present our annual report for the period ended June 30, 2006. On that date The Herzfeld Caribbean Basin Fund's net assets were \$13,553,493 and its net asset value per share was \$8.08, compared with \$12,291,956, or \$7.33 per share, at the beginning of the period. This represents a gain of 12.6% in net asset value and an increase of 22.9% in share price (adjusted for \$0.1748 per share distribution) from \$6.30 to \$7.57 per share.

2006, our 12th year of operations, proved to be yet another successful year. During the period both the net asset value and share price made record highs. For the benefit of putting things in long-term perspective, the Fund was launched in 1994 and underwritten by Thomas J. Herzfeld & Co., Inc, an affiliate of the Fund's advisor. The initial net asset value was \$5.00 per share and the IPO price was \$5.20, with net assets of \$8,364,180. Since then, the Fund has paid out \$1.686 per share, the equivalent of \$2.83 million and our net assets and share price on June 30, 2006 were \$13.55 million and \$7.57 per share. These figures represent a 95% gain in net asset value and 78% increase in share price from inception. Bear in mind, this was accomplished without the benefit of the U.S. embargo against Cuba being lifted, which we believe will be the key to significant growth in the region in which we invest.

At year-end we were 97% invested primarily in companies which we believe will do well, even if there is no political change in Cuba, but we also seek to invest in companies which we believe will benefit from resumption of U.S. trade with that country.

Our largest positions continue to be approximately the same as last year, with the exception of the Latin American Equity Fund (LAQ), in which we took a rather substantial profit. Part of our investment strategy is to seek short-term gains from trading opportunities. These profits help offset some of the expenses of the fund. For instance, during the fiscal year, our short-term trading generated approximately \$205,000, which offset about 45% of the total expenses of the Fund for the year.

-3-

Letter to Stockholders (continued)  
=====

As you are probably aware, due to the added requirements of the Sarbanes-Oxley Act, the expenses of public companies have increased. In my view these new regulations are unnecessary for the already highly regulated closed-end fund industry.

Largest Allocations

The following tables present our largest investments and geographic allocations

## Edgar Filing: HERZFELD CARIBBEAN BASIN FUND INC - Form N-CSR

as of June 30, 2006.

Geographic Allocation	% of Net Assets	Largest Portfolio Positions	% of Net Assets
USA	57.03%	Florida East Coast Industries, Inc.	18.73%
Mexico	13.44%	Consolidated Water Co.	8.57%
Cayman Islands	9.63%	Watsco Incorporated	6.62%
Panama	3.03%	Seaboard Corporation	6.61%
Netherlands Antilles	3.00%	Florida Rock Industries, Inc.	6.08%
Puerto Rico	2.57%	Royal Caribbean Cruises Ltd.	4.80%
Latin American Regional	2.02%	Carnival Corp.	4.31%
Colombia	1.51%	Garmin Ltd.	4.28%
Virgin Islands	1.42%	Orthofix International N.V.	3.00%
Belize	1.13%	Banco Latinoamericano de	
Costa Rica	0.27%	Exportaciones	2.53%
Venezuela	0.05%		
Cuba	0.00%		

### Premium/Discount

The Fund has traded at both premiums and discounts every year except the year of inception in which it traded only at a premium. As I have stated before, we believe that closed-end funds trading at discounts to net asset value represent good value.

-4-

### Letter to Stockholders (continued)

#### Further Information

Daily net asset values, quarterly, semi-annual and annual reports and press releases on the Fund are available on the Internet at [www.herzfeld.com](http://www.herzfeld.com).

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

Sincerely,

/s/ Thomas J. Herzfeld  
 Thomas J. Herzfeld  
 Chairman of the Board and President

-5-

### Schedule of Investments as of June 30, 2006

Shares or Principal Amount	Description	Market Value
Common stocks - 97.23% of net assets		

Edgar Filing: HERZFELD CARIBBEAN BASIN FUND INC - Form N-CSR

Banking and finance - 4.81%		
8,500	Bancolombia, S.A.	\$ 204,850
21,920	Banco Latinoamericano de Exportaciones, S.A.	342,610
8,000	Doral Financial Corp.	51,280
16,400	Grupo Financiero Banorte, S.A. de C.V. Series O	38,182
9,900	Grupo Financiero Inbursa, S.A. de C.V. Series O	14,898
Communications - 11.61%		
35,600	America Movil, S.A. de C.V. Series A	62,713
2,000	America Movil, S.A. de C.V. Series L	66,520
12,500	America Telecom, S.A. de C.V. Series A1*	73,806
9,250	Atlantic Tele-Network, Inc.	192,678
11,900	Carso Global Telecom, S.A. de C.V. Series A1*	24,755
5,500	Garmin Ltd.	579,920
725	Grupo Iusacell, S.A. de C.V. Series V*	3,209
16,800	Grupo Radio Centro, S.A. ADR	104,832
14,300	Grupo Televisa, S.A. GDR	276,133
13,400	Grupo Televisa, S.A. Series CPO	52,193
1,000	Telefonos de Mexico ADR Series L	20,830
23,800	Telefonos de Mexico, S.A. de C.V. Series A	24,439
78,600	Telefonos de Mexico, S.A. de C.V. Series L	82,660
13,900	TV Azteca, S.A. de C.V. Series CPO	9,413
Conglomerates - 2.12%		
5,400	Alfa, S.A. de C.V. Series A	27,243
42,595	BB Holdings Ltd.	153,570
13,000	Carlisle Group Ltd.	20,911
3,200	Corporacion Interamericana de Entretenimiento, S.A. de C.V. Series B*	5,071
1,580	Desc, S.A. de C.V. Series B*	1,280
11,000	Grupo Carso, S.A. de C.V. Series A1	25,512
600	Grupo Imsa, S.A. de C.V., Series UBC	2,071
2,525	OneSource Services, Inc.	33,146
3,300	U.S. Commercial Corp., S.A. de C.V.*	701
2,900	Vitro, S.A. Series A	2,467
6,000	Vitro Sociedad Anonima ADR	15,325

-----  
\*Non-income producing

See accompanying notes.

-6-

Schedule of Investments as of June 30, 2006 (continued)

Shares or Principal Amount	Description	Market Value
Construction and related - 10.20%		
23,359	Cemex, S.A. de C.V. Series CPO	\$ 133,684
2,000	Cemex, S.A. de C.V. ADR	113,940
2,032	Ceramica Carabobo Class A ADR*	3,157
4,300	Consorcio ARA, S.A. de C.V.*	17,776
3,583	Empresas ICA, Sociedad Controladora, S.A. de C.V.*	10,150
16,600	Florida Rock Industries, Inc.	824,522
800	Grupo Cementos de Chihuahua, S.A. de C.V.	2,755
20,950	Mastec, Inc.*	276,750

Edgar Filing: HERZFELD CARIBBEAN BASIN FUND INC - Form N-CSR

Consumer products and related manufacturing - 7.76%		
800,000	Atlas Electricas, S.A.	36,067
5,900	Grupo Casa Saba, S.A. ADR	117,882
15,000	Watsco Incorporated	897,300
Food, beverages and tobacco - 1.85%		
300	Alsea, S.A. de C.V.	1,062
4,800	Coca Cola Femsa, S.A. de C.V. ADR	141,696
200	Coca Cola Femsa, S.A. de C.V. Series L	595
6,300	Fomento Econ--mico Mexicano, S.A. de C.V. Series UBD	52,981
800	Gruma, S.A. de C.V. Series B	2,195
7,600	Grupo Bimbo, S.A. de C.V. Series A	22,868
7,700	Grupo Modelo, S.A. de C.V. Series C	29,549
Housing - 0.07%		
1,700	Corporaci--n Geo S.A. de C.V. Series B	5,655
100	Desarrolladora Homex, S.A. de C.V.	550
400	Sare Holding, S.A. de C.V. Series B	363
1,500	Urbi Desarrollos Urbanos, S.A. de C.V.	3,492
Investment companies - 4.66%		
2,000	iShares S&P Latin America 40 Index	273,440
4,000	The Mexico Fund, Inc.	122,800
19,000	Salomon Brothers Worldwide Income Fund	235,790
Leisure - 9.11%		
14,000	Carnival Corp.	584,360
17,000	Royal Caribbean Cruises Ltd.	650,250

-----

\*Non-income producing

See accompanying notes.

-7-

Schedule of Investments as of June 30, 2006 (continued)

Shares or Principal Amount	Description	Market Value
=====		
Medical - 3.26%		
8,386	Micromet Inc.*	\$ 35,892
10,660	Orthofix International N.V.*	406,466
Mining - 0.03%		
1,200	Grupo Mexico, S.A. de C.V. Series B*	3,442
Pulp and paper - 0.14%		
6,100	Kimberly-Clark de Mexico, S.A. de C.V. Series A	19,396
Railroad and landholdings - 18.73%		
48,500	Florida East Coast Industries, Inc.	2,538,005
Retail - 1.07%		
3,700	Controladora Comercial Mexicana, S.A. de C.V. Series UBC	6,295
1,380	Grupo Elektra, S.A. de C.V. Series CPO	13,070

Edgar Filing: HERZFELD CARIBBEAN BASIN FUND INC - Form N-CSR

44,612	Wal-Mart de Mexico, S.A. de C.V. Series V	125,189
Service - 0.02%		
700	Grupo Aeroportuario del Sureste, S.A. de C.V. Series B	2,373
100	Promotora Ambiental, S.A. de C.V.	96
Trucking and marine freight - 9.29%		
14,800	Grupo TMM, S.A. ADR*	60,236
700	Seaboard Corporation	896,000
41,799	Trailer Bridge, Inc.*	303,043
Utilities - 9.68%		
12,000	Caribbean Utilities Ltd. Class A	143,160
47,241	Consolidated Water, Inc.	1,161,656
700	Cuban Electric Company	7,700

-----

\*Non-income producing

See accompanying notes.

-8-

Schedule of Investments as of June 30, 2006 (continued)

=====

Shares or Principal Amount	Description	Market Value
-----		
Other - 2.82%		
3,000	Copa Holdings S.A.	\$ 67,950
55,921	Margo Caribe, Inc.	297,500
100	Mexichem S.A. de C.V.	119
843	Siderurgica Venezolana Sivensa ADR	3,016
75	Siderurgica Venezolana Sivensa Series B	268
45,000	Xcelera, Inc.*	12,600
Total common stocks (cost \$8,425,070)		\$13,178,319
Bonds - 0% of net assets		
\$165,000	Republic of Cuba - 4.5%, 1977 - in default (cost \$63,038) (Note 2)*	--
Other assets less liabilities - 2.77% of net assets		\$ 375,174
Net Assets - 100%		\$13,553,493
		=====

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

United States of America	57.03%
Mexico	13.44%
Cayman Islands	9.63%
Other, individually under 5%	19.90%
	=====
	100.00%

-----

\*Non-income producing

Edgar Filing: HERZFELD CARIBBEAN BASIN FUND INC - Form N-CSR

See accompanying notes.

-9-

Statement of Assets and Liabilities as of June 30, 2006

=====	
ASSETS	
Investments in securities, at market value (cost \$8,488,108) (Notes 2 and 5)	\$13,178,319
Cash	313,755
Receivable for securities sold	98,977
Dividends receivable	15,215
Other assets	33,250
	-----
TOTAL ASSETS	13,639,516
LIABILITIES	
Accrued investment advisor fee (Note 3)	51,935
Other payables	34,088
	-----
TOTAL LIABILITIES	86,023
	-----
NET ASSETS (Equivalent to \$8.08 per share based on 1,677,636 shares outstanding)	\$13,553,493
	=====
Net assets consist of the following:	
Common stock, \$.001 par value; 100,000,000 shares authorized; 1,677,636 shares issued and outstanding	\$ 1,678
Additional paid-in capital	7,255,413
Accumulated net realized gain on investments (Note 5)	1,606,191
Net unrealized gain on investments (Notes 4 and 5)	4,690,211
	-----
TOTAL	\$13,553,493
	=====

See accompanying notes.

-10-

Statement of Operations  
Year Ended June 30, 2006

=====	
INVESTMENT INCOME	
Dividends	\$ 193,657
Interest	183
	-----
Total investment income	193,840
EXPENSES	
Investment advisor fees (Note 3)	\$ 196,852
Professional fees	95,440
Custodian fees	54,000



Edgar Filing: HERZFELD CARIBBEAN BASIN FUND INC - Form N-CSR

Insurance	27,624	
Transfer agent fees	17,500	
Printing, postage and proxy services	15,638	
Listing fees	15,000	
Salaries	12,918	
Director fees	7,000	
Other	16,715	
	-----	
Total investment expenses		458,687
		-----
INVESTMENT LOSS - NET		(264,847)
REALIZED AND UNREALIZED GAIN		
ON INVESTMENTS AND FOREIGN CURRENCY		
Net realized gain on investments and foreign currency	2,021,250	
Net increase (decrease) in unrealized appreciation (depreciation) on investments and foreign currency	(201,615)	
	-----	
NET GAIN ON INVESTMENTS		1,819,635
		-----
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS		\$ 1,554,788
		=====

See accompanying notes.

-11-

Statements of Changes in Net Assets  
Years Ended June 30, 2006 and 2005

	2006	2005
=====		
INCREASE IN NET ASSETS RESULTING FROM OPERATIONS:		
Net investment loss	\$ (264,847)	\$ (155,794)
Net realized gain on investments and foreign currency	2,021,250	700,005
Net increase (decrease) in unrealized appreciation (depreciation) on investments and foreign currency	(201,615)	2,638,583
	-----	-----
NET INCREASE IN NET ASSETS resulting from operations	1,554,788	3,182,794
DISTRIBUTIONS TO SHAREHOLDERS:		
Long-term realized gains	(293,251)	--
	-----	-----
TOTAL INCREASE IN NET ASSETS	1,261,537	3,182,794
NET ASSETS:		
Beginning of year	12,291,956	9,109,162
	-----	-----
End of year	\$ 13,553,493	\$ 12,291,956
	=====	=====

See accompanying notes.

Edgar Filing: HERZFELD CARIBBEAN BASIN FUND INC - Form N-CSR

-12-

Financial Highlights  
Years Ended June 30, 2002 through 2006

	2006	2005	2004	2003
<b>PER SHARE OPERATING PERFORMANCE</b>				
(For a share of capital stock outstanding for the year)				
Net asset value, beginning of year	\$ 7.33	\$ 5.43	\$ 3.95	\$ 2.80
Operations:				
Net investment loss(1)	(0.16)	(0.09)	(0.07)	(0.07)
Net realized and unrealized gain (loss) on investment transactions(1)	1.08	1.99	1.55	1.55
Total from operations	0.92	1.90	1.48	1.48
Distributions:				
From net investment income	--	--	--	--
From net realized gains	(0.17)	--	--	--
Total distributions	(0.17)	--	--	--
Net asset value, end of year	\$ 8.08	\$ 7.33	\$ 5.43	\$ 2.80
Per share market value, end of year	\$ 7.57	\$ 6.30	\$ 4.87	\$ 3.50
Total investment return (loss) based on market value per share	22.86%	29.36%	39.54%	39.54%
<b>RATIOS AND SUPPLEMENTAL DATA</b>				
Net assets, end of year (in 000's)	\$ 13,553	\$ 12,292	\$ 9,109	\$ 6,000
Ratio of expenses to average net assets	3.37%	3.55%	3.67%	3.67%
Ratio of net investment loss to average net assets	(1.95%)	(1.47%)	(1.39%)	(1.39%)
Portfolio turnover rate	40%	30%	23%	23%

(1) Computed by dividing the respective year's amounts from the Statement of Operations by the average outstanding shares for each year presented.

See accompanying notes.

Notes to Financial Statements

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 policy is to invest at least 80% of its assets in investments that are economically tied to Caribbean Basin Countries. 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. 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, 2006, the Fund had foreign investments in companies operating principally in Mexico and the Cayman Islands representing approximately 13% and 10% of the Fund's net assets, respectively.

The Fund's custodian and transfer agent is Investors Bank & Trust Company ("IBTC"), based in Boston, Massachusetts.

Security Valuation

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 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.

Notes to Financial Statements

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, IBTC receives a fee reduced by credits which are determined based on the average daily cash balance

## Edgar Filing: HERZFELD CARIBBEAN BASIN FUND INC - Form N-CSR

the Fund maintains with IBTC. Credit balances used to reduce the Fund's custodian fees for the year ended June 30, 2006, were approximately \$4,700. 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.

### 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.

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 tax provision is required.

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

-15-

### Notes to Financial Statements

=====

#### 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.

#### NOTE 2. NON-MARKETABLE SECURITY OWNED

Investments in securities, at market value include \$165,000 principal, 4.5%, 1977 Republic of Cuba bonds purchased for \$63,038. The bonds are 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. As of June 30, 2006, the position was valued at \$0 by the Board of Directors, which approximates the bonds' fair value.

#### 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, 2006 amounted to \$196,852 of which \$51,935 is payable at year end.

## Edgar Filing: HERZFELD CARIBBEAN BASIN FUND INC - Form N-CSR

During the year ended June 30, 2006, the Fund paid approximately \$15,800 of brokerage commissions to Thomas J. Herzfeld & Co., Inc., an affiliate of the Advisor, at an average cost per share of \$0.06.

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

### NOTE 4. INVESTMENT TRANSACTIONS

During the year ended June 30, 2006, purchases and sales of investment securities were \$5,381,331 and \$4,542,209, respectively.

At June 30, 2006, the Fund's investment portfolio had gross unrealized gains of \$5,258,688 and gross unrealized losses of \$568,477, resulting in a net unrealized gain of \$4,690,211.

-16-

### Notes to Financial Statements

=====

### NOTE 5. INCOME TAX INFORMATION

On November 10, 2005, a long-term capital gain distribution of \$293,251 (\$0.1748 per share) was declared. The distribution was paid on January 13, 2006 to shareholders of record on December 30, 2005.

For financial statement purposes, the Fund's net investment loss for the year ended June 30, 2006 differs from the net investment loss for tax purposes due to the tax characterization of certain dividends received by the Fund. Realized gains differ for financial statement and tax purposes primarily due to differing treatments of wash sales and the tax characterization of certain dividends received by the Fund.

The cost basis of securities owned for financial statement purposes is lower than the cost basis for income tax purposes by \$10,908 due to wash sale adjustments.

As of June 30, 2006, undistributed realized gains were \$1,617,099, gross unrealized gains were \$5,247,780, and gross unrealized losses were \$568,477 for income tax purposes.

Permanent differences accounted for during the year ended June 30, 2006 result from differences between book and tax accounting. Such amounts have been reclassified as follows:

	Accumulated Net Investment Loss	Accumulated Net Realized Gain on Investments	Additional Paid in Capital
Year ended June 30, 2006	\$ 264,847	\$ (216,144)	\$ (48,703)
Prior period	1,400,781	(342,395)	(1,058,386)

-17-

## Edgar Filing: HERZFELD CARIBBEAN BASIN FUND INC - Form N-CSR

### Directors and Officers of the Fund

Name Address Age	Position(s) Held with Fund	Term of Office and Length of Time Served	Principal Occupation(s) During Past 5 Years
<b>Officers</b>			
Thomas J. Herzfeld PO Box 161465 Miami, FL 33116 Age: 61	President, Chairman, Director	three years; 1993 to present	Chairman and President of Thomas J. Herzfeld & Co., Inc., a broker dealer, and Thomas J. Herzfeld Advisors, Inc.
Cecilia L. Gondor PO Box 161465 Miami, FL 33116 Age: 44	Secretary, Treasurer	1993 to present	Executive Vice President of Thomas J. Herzfeld & Co., Inc., a broker dealer, and Thomas J. Herzfeld Advisors, Inc.
<b>Independent Directors</b>			
Ann S. Lieff c/o The Herzfeld Caribbean Basin Fund, Inc. PO Box 161465 Miami, FL 33116 Age: 54	Director	three years; 1998 to present	President of the Lieff Company, a management consulting firm that offers ongoing advisory services as a corporate director to several leading regional and national retail operations, 1998-present; former CEO Spec's Music 1980-1998, a retailer of recorded music.
Michael A. Rubin c/o The Herzfeld Caribbean Basin Fund, Inc. PO Box 161465 Miami, FL 33116 Age: 64	Director	three years; 2002 to present	Partner of Michael A. Rubin P.A., attorney at law; Broker, Oaks Management & Real Estate Corp., a real estate corporation
Albert L. Weintraub c/o The Herzfeld Caribbean Basin Fund, Inc. PO Box 161465 Miami, FL 33116 Age: 76	Director	three years; 1999 to present	Senior Partner of Weintraub, Weintraub; of counsel Orshan et al, attorneys; Chairman of E-Lysium Transaction Systems, Inc., an application service provider of transaction processing, billing and payment systems

-18- and -19-

Certified

Rothstein, Kass & Company LLP

Beverly Hills

Edgar Filing: HERZFELD CARIBBEAN BASIN FUND INC - Form N-CSR

Public	500 Ygnacio Valley Road, Suite 200	Dallas
Accountants	Walnut Creek, CA 94596	Denver
	tel 925.946.1300	Grand Cayman
	fax 925.947.1700	New York
	www.rkco.com	Roseland
		San Francisco
		Walnut Creek

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, 2006, and the related statements of operations and changes in net assets and the financial highlights for the year 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 audit. The statements of changes in net assets and the financial highlights for the year ended June 30, 2005 and the financial highlights for each of the years in the four-year period ended June 30, 2005 were audited by an independent registered public accounting firm whose report dated July 14, 2005 expressed an unqualified opinion on those statements and the financial highlights.

We conducted our audit 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 whether the financial statements and financial highlights are free of material misstatement. An audit includes 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, 2006, by correspondence with the custodian. 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2006 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, 2006, and the results of its operations, changes in net assets and financial highlights for the year then ended, in conformity with accounting principles generally accepted in the United State of America.

/s/ ROTHSTEIN, KASS & COMPANY, LLP

Walnut Creek, California  
July 14, 2006

Affiliated Offices Worldwide

AGN  
International  
[LOGO]

Privacy Policy

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.

Quarterly Portfolio Reports

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](http://www.herzfeld.com), 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.

Proxy Voting Policies and Procedures

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.



Change in Certifying Accountant

=====

On February 14, 2006, the Audit Committee approved Rothstein, Kass & Company LLP to serve as the Fund's independent registered public accounting firm for the fiscal year ending June 30, 2006, replacing Kaufman, Rossin & Co. P.A., the Fund's prior independent registered public accounting firm, which resigned on February 7, 2006.

THE HERZFELD CARIBBEAN BASIN FUND, INC.  
The Herzfeld Building  
P.O. Box 161465  
Miami, FL 33116

ITEM 2. CODE OF ETHICS

(a) The registrant, as of the end of the period covered by this report, has adopted a code of ethics that applies to the registrant's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, regardless of whether these individuals are employed by the registrant or a third party.

(c) There have been no amendments, during the period covered by this report, to a provision of the code of ethics that applies to the registrant's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, regardless of whether these individuals are employed by the registrant or a third party, and that relates to any element of the code of ethics description.

(d) The registrant has not granted any waivers, including an implicit waiver, from a provision of the code of ethics that applies to the registrant's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, regardless of whether these individuals are employed by the registrant or a third party, that relates to one or more of the items set forth in paragraph (b) of this item's instructions.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

As of the end of the period covered by the report, the registrant's board of directors has determined that Albert L. Weintraub is an "audit committee financial expert" serving on its audit committee and that he is "independent" as such terms are defined by Item 3 of Form N-CSR.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

(a) - (d)  
Set forth in the table below are audit fees and non-audit related fees billed to the registrant by its principal accountant (the "Auditor") for the audit of the registrant's annual financial statements and services provided by the Auditor in connection with statutory and regulatory filings during and for the Registrant's fiscal years ended June 30, 2005 and 2006.

## Edgar Filing: HERZFELD CARIBBEAN BASIN FUND INC - Form N-CSR

Fiscal Year Ended June 30,	Audit Fees	Audit-Related Fees	Tax Fees (1)	All Other Fees (2)
2005	\$24,000	\$ 0	\$4,000	\$3,054
2006	\$37,500	\$6,000	\$5,000	\$ 0

(1) These fees related to services consisting of the review or preparation of U.S. federal, state, local and excise tax returns

(2) These fees related to services consisting of accounting consultations, agreed upon procedure reports, attestation reports, comfort letters and review of statutory and regulatory filings.

(e) The registrant's Audit Committee charter requires that the Audit Committee pre-approve all auditing services and non-audit services (including the fees for such services and terms thereof) to be performed for the registrant by its Auditor, and the committee has not adopted pre-approval policies and procedures, although it may determine to do so in the future. The engagement to render auditing and non-auditing services would be presented to and pre-approved by the Audit Committee. All of the audit, audit-related and tax services described above for which the Auditor billed the registrant fees for the fiscal years ended June 30, 2005 and 2006 were pre-approved by the Audit Committee.

(f) Not applicable.

(g) The aggregate non-audit fees bills by the registrant's Auditor for services rendered to the registrant, and rendered to the registrant's investment adviser, and any entity controlling, controlled by, or under common control with the adviser that provides ongoing services to the registrant for each of the last two fiscal years of the registrant were \$33,582 for 2005 and \$0 for 2006.

(h) Not applicable.

### ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

(a) The registrant has a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. The registrant's audit committee is comprised of Albert L. Weintraub, Ann S. Lieff, and Michael A. Rubin.

(b) Not applicable.

### ITEM 6. SCHEDULE OF INVESTMENTS.

Not applicable as schedule is included as part of the report to shareholders filed under Item 1 of this Form.

### ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

A copy of the registrant's proxy voting policies and procedures as well as its adviser's policies and procedures are attached hereto as Appendix A.

### ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

(a)(1) Thomas J. Herzfeld, Chairman and President of The Herzfeld Caribbean Basin Fund, Inc. serves as the portfolio manager of the Fund and has held this position since its inception in 1993. This information is as of August 17, 2006.

(a)(2)(i) and (ii) Mr. Herzfeld is also portfolio manager for approximately 49

## Edgar Filing: HERZFELD CARIBBEAN BASIN FUND INC - Form N-CSR

private clients, however, none with an investment focus of investing in the Caribbean Basin. The Fund is the only investment company managed by Mr. Herzfeld; the Fund has total assets of approximately \$13 million. Other accounts have total assets of approximately \$51 million.

(a) (2) (iii) No accounts are charged fees based on performance. For accounts other than the Fund, fees are calculated as a percentage of the value of assets under management at the end of each quarter.

(a) (2) (iv) The Fund does not believe that any material conflicts are likely to arise through Mr. Herzfeld's management of other accounts in addition to the Fund in that there is very little overlap in the type of investments made for the Fund and other accounts, which generally trade shares of closed-end funds. The Fund is permitted, to a limited extent, to buy shares of other closed-end funds and occasionally other clients or Mr. Herzfeld may buy shares of securities also held in the portfolio of the Fund. The advisor and the Fund have adopted procedures overseen by the Chief Compliance Officer ("CCO") intended to monitor compliance with such policies which include conflicts which may occur regarding allocation of investment opportunities between the Fund and other account. The CCO of the Fund reports directly to the Board of Directors at least annually.

(3) Mr. Herzfeld receives no direct compensation from the Fund for his services as Portfolio Manager. Mr. Herzfeld is 100% owner of the Advisor, a Subchapter S Corporation, therefore he profits from the success of the Advisor and is taxed on its profits.

(4) (a) Range of value of shares of the Fund owned by Mr. Herzfeld as of June 30, 2006: \$100,001-\$500,000.

(4) (b) Range of value of shares of the Fund owned by Mr. Herzfeld as of the date of this filing: \$100,001-\$500,000.

### ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED-END FUND MANAGEMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maxim of Shares Yet Be P Under the Prog
Month #1 (beginning January 1, 2006 and ending January 31, 2006)	0	n/a	n/a	n
Month #2 (beginning February 1, 2006 and ending February 28, 2006)	0	n/a	n/a	n
Month #3 (beginning March 1, 2006 and ending March 31, 2006)	0	n/a	n/a	n

## Edgar Filing: HERZFELD CARIBBEAN BASIN FUND INC - Form N-CSR

Month #4 (beginning April 1, 2006 and ending April 30, 2006)	0	n/a	n/a	n
Month #5 (beginning May 1, 2006 and ending May 31, 2006)	4,404*	\$7.29815	n/a	n
Month #6 (beginning June 1, 2006 and ending June 30, 2006)	0	n/a	n/a	n
<b>Total</b>	<b>4,404*</b>	<b>\$7.29815</b>	<b>n/a</b>	<b>n</b>

\* These shares were purchased by Thomas J. Herzfeld for his account on the open market. Mr. Herzfeld is a director and officer of the Registrant and a controlling person of the Registrant's investment adviser. Accordingly, Mr. Herzfeld is an "affiliated purchaser" of the Registrant's shares as such term is defined by Rule 10b-18(a)(3) under the Exchange Act of 1934.

### ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

There have been no material changes to the procedures by which the stockholders may recommend nominees to the registrant's board of directors, where those changes were implemented after the registrant last provided disclosure in response to the requirements of Item 7(d)(2)(ii)(G) of Schedule 14A (17 CFR 240.14a-101), or this Item.

### ITEM 11. CONTROLS AND PROCEDURES.

(a) The registrant's principal executive and principal financial officers, or persons performing similar functions, have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act") (17 CFR 270.30a-3(c))) are effective, as of a date within 90 days of the filing date of the report that includes the disclosure required by this paragraph, based on their evaluation of these controls and procedures required by Rule 30a-3(b) under the 1940 Act (17 CFR 270.30a-3(b)) and Rules 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934, as amended (17 CFR 240.13a-15(b) or 240.15d-15(b)).

(b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act (17 CFR 270.30a-3(d))) that occurred during the registrant's last fiscal half-year (the registrant's second fiscal half-year in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

### ITEM 12. EXHIBITS.

(a) (1) Code of ethics is filed as Exhibit 99.CodeEth to the N-CSR filing dated 8/31/05.

(a) (2) Certifications pursuant to Rule 30a-2(b) under the 1940 Act and Section 302 of the Sarbanes-Oxley Act of 2002 are filed herewith as Exhibits 99.302 Cert.

Edgar Filing: HERZFELD CARIBBEAN BASIN FUND INC - Form N-CSR

(a)(3) Not applicable.

(b) Certifications pursuant to Rule 30a-2(a) under the 1940 Act and Section 906 of the Sarbanes-Oxley Act of 2002 are filed herewith as Exhibits 99.906 Cert.

Signatures

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

The Herzfeld Caribbean Basin Fund, Inc.

By: /s/ Thomas J. Herzfeld

-----  
Thomas J. Herzfeld  
President and Chairman

Date: September 1, 2006

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

By: /s/ Thomas J. Herzfeld

-----  
Thomas J. Herzfeld  
President and Chairman

Date: September 1, 2006

By: /s/ Cecilia L. Gondor

-----  
Cecilia L. Gondor  
Secretary and Treasurer  
(Principal Financial Officer)

Date: September 1, 2006

APPENDIX A  
THE HERZFELD CARIBBEAN BASIN FUND, INC.  
Proxy Voting Policy and Procedures

The Board of Directors of The Herzfeld Caribbean Basin Fund, Inc. (the "Fund") hereby adopts the following policy and procedures with respect to voting proxies relating to portfolio securities held by the Fund:

Policy

It is the policy of the Board of Directors of the Fund (the "Board") to delegate the responsibility for voting proxies relating to portfolio securities held by the Fund to the Fund's investment adviser (the "Adviser") as a part of the Adviser's general management of the Fund, subject to the Board's continuing oversight.' The voting of proxies is an integral part of the investment management services that the Adviser provides pursuant to the advisory contract.

The Adviser may, but is not required to, delegate the responsibility for voting proxies relating to portfolio securities held by the Fund to a

## Edgar Filing: HERZFELD CARIBBEAN BASIN FUND INC - Form N-CSR

sub-adviser ("Sub-Adviser") retained to provide investment advisory services, if applicable. If such responsibility is delegated to a Sub-Adviser, then the Sub-Adviser shall assume the fiduciary duty and reporting responsibilities of the Adviser under these policy guidelines.

### Fiduciary Duty

The right to vote a proxy with respect to portfolio securities held by the Fund is an asset of the Fund. The Adviser, to which authority to vote on behalf of the Fund is delegated, acts as a fiduciary of the Fund and must vote proxies in a manner consistent with the best interest of the Fund and its shareholders.

### Procedures

The following are the procedures adopted by the Board for the administration of this policy:

A. Review of Adviser Proxy Voting Procedures. The Adviser with authority to vote proxies on behalf of the Fund shall present to the Board its policies, procedures and other guidelines for voting proxies at least annually, and must notify the Board promptly of material changes to any of these documents.

B. Voting Record Reporting. No less than annually, the Adviser shall report to the Board a record of each proxy voted with respect to portfolio securities of the Fund during the year. With respect to those proxies that the Adviser has identified as involving a conflict of interest(2), the Adviser shall submit a separate report indicating the nature of the conflict of interest and how that conflict was resolved with respect to the voting of the proxy.

### Revocation

The delegation by the Board of the authority to vote proxies relating to portfolio securities of the Fund is entirely voluntary and may be revoked by the Board, in whole or in part, at any time.

### Annual Filing

The Fund shall file an annual report of each proxy voted with respect to its portfolio securities during the twelve-month period ended June 30 on Form N-PX not later than August 31 of each year.

### Disclosures

The Fund shall include in its annual report to stockholders:

A description of this policy and of the policies and procedures used by the Adviser to determine how to vote proxies relating to portfolio securities (3); and

A statement disclosing that information regarding how the Fund voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is available without charge, upon request, by calling the Fund's toll-free telephone number and on the SEC website(4).

The Fund shall also include in its annual and semi-annual reports to stockholders:

A statement disclosing that a description of the policies and procedures used by or on behalf of the Fund to determine how to vote proxies relating to portfolio securities of the Funds is available without charge, upon request, by

## Edgar Filing: HERZFELD CARIBBEAN BASIN FUND INC - Form N-CSR

calling the Fund's toll-free telephone number and on the SEC website.(5)

A statement disclosing that information regarding how the Fund voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is available without charge, upon request, by calling the Fund's toll-free telephone number and on the SEC website.(6)

Review of Policy.

At least annually, the Board shall review this Policy to determine its sufficiency and shall make and approve any changes that it deems necessary from time to time

-----

(1) This policy is adopted for the purpose of the disclosure requirements adopted by the Securities and Exchange Commission, Release Nos. 33-8188, 34-47304, IC-25922.

(2) As it is used in this document, the term "conflict of interest" refers to a situation in which the Adviser or Sub-Adviser or affiliated persons of the Adviser or Sub-Adviser have a financial interest in a matter presented by a proxy other than the obligation it incurs as investment adviser to the Fund which compromises the Adviser's or Sub-Adviser's independence of judgment and action with respect to the voting of the proxy.

(3) This disclosure shall be included in the annual report next filed by the Fund, on Form N-CSR on or after July 1, 2003.

(4) Id.

(5) This disclosure shall be included in the report next filed by the Fund on or after July 1, 2003.

(6) Id..

THOMAS J. HERZFELD ADVISORS, INC.

PROXY VOTING

POLICIES AND PROCEDURES

### I. POLICY

Thomas J. Herzfeld Advisors, Inc. (the "Adviser") acts as discretionary investment adviser for various clients, including The Herzfeld Caribbean Basin Fund, Inc. an investment company registered under the Investment Company Act of 1940, as amended, and clients governed by the Employee Retirement Income Security Act of 1974 ("ERISA").

Selected clients, including The Herzfeld Caribbean Basin Fund, Inc. have elected to have the Adviser vote proxies or act on the other shareholder actions on their behalf, while other clients vote proxies themselves.

When voting proxies or acting on corporate actions for clients, the Adviser's utmost concern is that all decisions be made in the best interest of its clients (for ERISA accounts, plan beneficiaries and participants, in accordance with the letter and spirit of ERISA). The Adviser will act in a manner deemed prudent and diligent and which is intended to enhance the economic value of the assets of its clients' accounts.

## Edgar Filing: HERZFELD CARIBBEAN BASIN FUND INC - Form N-CSR

### II. PURPOSE

The purpose of these Policies and Procedures is to memorialize the procedures and policies adopted by the Adviser to enable it to comply with its responsibilities and the requirements of Rule 206(4)-6 under the Investment Advisers Act of 1940, as amended ("Advisers Act"). These Policies and Procedures also reflect the fiduciary standards and responsibilities set forth by the Department of Labor for ERISA accounts.

### III. PROCEDURES

Cecilia Gondor, Executive Vice President of the Adviser, is ultimately responsible for ensuring that all proxies received by the Adviser are voted in a timely manner and voted consistently across all portfolios. Although many proxy proposals can be voted in accordance with the Adviser's established guidelines (see Section V. below) (the "Guidelines"), the Adviser recognizes that some proposals require special consideration, which may dictate that the Adviser makes an exception to the Guidelines.

Cecilia Gondor is also responsible for ensuring that all corporate actions received by the Adviser are addressed in a timely manner and consistent action is taken across all portfolios.

A. Conflicts of Interest. Where a proxy proposal raises a material conflict of interest between the Adviser's interests and that of one or more its clients, the Adviser shall resolve such conflict in the manner described below.

1. Vote in Accordance with the Guidelines. To the extent that the Adviser has little or no discretion to deviate from the Guidelines with respect to the proposal in question, the Adviser shall vote in accordance with such pre-determined voting policy.

2. Obtain Consent of Clients. To the extent that the Adviser has discretion to deviate from the Guidelines with respect to the proposal in question, the Adviser shall disclose the conflict to the relevant clients and obtain their consent to the proposed vote prior to voting the securities. The disclosure to the clients will include sufficient detail regarding the matter to be voted on and the nature of our conflict that the clients would be able to make an informed decision regarding the vote. When a client does not respond to such a conflict disclosure request or denies the request, the Adviser will abstain from voting the securities held by that client's account.

B. Limitations. In certain circumstances, in accordance with a client's investment advisory contract (or other written directive) or where the Adviser has determined that it is in the client's best interest, the Adviser will not vote proxies received. The following are some circumstances where the Adviser will limit its role in voting proxies received on client securities:

1. Client Maintains Proxy Voting Authority: Where a client has not specifically delegated the authority to vote proxies to the Adviser or that it has delegated the right to vote proxies to a third party, the Adviser will not vote the securities and will direct the relevant custodian to send the proxy material directly to the client. If any proxy material is received by the Adviser, it will promptly be forwarded to the client.

2. Terminated Account: Once a client account has been terminated with the Adviser in accordance with its investment advisory agreement, the Adviser will not vote any proxies received after the termination. However, the client may specify in writing that proxies should be directed to the client for



## Edgar Filing: HERZFELD CARIBBEAN BASIN FUND INC - Form N-CSR

action.

3. Limited Value: If the Adviser concludes that the client's economic interest or the value of the portfolio holding is indeterminable or insignificant, the Adviser will abstain from voting a client's proxies. The Adviser does not vote proxies received for securities which are no longer held by the client's account. In addition, the Adviser generally does not vote securities where the economic value of the securities in the client's account is less than \$500.

4. Securities Lending Programs: When securities are out on loan, they are transferred into the borrower's name and are voted by the borrower, in its discretion. However, where the Adviser determines that a proxy vote (or shareholder action) is materially important to the client's account, the Adviser may recall the security.

5. Unjustifiable Costs: In certain circumstances, after doing a cost-benefit analysis, the Adviser may abstain from voting where the cost of voting a client's proxy would exceed any anticipated benefits of the proxy proposal.

#### IV. RECORD KEEPING

In accordance with Rule 204-2 under the Advisers Act, the Adviser will maintain for the time periods set forth in the Rule (i) these proxy voting procedures and policies, and amendments thereto; (ii) all proxy statements received regarding client securities (provided however, that the Adviser may rely on the proxy statement filed on EDGAR as its records) [1]; (iii) a record of votes cast on behalf of clients; (iv) records of client requests for proxy voting information; (v) any documents prepared by the adviser that were material to making a decision how to vote or that memorialized the basis for the decision; and (vi) records relating to requests made to clients regarding conflicts of interest in voting the proxy.

The Adviser will describe in its Part II of Form ADV (or other brochure fulfilling the requirement of Rule 204-3) its proxy voting policies and procedures and advising clients how they may obtain information on how the Adviser voted their securities. Clients may obtain information on how their securities were voted or a copy of our Policies and Procedures by written request addressed to the Adviser.

#### V. GUIDELINES

Each proxy issue will be considered individually. The following guidelines are a partial list to be used in voting proposals contained in the proxy statements, but will not be used as rigid rules.

-----  
[1] Because the Adviser primarily invests its clients' assets in securities of foreign issuers, the Adviser generally has not been receiving proxy statements from such issuers because the laws of the countries in which these issuers are domiciled respecting delivery of proxy statements to shareholders are different than those of the U.S.

-----

## Edgar Filing: HERZFELD CARIBBEAN BASIN FUND INC - Form N-CSR

- (1) Issues regarding the issuer's Board entrenchment and anti-takeover measures such as the following:
- b. Proposals to limit the ability of shareholders to call special meetings;
  - c. Proposals to require super majority votes;
  - d. Proposals requesting excessive increases in authorized common or preferred shares where management provides no explanation for the use or need for these additional shares;
  - e. Proposals regarding "poison pill" provisions; and
  - f. Permitting "green mail".

- 
- (1) Providing cumulative voting rights. Opp
- 
- (2) "Social issues," unless specific client guidelines supersede, e.g., restrictions regarding South Africa. Opp
- 
- (3) Election of directors recommended by management, except if there is a proxy fight. App
- 
- (4) Election of auditors recommended by management, unless seeking to replace if Approve there exists a dispute over policies. App
- 
- (5) Date and place of annual meeting. App
- 
- (6) Limitation on charitable contributions or fees paid to lawyers. App
- 
- (7) Ratification of directors' actions on routine matters since previous annual meeting. App
- 
- (8) Confidential voting App

Confidential voting is most often proposed by shareholders as a means of eliminating undue management pressure on shareholders regarding their vote on proxy issues.

The Adviser will generally approve these proposals as shareholders can later divulge their votes to management on a selective basis if a legitimate reason arises.

- 
- (9) Limiting directors' liability App
- 
- (10) Eliminate preemptive right App

Preemptive rights give current shareholders the opportunity to maintain their current percentage ownership through any subsequent equity offerings. These provisions are no longer common in the U.S., and can restrict management's ability to raise new capital.

The Adviser approves the elimination of preemptive rights, but will oppose the elimination of limited preemptive rights, e.g., on proposed issues representing more than an acceptable level of total dilution.

- 
- (11) Employee Stock Purchase Plan App
- 
- (12) Establish 401(k) Plan App
- 
- (13) Rotate annual meeting location/date App

Edgar Filing: HERZFELD CARIBBEAN BASIN FUND INC - Form N-CSR

(14)	Establish a staggered Board	App
(15)	Eliminate director mandatory retirement policy	Case-b
(16)	Option and stock grants to management and directors	Case-b
(17)	Allowing indemnification of directors and/or officers after reviewing the Case-by-Case applicable laws and extent of protection requested.	Case-b