

Limoneira CO  
Form 10-Q  
June 10, 2013

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

**(Mark One)**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**FOR THE QUARTERLY PERIOD ENDED APRIL 30, 2013**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934**

**FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_**

**Commission File Number: 001-34755**



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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

As of May 31, 2013, there were 13,305,931 shares outstanding of the registrant's common stock.

**LIMONEIRA COMPANY**

**TABLE OF CONTENTS**

<b>PART I. FINANCIAL INFORMATION</b>	<b>4</b>
Item 1. Financial Statements (unaudited)	4
Consolidated Balance Sheets – April 30, 2013 and October 31, 2012	4
Consolidated Statements of Operations - three and six months ended April 30, 2013 and 2012	5
Consolidated Statements of Comprehensive Income (Loss) - three and six months ended April 30, 2013 and 2012	6
Consolidated Statements of Cash Flows - six months ended April 30, 2013 and 2012	7
Notes to Consolidated Financial Statements	10
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	23
Item 3. Quantitative and Qualitative Disclosures About Market Risk	42
Item 4. Controls and Procedures	42
<b>PART II. OTHER INFORMATION</b>	<b>43</b>
Item 1. Legal Proceedings	43
Item 1A. Risk Factors	43
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	43
Item 3. Defaults Upon Senior Securities	43
Item 4. Mine Safety Disclosures	43
Item 5. Other Information	43
Item 6. Exhibits	44
<b>SIGNATURES</b>	<b>45</b>



**Cautionary Note on Forward-Looking Statements.**

*This Quarterly Report on Form 10-Q contains both historical and forward-looking statements. Forward-looking statements in this 10-Q are subject to a number of risks and uncertainties, some of which are beyond the Company's control. The potential risks and uncertainties that could cause our actual financial condition, results of operations and future performance to differ materially from those expressed or implied include:*

*changes in laws, regulations, rules, quotas, tariffs and import laws;*

*weather conditions, including freezes, that affect the production, transportation, storage, import and export of fresh produce;*

*market responses to industry volume pressures;*

*increased pressure from disease, insects and other pests;*

*disruption of water supplies or changes in water allocations;*

*product and raw materials supplies and pricing;*

*energy supply and pricing;*

*changes in interest and current exchange rates;*

*availability of financing for land development activities;*

*general economic conditions for residential and commercial real estate development;*

*political changes and economic crises;*

*international conflict;*

*acts of terrorism;*

*labor disruptions, strikes or work stoppages;*

*loss of important intellectual property rights; and*

*other factors disclosed in our public filings with the Securities and Exchange Commission.*

*The Company's actual results, performance, prospects or opportunities could differ materially from those expressed in or implied by the forward-looking statements. Additional risks of which the Company is not currently aware or which the Company currently deems immaterial could also cause the Company's actual results to differ, including those discussed in the section entitled "Risk Factors" included elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the fiscal year ended October 31, 2012. Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to update these forward-looking statements, even if our situation changes in the future.*

*The terms the "Company," "we," "our" and "us" as used throughout this Quarterly Report on Form 10-Q refer to Limoneira Company and its consolidated subsidiaries, unless otherwise indicated.*

PART I. FINANCIAL INFORMATIONItem 1. Financial Statements**Limoneira Company**

## Consolidated Balance Sheets (unaudited)

	April 30, 2013	October 31, 2012
Assets		
Current assets:		
Cash	\$ 34,000	\$ 11,000
Accounts receivable, net	10,246,000	4,252,000
Notes receivable – related parties	11,000	42,000
Cultural costs	1,302,000	2,254,000
Prepaid expenses and other current assets	2,770,000	2,116,000
Income taxes receivable	641,000	712,000
Total current assets	15,004,000	9,387,000
Property, plant and equipment, net	54,701,000	53,380,000
Real estate development	80,503,000	77,772,000
Equity in investments	7,283,000	8,947,000
Investment in Calavo Growers, Inc.	14,180,000	15,701,000
Notes receivable – related parties	16,000	16,000
Notes receivable	1,985,000	2,296,000
Other assets	5,455,000	5,123,000
Total assets	\$ 179,127,000	\$ 172,622,000
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 5,861,000	\$ 3,670,000
Growers payable	2,740,000	2,085,000
Accrued liabilities	2,867,000	4,017,000
Fair value of derivative instrument	359,000	1,072,000
Current portion of long-term debt	741,000	760,000
Total current liabilities	12,568,000	11,604,000
Long-term liabilities:		
Long-term debt, less current portion	59,118,000	88,875,000
Deferred income taxes	10,727,000	10,488,000



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Other long-term liabilities	9,082,000	8,953,000
Total long-term liabilities	78,927,000	108,316,000
Commitments and contingencies		
Stockholders' equity:		
Series B Convertible Preferred Stock – \$100.00 par value (50,000 shares authorized: 30,000 shares issued and outstanding at April 30, 2013 and October 31, 2012) (8.75% coupon rate)	3,000,000	3,000,000
Series A Junior Participating Preferred Stock – \$.01 par value (20,000 shares authorized: 0 issued or outstanding at April 30, 2013 and October 31, 2012)	-	-
Common Stock – \$.01 par value (19,900,000 shares authorized: 13,305,931 and 11,203,180 shares issued and outstanding at April 30, 2013 and October 31, 2012, respectively)	133,000	112,000
Additional paid-in capital	71,931,000	35,714,000
Retained earnings	14,731,000	16,398,000
Accumulated other comprehensive loss	(2,163,000 )	(2,522,000 )
Total stockholders' equity	87,632,000	52,702,000
Total liabilities and stockholders' equity	\$ 179,127,000	\$ 172,622,000

*The accompanying notes are an integral part of these unaudited consolidated financial statements.*

**Limoneira Company**

## Consolidated Statements of Operations (unaudited)

	Three months ended April 30,		Six months ended April 30,	
	2013	2012	2013	2012
<b>Revenues:</b>				
Agribusiness	\$22,190,000	\$15,046,000	\$38,488,000	\$24,248,000
Rental operations	1,055,000	1,006,000	2,091,000	1,997,000
Real estate development	41,000	44,000	89,000	88,000
Total revenues	23,286,000	16,096,000	40,668,000	26,333,000
<b>Costs and expenses:</b>				
Agribusiness	17,262,000	11,680,000	35,849,000	23,070,000
Rental operations	638,000	530,000	1,257,000	1,098,000
Real estate development	226,000	241,000	469,000	489,000
Selling, general and administrative	2,774,000	2,513,000	6,039,000	5,284,000
Total costs and expenses	20,900,000	14,964,000	43,614,000	29,941,000
Operating income (loss)	2,386,000	1,132,000	(2,946,000)	(3,608,000)
<b>Other income (expense):</b>				
Interest expense	-	(71,000)	(124,000)	(246,000)
Interest income from derivative instrument	221,000	196,000	442,000	355,000
Gain on sale of stock in Calavo Growers, Inc.	3,138,000	-	3,138,000	-
Interest income	22,000	27,000	46,000	52,000
Other (expense) income, net	(29,000)	(137,000)	388,000	208,000
Total other income	3,352,000	15,000	3,890,000	369,000
Income before income tax (provision) benefit and equity in losses of investments	5,738,000	1,147,000	944,000	(3,239,000)
Income tax (provision) benefit	(1,427,000)	(385,000)	228,000	1,195,000
Equity in losses of investments	(1,806,000)	(25,000)	(1,789,000)	(28,000)
Net income (loss)	2,505,000	737,000	(617,000)	(2,072,000)
Preferred dividends	(65,000)	(65,000)	(131,000)	(131,000)
Net income (loss) applicable to common stock	\$2,440,000	\$672,000	\$(748,000)	\$(2,203,000)
Basic net income (loss) per common share	\$0.19	\$0.06	\$(0.06)	\$(0.20)
Diluted net income (loss) per common share	\$0.19	\$0.06	\$(0.06)	\$(0.20)
Dividends per common share	\$0.04	\$0.03	\$0.08	\$0.06
Weighted-average common shares outstanding-basic	12,789,000	11,201,000	12,114,000	11,203,000
Weighted-average common shares outstanding-diluted	12,789,000	11,201,000	12,114,000	11,203,000

*The accompanying notes are an integral part of these unaudited consolidated financial statements.*

**Limoneira Company**

## Consolidated Statements of Comprehensive Income (Loss) (unaudited)

	Three months ended		Six months ended	
	April 30,		April 30,	
	2013	2012	2013	2012
Net income (loss)	\$2,505,000	\$737,000	\$(617,000)	\$(2,072,000)
Other comprehensive income (loss), net of tax:				
Minimum pension liability adjustment	155,000	124,000	310,000	246,000
Unrealized holding gains (losses) on security available-for-sale	(442,000 )	592,000	78,000	2,446,000
Unrealized gains (losses) from derivative instruments	(255,000 )	71,000	(29,000 )	(912,000 )
Total other comprehensive income (loss), net of tax	(542,000 )	787,000	359,000	1,780,000
Comprehensive income (loss)	\$1,963,000	\$1,524,000	\$(258,000)	\$(292,000 )

*The accompanying notes are an integral part of these unaudited consolidated financial statements.*

**Limoneira Company**

## Consolidated Statements of Cash Flows (unaudited)

	Six months ended April 30,	
	2013	2012
<b>Operating activities</b>		
Net loss	\$(617,000 )	\$(2,072,000 )
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,087,000	1,066,000
Gain on sale of stock in Calavo Growers, Inc.	(3,138,000 )	-
Loss on disposals/sales of assets	-	205,000
Stock compensation expense	551,000	451,000
Equity in losses of investments	1,789,000	28,000
Amortization of deferred financing costs	20,000	21,000
Non-cash interest income on derivative instruments	(442,000 )	(355,000 )
Accrued interest on notes receivable	(39,000 )	(39,000 )
Changes in operating assets and liabilities:		
Accounts and notes receivable	(6,199,000 )	(4,693,000 )
Cultural costs	952,000	(195,000 )
Prepaid expenses and other current assets	(605,000 )	(866,000 )
Income taxes receivable	71,000	(795,000 )
Other assets	(121,000 )	(96,000 )
Accounts payable and growers payable	2,278,000	3,872,000
Accrued liabilities	(1,292,000 )	328,000
Other long-term liabilities	326,000	116,000
Net cash used in operating activities	(5,379,000 )	(3,024,000 )
<b>Investing activities</b>		
Capital expenditures	(4,692,000 )	(3,774,000 )
Net proceeds from sale of stock in Calavo Growers, Inc.	4,788,000	-
Equity investment contributions	(125,000 )	(98,000 )
Collection of note receivable	350,000	-
Investments in mutual water companies and water rights	(16,000 )	(15,000 )
Other	-	(15,000 )
Net cash provided by (used in) investing activities	305,000	(3,902,000 )
<b>Financing activities</b>		
Borrowings of long-term debt	34,540,000	18,695,000
Repayments of long-term debt	(64,316,000)	(10,846,000)
Dividends paid – Common	(919,000 )	(700,000 )
Dividends paid – Preferred	(131,000 )	(131,000 )
Net proceeds from issuance of common stock	35,923,000	-
Repurchase of common stock	-	(6,000 )
Payments of debt financing costs	-	(91,000 )
Net cash provided by financing activities	5,097,000	6,921,000

Net increase (decrease) in cash	23,000	(5,000	)
Cash at beginning of period	11,000	21,000	
Cash at end of period	\$34,000	\$16,000	

*The accompanying notes are an integral part of these unaudited consolidated financial statements.*

**Limoneira Company****Consolidated Statements of Cash Flows (unaudited) (continued)**

Six months ended April 30, 2013		Shellproof Limited*	2,498
Leisure - 8.38%			
33,500	Carnival Corp.	1,061,615	
31,500	Royal Caribbean Cruises Ltd.	796,320	
5,000	Steiner Leisure Ltd.*	198,800	
Medical - 0.23%			
8,386	Micromet Inc.*	55,851	
Mining - 5.92%			
18,000	Freeport McMoran Copper & Gold, Inc.	1,445,220	
3,863	Grupo MŽxico, S.A.B. de C.V., Series B	8,836	
Pulp and paper - 0.11%			
6,100	Kimberly-Clark de MŽxico, S.A.B. de C.V. Series A	27,364	

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\*Non-income producing

See accompanying notes.

## Schedule of Investments as of December 31, 2009 (continued)

Shares or Principal Amount	Description	Fair Value
Railroad - 4.31%		
16,000	Norfolk Southern Corporation	\$838,720
18,000	Rail America, Inc.*	219,600
Retail - 1.07%		
1,270	Grupo Elektra, S.A. de C.V. Series CPO	61,382
45,111	Wal-Mart de MŽxico, S.A.B. de C.V. Series V	201,447
Service - 0.01%		
700	Grupo Aeroportuario del Sureste, S.A.B. de C.V. Series B	3,635
Trucking and marine freight - 11.94%		
12,280	Grupo TMM, S.A.B. ADR*	46,173
1,201	Seaboard Corporation	1,620,149
2,000	Seacor Holdings, Inc.*	152,500
20,000	Teekay Corporation	464,200
8,361	Teekay LNG Partners L.P.	221,316
66,797	Trailer Bridge, Inc.*	317,286
23,000	Ultrapetrol Bahamas Ltd.*	109,480
Utilities - 6.97%		
12,000	Caribbean Utilities Ltd. Class A	99,120
66,841	Consolidated Water, Inc.	955,158
700	Cuban Electric Company*	385
40,500	Teco Energy Inc.	656,910
Other - 0.32%		
100,000	Cuba Business Development (Note 2)*	25,000
13,000	Impellam Group*	13,645
55,921	Margo Caribe, Inc.*	39,145
895	Siderurgica Venezolana Sivensa, S.A. ADR	448
79	Siderurgica Venezolana Sivensa, S.A. Series B	40
45,000	Xcelera, Inc. (Note 2)*	--
Total common stocks (cost \$22,310,097)		\$21,480,933

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\*Non-income producing

See accompanying notes.



## Schedule of Investments as of December 31, 2009 (continued)

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)*		\$—
U.S. Treasury Obligations - 8.15% of net assets		
\$2,000,000	U.S. Treasury Bills due 3/18/2010, 0% coupon	\$1,999,979
Total U.S. Treasury Bills (cost \$1,999,975)		\$1,999,979
Other assets less liabilities - 4.33% of net assets		\$1,062,964
Net assets - 100%		\$24,543,876

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

United States of America	47.76	%
Mexico	17.44	%
Panama	8.31	%
Other, individually under 5%**	26.49	%
	100.00	%

\*Non-income producing

\*\*Amount includes other assets and liabilities of 12.56%

See accompanying notes.

Statement of Assets and Liabilities as of  
December 31, 2009 (unaudited)

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## ASSETS

Investments in securities, at market value (cost \$22,373,135) (Note 2)	\$21,480,933
Cash and equivalents	3,178,142
Dividends receivable	17,548
Other assets	33,249
<b>TOTAL ASSETS</b>	<b>24,709,872</b>

## LIABILITIES

Payable for securities purchased	\$56,079	
Accrued investment advisor fee (Note 3)	87,194	
Other payables	22,723	
<b>TOTAL LIABILITIES</b>		<b>165,996</b>
<b>NET ASSETS (Equivalent to \$6.61 per share based on 3,713,071 shares outstanding)</b>		<b>\$24,543,876</b>

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 realized loss on investments	(1,424,113 )
Net unrealized loss on investments	(892,202 )
<b>TOTAL</b>	<b>\$24,543,876</b>

See accompanying notes.

Statement of Operations Six Months  
 Ended December 31, 2009 (unaudited)

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INVESTMENT INCOME		
Dividends		\$ 188,509
EXPENSES		
Investment advisor fees (Note 3)	\$ 165,638	
Professional fees	40,402	
Custodian fees	27,000	
Insurance	22,850	
CCO Expense	13,456	
Printing and Postage	12,941	
Transfer agent fees	8,750	
Director fees	7,800	
Listing fees	7,500	
Proxy services	4,635	
Miscellaneous	5,922	
Total investment expenses		316,894
NET INVESTMENT INCOME (LOSS)		(128,385 )
REALIZED AND UNREALIZED GAIN ON INVESTMENTS AND FOREIGN CURRENCY		
Net realized gain on investments and foreign currency	1,677,661	
Net increase in unrealized appreciation on investments and foreign currency	3,113,100	
NET GAIN ON INVESTMENTS		4,790,761
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS		\$4,662,376

See accompanying notes.

## Statements of Changes in Net Assets (unaudited)

	Six Months Ended 12/31/09 (unaudited)	Year Ended 6/30/09
<b>INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS:</b>		
Net investment income (loss)	\$(128,385 )	\$(170,012 )
Net realized gain (loss) on investments and foreign currency	1,677,661	(2,917,743 )
Net increase (decrease) in unrealized appreciation (depreciation) on investments and foreign currency	3,113,100	(3,377,841 )
<b>NET INCREASE (DECREASE) IN NET ASSETS resulting from operations</b>	<b>4,662,376</b>	<b>(6,465,596 )</b>
<b>DISTRIBUTIONS TO STOCKHOLDERS</b>		
Net investment income	--	(600,032 )
Long-term realized gains	--	(183,426 )
<b>NET DISTRIBUTIONS TO STOCKHOLDERS</b>	<b>--</b>	<b>(783,458 )</b>
<b>NET INCREASE (DECREASE) IN NET ASSETS</b>	<b>\$4,662,376</b>	<b>\$(7,249,054 )</b>
<b>NET ASSETS:</b>		
Beginning of period	19,881,500	27,130,554
End of period	\$24,543,876	\$19,881,500

See accompanying notes.

## Financial Highlights

	Six Months	Year Ended June 30			
	Ended 12/31/09 (unaudited)	2009	2008	2007	2006
<b>PER SHARE OPERATING PERFORMANCE</b>					
(For a share of capital stock outstanding for each time period indicated)					
Net asset value, beginning of year	\$ 5.35	\$ 7.31	9.77	8.08	\$7.33
<b>Operations:</b>					
Net investment income (loss) <sup>1</sup>	(0.04 )	(0.05 )	0.22	(0.14 )	(0.16 )
Net realized and unrealized gain (loss) on investment transactions <sup>1</sup>	1.30	(1.70 )	(1.40 )	2.83	1.08
Total from operations	1.26	(1.75 )	(1.18 )	2.69	0.92
<b>Distributions:</b>					
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	\$ 6.61	\$ 5.35	7.31	\$9.77	\$8.08
Per share market value, end of year	\$ 6.42	\$ 6.07	7.69	\$13.59	\$7.57
Total investment return (loss) based on market value per share	5.77 %	(17.73 %)	(34.29 %)	94.61 %	22.86 %
<b>RATIOS AND SUPPLEMENTAL DATA</b>					
Net assets, end of year (in 000's)	\$ 24,544	\$ 19,882	\$27,131	\$16,481	\$13,553
Ratio of expenses to average net assets	2.82 % <sup>2</sup>	3.02 %	2.74 %	3.28 %	3.37 %
Ratio of net investment income (loss) to average net assets	(1.14 %) <sup>2</sup>	(0.84 %)	1.70 %	(1.83 %)	(1.95 %)
Portfolio turnover rate	17 %	17 %	25 %	28 %	40 %

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

2 This figure has been annualized; however, the percentage shown is not necessarily indicative of results for a full year.

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 Companies. 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 December 31, 2009, the Fund had foreign investments in companies operating principally in Mexico and Panama, representing approximately 17.44% and 8.31% of the Fund's net assets, respectively.

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

Security Valuation

The Fund adopted the provisions of SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"), effective January 1, 2008. Under SFAS No. 157, 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. SFAS No. 157 establishes 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 (continued)

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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 are stated at the last quoted bid price. Restricted securities and other securities for which

## Notes to Financial Statements (continued)

quotations are not readily available are valued at fair value as determined by the Board of Directors.

The following table summarizes the valuation of the Fund's investments by the above fair value hierarchy levels as of December 31, 2009:

LEVEL	Investments in Securities
Level 1	\$21,455,445
Level 2	\$2,000,467*
Level 3	\$25,000**

\*Includes position in U.S. Treasury Bills

\*\*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:

	Investment in Securities at Value
Balance as of 6/30/09	\$0
Unrealized gain/(loss)	(4,657)
Net purchases/(sales)	25,000
Transfer in/out of Level 3	4,657
Balance as of 12/31/09	\$25,000

## 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 six months ended December 31, 2009, were approximately \$6. 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 (continued)

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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.

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.

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 six months ended December 31, 2009, the Fund did not declare a distribution.

NOTE 2. NON-MARKETABLE 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 December 31, 2009, the position was valued at \$0 by the Board of Directors, which approximates the bonds' fair value.

Notes to Financial Statements (continued)

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Investments in securities also include 45,000 shares of Xcelera, Inc. and 20 shares of Ceramica Carabobo Class A ADR. As of December 31, 2009, the positions were valued at \$0 by the Board of Directors, which approximates the position's fair value.

In October, 2009, the Fund purchased 100,000 shares of Cuban Business Development in a private placement for \$25,000.

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 advisory fees for the six months ended December 31, 2009 amounted to \$165,638, of which \$87,194 was payable as of December 31, 2009.

During the six months ended December 31, 2009, the Fund paid \$6,555 of brokerage commissions to Thomas J. Herzfeld & Co., Inc., an affiliate of the Advisor.

NOTE 4. INVESTMENT TRANSACTIONS

During the six months ended December 31, 2009, purchases and sales of investment securities excluding U.S. Treasury bills were \$3,307,855 and \$4,590,521, respectively.

At December 31, 2009, the Fund's investment portfolio had gross unrealized gains of \$3,060,674 and gross unrealized losses of \$3,889,876, resulting in a net unrealized loss of \$892,202 for financial statement purposes.

NOTE 5. INCOME TAX INFORMATION

As of June 30, 2009, for tax purposes the Fund's undistributed net investment loss was \$0 and its undistributed realized loss ("capital loss carryforward") on investments was \$1,256,393. This capital loss carryforward will expire, if unutilized, as of December 31, 2017. Additionally, the Fund had post October capital losses as of June 30, 2009, which was deferred until 2010 for tax purposes, of \$1,220,594.

For financial statement purposes, the Fund's net investment loss for the six months ended December 31, 2009 does not differ from the net investment loss for tax purposes. Realized gains can differ for financial statement and tax purposes primarily due to differing treatments of wash sales. The cost basis of securities owned for financial statement purposes was equal to the cost basis for income tax purposes during the period as there were no wash sale adjustments. For the six months ended December 31, 2009, the Fund had net realized gain of \$1,677,661.

In June, 2006, FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes -- an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with FASB Statement No. 109, "Accounting for Income Taxes." This interpretation prescribes

Notes to Financial Statements (continued)

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a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006, and was adopted by the Fund on July 1, 2007. The adoption had no effect on the Fund's financial statements.

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 December 31, 2009.

The Fund files income tax returns in the U.S. federal jurisdiction and various states jurisdictions. The tax years ended 2007 to 2009 are open and may be subject to examination by U.S. federal, state and local income tax authorities.

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.

Notes to Financial Statements (continued)

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NOTE 7: SUBSEQUENT EVENT

Management has evaluated the impact of all subsequent events on the Fund through February 16, 2010, the date the financial statements were available for issuance, and has determined that there were no subsequent events requiring recognition or disclosure in the financial statements.

Dividend Reinvestment Plan

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Registered holders (“Stockholders”) of shares of common stock, \$0.001 par value (“Common Stock”) of Herzfeld Caribbean Basin Fund, Inc. (the “Fund”) will automatically be enrolled (“Participants”) in the Fund’s Dividend Reinvestment Plan (the “Plan”) and are advised as follows:

1. State Street Bank & Trust Company (the “Agent”) will act as agent for each Participant. The Agent will open an account for each registered shareholder as a Participant under the Plan in the same name in which such Participant’s shares of Common Stock are registered.
2. CASH OPTION. Pursuant to the Fund’s Plan, unless a holder of Common Stock otherwise elects, all dividend and capital gains distributions payable in cash (“Distributions”) will be automatically reinvested by the Agent in additional Common Stock of the Fund. Stockholders who elect not to participate in the Plan will receive all cash distributions in cash paid by check mailed directly to the shareholder of record (or, if the shares are held in street or other nominee name then to such nominee) by the Agent, as dividend paying agent. Stockholders and Participants may elect not to participate in the Plan and to receive all cash distributions of dividends and capital gains in cash by sending written instructions to the Agent, as dividend paying agent, at the address set forth below.
3. MARKET PREMIUM ISSUANCES. If on the payment date for a Distribution, the net asset value per Common Stock is equal to or less than the market price per Common Stock plus estimated brokerage commissions, the Agent shall receive newly issued Common Stock (“Additional Common Stock”) from the Fund for each Participant’s account. The number of Additional Common Stock to be credited shall be determined by dividing the dollar amount of the Distribution by the greater of (i) the net asset value per Common Share on the payment date, or (ii) 95% of the market price per Common Share on the payment date.
4. MARKET DISCOUNT PURCHASES. If the net asset value per Common Stock exceeds the market price plus estimated brokerage commissions on the payment date for a Distribution, the Agent (or a broker-dealer selected by the Agent) shall endeavor to apply the amount of such Distribution on each Participant’s Common Stock to purchase Common Stock on the open market. In the event of a market discount on the payment date, the Agent will have 30

days after the dividend payment date (the “last purchase date”) to invest the dividend amount in shares acquired in open-market purchases. The weighted average price (including brokerage commissions) of all Common Stock purchased by the

- 19 -

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Dividend Reinvestment Plan (continued)

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Agent as Agent shall be the price per Common Stock allocable to each Participant. If, before the Agent has completed its purchases, the market price plus estimated brokerage commissions exceeds the net asset value of the Common Stock as of the payment date, the purchase price paid by Agent may exceed the net asset value of the Common Stock, resulting in the acquisition of fewer Common Stock than if such Distribution had been paid in Common Stock issued by the Fund. Because of the foregoing difficulty with respect to open-market purchases, the Plan provides that if the Plan Agent is unable to invest the full dividend amount in open-market purchases during the purchase period or if the market discount shifts to a market premium during the purchase period, the Plan Agent may cease making open-market purchases and may invest the uninvested portion of the dividend amount in newly issued Common Stock at the net asset value per Common Stock at the close of business on the last purchase date. Participants should note that they will not be able to instruct the Agent to purchase Common Stock at a specific time or at a specific price. Open-market purchases may be made on any securities exchange where Common Stock are traded, in the over-the-counter market or in negotiated transactions, and may be on such terms as to price, delivery and otherwise as the Agent shall determine. Each Participant's uninvested funds held by the Agent will not bear interest. The Agent shall have no liability in connection with any inability to purchase Common Stock within the time provided, or with the timing of any purchases effected. The Agent shall have no responsibility for the value of Common Stock acquired. The Agent may commingle Participants' funds to be used for open-market purchases of the Fund's shares and the price per share allocable to each Participant in connection with such purchases shall be the average price (including brokerage commissions and other related costs) of all Fund shares purchased by Agent. The rules and regulations of the Securities and Exchange Commission may require the Agent to limit the Agent's market purchases or temporarily cease making market purchases for Participants.

5. The market price of Common Stock on a particular date shall be the last sales price on the securities exchange where the Common Stock are listed on that date (currently the NASDAQ Capital Market)(the "Exchange"), or, if there is no sale on the Exchange on that date, then the average between the closing bid and asked quotations on the Exchange on such date will be used. The net asset value per Common Stock on, a particular date shall be the amount calculated on that date (or if not calculated on such date, the amount most recently calculated) by or on behalf of the Fund.
6. Whenever the Agent receives or purchases shares or fractional interests for a Participant's account, the Agent will send such Participant a notification of the transaction as soon as practicable. The Agent will hold such shares and fractional interests as such Participant's agent and may hold them in the Agent's name or the name of the Agent's nominee. The Agent will not send a Participant stock certificates for shares unless a Participants so requests in

writing or unless a Participant's account is terminated as stated below. The Agent will vote any shares so held for a Participant in accordance with any proxy returned to the Fund by such Participant in respect of the shares of which such Participant is the record holder.

- 20 -

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Dividend Reinvestment Plan (continued)

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7. There is presently no service charge for the Agent serving as Participants' agent and maintaining Participants' accounts. The Agent may, however, charge Participants for extra services performed at their request. The Plan may be amended in the future to impose a service charge. In acting as Participants' agent under the Plan, the Agent shall be liable only for acts, omissions, losses, damages or expenses caused by the Agent's willful misconduct or gross negligence. In addition, the Agent shall not be liable for any taxes, assessments or governmental charges which may be levied or assessed on any basis whatsoever in connection with the administration of the Plan.
  
8. The Agent may hold each Participant's Common Stock acquired pursuant to the Plan together with the Common Stock of other Stockholders of the Fund acquired pursuant to the Plan in non-certificated form in the Agent's name or that of the Agent's nominee. Each Participant will be sent a confirmation by the Agent of each acquisition made for his or her account as soon as practicable, but in no event later than 60 days, after the date thereof. Upon a Participant's request, the Agent will deliver to the Participant, without charge, a certificate or certificates for the full Common Stock. Although each Participant may from time to time have an undivided fractional interest in a Common Share of the Fund, no certificates for a fractional share will be issued. Similarly, Participants may request to sell a portion of the Common Stock held by the Agent in their Plan accounts by calling the Agent, writing to the Agent, or completing and returning the transaction form attached to each Plan statement. The Agent will sell such Common Stock through a broker-dealer selected by the Agent within 5 business days of receipt of the request. The sale price will equal the weighted average price of all Common Stock sold through the Plan on the day of the sale, less brokerage commissions. Participants should note that the Agent is unable to accept instructions to sell on a specific date or at a specific price. Any share dividends or split shares distributed by the Fund on Common Stock held by the Agent for Participants will be credited to their accounts. In the event that the Fund makes available to its Stockholders rights to purchase additional Common Stock, the Common Stock held for each Participant under the Plan will be added to other Common Stock held by the Participant in calculating the number of rights to be issued to each Participant.

If a Participant holds more than one Common Stock Certificate registered in similar but not identical names or if more than one address is shown for a Participant on the Fund's records, all of such Participant's shares of Common Stock must be put into the same name and address if all of them are to be covered by one account. Additional shares subsequently acquired by a Participant otherwise than through the Plan will be covered by the Plan.

9. The reinvestment of Distributions does not relieve Participants of any federal, state or local taxes which may be payable (or required to be withheld on Distributions.) Participants will receive tax information annually for their personal records and to help them prepare their federal income tax return. For



further information as to tax consequences of participation in the Plan,  
Participants should consult with their own tax advisors.

Dividend Reinvestment Plan (continued)

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10. Each registered Participant may terminate his or her account under the Plan by notifying the Agent in writing at State Street Bank and Trust, P.O. Box 642, Boston, MA 02117-0642, or by calling the Agent at (617) 937-6870. Such termination will be effective with respect to a particular Distribution if the Participant's notice is received by the Agent prior to such Distribution record date. The Plan may be terminated by the Agent or the Fund upon notice in writing mailed to each Participant at least 60 days prior to the effective date of the termination. Upon any termination, the Agent will cause a certificate or certificates to be issued for the full shares held for each Participant under the Plan and cash adjustment for any fraction of a Common Share at the then current market value of the Common Shares to be delivered to him. If preferred, a Participant may request the sale of all of the Common Shares held by the Agent in his or her Plan account in order to terminate participation in the Plan. If any Participant elects in advance of such termination to have Agent sell part or all of his shares, Agent is authorized to deduct from the proceeds the brokerage commissions incurred for the transaction. If a Participant has terminated his or her participation in the Plan but continues to have Common Shares registered in his or her name, he or she may re-enroll in the Plan at any time by notifying the Agent in writing at the address above.
11. These terms and conditions may be amended by the Agent or the Fund at any time but, except when necessary or appropriate to comply with applicable law or the rules or policies of the Securities and Exchange Commission or any other regulatory authority, only by mailing to each Participant appropriate written notice at least 30 days prior to the effective date thereof. The amendment shall be deemed to be accepted by each Participant unless, prior to the effective date thereof, the Agent receives notice of the termination of the Participant's account under the Plan. Any such amendment may include an appointment by the Agent of a successor Agent, subject to the prior written approval of the successor Agent by the Fund.
12. These terms and conditions shall be governed by the laws of the State of Maryland.

Dated: November 22, 2006

Discussion Regarding the Approval of the Investment  
Advisory Agreement

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The Fund's Board of Directors including a majority of those directors who are not "interested persons" as such term is defined in the 1940 Act ("Independent Directors") unanimously approved the continuance of the investment advisory agreement between the Fund and the Advisor (the "Agreement") at a meeting held on August 13, 2009.

Before meeting to determine whether to approve the Agreement, the Board had the opportunity to review written materials provided by the Advisor and by legal counsel to the Fund which contained information to help the Board evaluate the Agreement. The materials included (i) a memorandum from the Fund's legal counsel regarding the Directors' responsibilities in evaluating and approving the Agreement, (ii) a letter from the Advisor containing detailed information about the Advisor's services to the Fund, Fund performance, allocation of Fund transactions, compliance and administration information, and the compensation received by the Advisor from the Fund; (iii) a copy of the current investment advisory agreement between the Fund and the Advisor; (iv) audited financial statements for the Advisor for the year-ended December 31, 2008 and unaudited financial statements for the six months ended June 30, 2009; (v) the Advisor's Form ADV Parts I and II; (vi) comparative performance data for the Fund relative to peer funds (small closed-end funds and foreign funds invested in the Latin American region); and (vii) comparative statistics and fee data for the Fund relative to peer funds.

During its deliberations on whether to approve the continuance of the Agreement, the Board considered many factors. The Board considered the nature, extent and quality of the services to be provided by the Advisor and determined that such services will meet the needs of the Fund and its shareholders. The Board reviewed the services provided to the Fund by the Advisor as compared to services provided by other advisors, which manage investment companies with investment objectives, strategies and policies similar to those of the Fund. The Board concluded that the nature, extent and quality of the services provided by the Advisor were appropriate and consistent with the terms of the advisory agreement, that the quality of those services had been consistent with industry norms and that the Fund was likely to benefit from the continued provision of those services. The Board also concluded that the Advisor had sufficient personnel, with the appropriate education and experience, to serve the Fund effectively and had demonstrated its continuing ability to attract and retain qualified personnel.

Both at the meeting and on an ongoing basis throughout the year, the Board considered and evaluated the investment performance of the Fund and reviewed the Fund's performance relative to other investment companies and funds with similar investment objectives, strategies and policies, and its respective benchmark index. The Board considered both the short-term and long-term performance of the Fund. They concluded that the performance of the Fund was within an acceptable range of performance relative to other funds with similar investment objectives, strategies and policies.

Discussion Regarding the Approval of the Investment  
Advisory Agreement (continued)

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The Board considered the costs of the services provided by the Advisor, the compensation and benefits received by the Advisor providing services to the Fund, as well as the Advisor's profitability. In addition, the Board considered any direct or indirect revenues received by affiliates of the Advisor including the commissions paid to the Fund's affiliated broker/dealer, Thomas J. Herzfeld & Co., Inc. The Board considered the advisory fees paid to the Advisor by the Fund and relevant comparable fee data and statistics of a sampling of small closed-end funds and foreign funds invested in the Latin American region. The Board further discussed the services by the Advisor and concluded that the advisory services performed were efficient and satisfactory and that the fee charged was reasonable and not excessive. The Board concluded that the Advisor's fees and profits derived from its relationship with the Fund in light of its expenses, were reasonable in relation to the nature and quality of the services provided, taking into account the fees charged by other advisors for managing comparable funds with similar strategies. The Directors also concluded that the overall expense ratio of the Fund was reasonable, taking into account the size of the Fund, the quality of services provided by the Advisor, and the investment performance of the Fund.

The Board also considered the extent to which economies of scale would be realized relative to fee levels as the Fund grows, and whether the advisory fee levels reflect these economies of scale for the benefit of shareholders. The Board recognized that because of the closed-end structure of the Fund, and the fact that there is no influx of capital, this particular factor is less relevant to the Fund than it would be to an open-end fund. The Board concluded that only marginal economies of scale could be achieved through the growth of assets since the Fund is closed-ended.

The Board also considered its deliberations regarding the Advisor's services and performance from the regular Board meetings held throughout the year, including the Board's discussion of the Fund's investment objective, long-term performance, investment style and process. The Board noted the high level of diligence with which it reviews and evaluates the Advisor throughout the year and the extensive information provided with respect to Advisor's performance and the Fund's expenses on a quarterly basis. The Board also considered whether there have occurred any events that would constitute a reason not to renew the Agreement and concluded there were not.

After deliberation and further consideration of the factors discussed above and information presented at the August 13, 2009 meeting and at previous meetings of the Board, the Board and the Independent Directors determined to continue the Agreement for an additional one-year period. In arriving at this decision, the Board and the Independent Directors did not identify any single matter, factor or consideration as controlling, but made their determination in light of all the circumstances. The Board based its decision to approve the Agreement on all the relevant factors in light of its reasonable business judgment, and with a view to future long-term considerations.

## Results of November 12, 2009 Stockholder Meeting

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The annual meeting of stockholders of the Fund was held on November 12, 2009. At the meeting one nominee for a Director post was elected as follows:

	Votes for	Votes withheld
Dr. Kay	2,827,342	111,292
W. Tatum		

The terms of office as directors of Ann S. Lieff, Michael A. Rubin and Thomas J. Herzfeld continued after the meeting.

## Quarterly Portfolio Reports

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The Fund files quarterly schedules of portfolio holdings with the Securities and Exchange Commission (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 1-800-732-0330.

## Proxy Voting Policies and Procedures

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Information regarding how the Fund voted proxies relating to portfolio securities from July 1, 2008 to June 30, 2009, and 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).

## 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.

- 26 -

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Officers and Directors

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Officers

THOMAS J. HERZFELD

Director, Chairman of the Board, President and Portfolio Manager

ERIK M. HERZFELD

Portfolio Manager

CECILIA GONDOR

Secretary, Treasurer, Chief Compliance Officer

Independent Directors

ANN S. LIEFF

Director

MICHAEL A. RUBIN

Director

KAY W. TATUM, Ph.D.

Director

- 27 -

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

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ITEM 2.

CODE OF ETHICS

(a) Not applicable.

(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.

Not applicable.

ITEM 4.

PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Not applicable.

ITEM 5.

AUDIT COMMITTEE OF LISTED REGISTRANTS.

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.

Not applicable.

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

(a) Not applicable.

(b) No changes to the portfolio manager identified in paragraph 8(a)(1) of registrant's most recent annual report on this form.

ITEM PURCHASES OF EQUITY SECURITIES BY CLOSED-END FUND MANAGEMENT INVESTMENT  
 9. 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) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
Month #1 (beginning July 1, 2009 and ending July 31, 2009)	0	n/a	n/a	n/a
Month #2 (beginning August 1, 2009 and ending August 31, 2009)	0	n/a	n/a	n/a
Month #3 (beginning September 1, 2009 and ending September 30, 2009)	0	n/a	n/a	n/a
Month #4 (beginning October 1, 2009 and ending October 31, 2009)	0	n/a	n/a	n/a
Month #5 (beginning November 1, 2009 and ending November 30, 2009)	0	n/a	n/a	n/a
Month #6 (beginning December 1, 2009 and ending December 31, 2009)	0	n/a	n/a	n/a
Total	0	n/a	n/a	n/a

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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 407(c)(2)(iv) of Regulation S-K (17CFR229.407)(as required by Item 22(b)(15) 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)(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.

(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.

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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: February 27, 2010

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.

The Herzfeld Caribbean Basin Fund, Inc.

By: /s/ Thomas J. Herzfeld  
Thomas J. Herzfeld  
President and Chairman

Date: February 27, 2010

The Herzfeld Caribbean Basin Fund, Inc.

By: /s/ Cecilia L. Gondor  
Cecilia L. Gondor  
Secretary and Treasurer  
(Principal Financial Officer)

Date: February 27, 2010