Flaherty & Crumrine Dynamic Preferred & Income Fund Inc
Form N-CSR
January 29, 2016

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 811-22762

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

(Exact name of registrant as specified in charter)

301 E. Colorado Boulevard, Suite 720

Pasadena, CA 91101

(Address of principal executive offices) (Zip code)

R. Eric Chadwick

Flaherty & Crumrine Incorporated

301 E. Colorado Boulevard, Suite 720

Pasadena, CA 91101

(Name and address of agent for service)

Registrant s telephone number, including area code: 626-795-7300

Date of fiscal year end: November 30

Date of reporting period: November 30, 2015

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, 100 F Street, NE, Washington, DC 20549. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

Item 1. Reports to Stockholders.

The Report to Shareholders is attached herewith.

FLAHERTY & CRUMRINE DYNAMIC PREFERRED AND INCOME FUND

To Shareholders of Flaherty & Crumrine Dynamic Preferred and Income Fund (DFP):

Fiscal 2015 came to a close on November 30, and in most regards it was another respectable year for preferred stocks. Total return on net asset value (NAV[1]) was 2.9% for the fourth fiscal quarter[2], and 7.1% for the full fiscal year. Total return on market price of Fund shares over the same periods were 5.3% and 5.7%, respectively.

The table below shows Fund returns over various measurement periods, and they continue to be very good. The table includes performance of two indices, Barclays U.S. Aggregate and S&P 500, as proxies for bond and stock markets, respectively. While neither is a benchmark for Fund performance, they provide context for returns on broad asset categories.

TOTAL RETURN ON NET ASSET VALUE

FOR PERIODS ENDED NOVEMBER 30, 2015

(Unaudited)

	Actual Returns			Average Annualized Returns
	Three Months	**Six Months**	**One Year**	**Life of Fund(1)**
Flaherty & Crumrine Dynamic Preferred and Income Fund	2.9%	2.2%	7.1%	9.8%
Barclays U.S. Aggregate Index(2)	0.4%	-0.1%	1.0%	2.2%
S&P 500 Index(3)	6.1%	-0.2%	2.7%	12.0%

(1) Since inception on May 29, 2013.
(2) The Barclays U.S. Aggregate Index is an unmanaged index considered representative of the U.S. investment grade, fixed-rate bond market.
(3) The S&P 500 is a capitalization-weighted index of 500 common stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Current performance may be lower or higher than the quoted past performance, which cannot guarantee future results. In addition, NAV performance will vary from market price performance, and you may have a taxable gain or loss when you sell your shares.

Credit markets (including preferreds) had their share of fits and starts in 2015. Monetary policy liftoff was a constant debate that kept bond and stock markets on-edge. The Federal Reserve finally did raise short-term rates in December, but it was anticlimactic at best. Sharp declines in commodity prices brought many industries under the microscope, notably energy and metals, as credit metrics began to slip late in the year. Low interest rates, along with a host of mergers and acquisitions, led to a blockbuster year of issuance in corporate-debt securities in many cases causing leverage ratios to tick higher. These factors led to a widening of credit spreads and sub-par performance in the broader corporate debt market.

1 Following the methodology required by the Securities and Exchange Commission, total return assumes dividend reinvestment and includes income and principal change, plus the impact of the Fund s leverage and expenses.
2 September 1 November 30, 2015

One sector that shined in 2015 was financials. Banks, in particular, bucked the trend of weakening credit metrics. Regulation requiring banks to hold more capital and increased liquidity continued to weigh on earnings. However, having increasing amounts of common equity on the balance sheet is credit enhancing for preferred-securities investors. This credit trend helped bank preferreds perform well during the year, and we believe these regulatory trends are unlikely to reverse anytime soon.

The Fund s energy portfolio, while not large at approximately 7% at year-end, had an outsized negative impact on returns this year. These portfolio holdings are exclusively in pipeline companies most with very limited direct exposure to oil prices. These companies do, however, have a substantial backlog of projects that will require funding in coming years. Given a sharp drop in equity valuations, companies will increasingly need to rely on debt markets to fund projects. The result has been a dramatic repricing of bonds issued by these companies, as investors demand additional yield for new debt issuance. Preferred securities have weakened in step with debt securities, even though earnings and cash flows should remain relatively healthy. The market has not differentiated much, however, and prices on anything related to energy have moved materially lower.

We have written many times about growth in fixed-to-float preferred securities, noting both benefits (lower duration) and risks (extension).[3] Performance of these securities was mixed throughout the year, with concerns about back-end-reset spreads on some fixed-to-float securities nearing their first-float dates leading to markedly lower prices. Recall that a back-end spread represents an issuer s credit spread at the end of the fixed-rate period. Simply put, if an issuer s credit spread at time of reset is higher than the reset spread, the security will remain outstanding (extend) and trade at a discount to par value.

Much of the fixed-to-float market was issued in a higher interest-rate environment when credit spreads were tighter. From an issuer s perspective, some outstanding fixed-to-float securities are a cheaper source of capital than could be issued today. Persistently low interest rates, along with a widening of credit spreads, have increased the likelihood of extension for many of these securities causing them to be a drag on performance throughout the year.

As we have mentioned before, it s not all bad news for fixed-to-float securities. A security with very low duration due to a coupon that will adjust higher as short-term rates increase may be just what many investors want over time. There are also fixed-to-float securities with more current (higher) back-end-reset spreads which have been among the market s top performers.

One of the best places to be invested in 2015 was in preferreds that are listed on an exchange, typically in $25-par denominations (many of which have fixed-rate coupons). This market segment is the sole focus of preferred ETFs, which have had a disproportionate market impact for many years. ETFs have increased considerably in size as investors have piled on for perceived easy access to preferred securities, and this demand caused prices to move materially higher. Many listed preferred securities have some unflattering characteristics, but ETFs have been large and indiscriminate buyers. Consequently, 2015 returns were excellent, although we view their longer-term prospects less favorably at current prices.

[3] All things being equal, lower-duration securities will not fall in price as much as higher-duration securities would when interest rates rise.

Dividends paid to Fund shareholders have been a bright spot for many years, and 2015 was no exception. Portfolio yields have held up better than expected in this low-rate environment, and leverage costs have remained extremely low. As a result, the Fund s dividend rate has been among the highest offered by closed-end preferred funds. Leverage costs are likely to move higher over 2016, although pace is uncertain. Dividend rates have been set with this in mind and include a bit of cushion against higher short-term rates, but sustained Fed tightening would pressure the Fund s distributable income. We encourage you to read the discussion topic that follows on monthly distributions to shareholders.

Markets are entering a new phase with liftoff having occurred in December, but many positive factors supporting the preferred market will persist over the near-term. The path to higher short-term rates is likely to be gradual as the economy shows no signs of overheating and monetary policy around the globe remains exceptionally easy. Approximately 90% of the preferred market is comprised of issuers from financial industries, including banks, insurance, finance, and REITs. While not a homogeneous group, broadly speaking we believe these sectors have stronger credit metrics than many other non-financial sectors. A search for yield continues, and preferred securities offer higher yields than most other fixed-income securities especially for investors able to take advantage of lower tax rates on qualified dividend income.

We close this letter by acknowledging the retirement of a long-time portfolio manager of the Fund, and a co-founder of Flaherty & Crumrine, Don Crumrine. Don retired as a portfolio manager and from Flaherty & Crumrine on December 31, 2015. Don s contributions to the Fund and our firm are immeasurable, but most importantly, he has been instrumental in shaping the culture of the firm so that it can continue to deliver strong investment performance for many years to come. We thank Don for his 33 years of service and lasting contributions, and we wish him all the best in retirement.

In the discussion topics that follow, we dig deeper into subjects mentioned here as well as others of interest to shareholders. In addition, we encourage you to visit the Fund s website www.preferredincome.com for timely and important information.

The Flaherty & Crumrine Portfolio Management Team

January 1, 2016

DISCUSSION TOPICS

(Unaudited)

The Fund s Portfolio Results and Components of Total Return on NAV

The table below presents a breakdown of the components that comprise the Fund s total return on NAV over both the recent six months and over the Fund s fiscal year. These components include: (a) the total return on the Fund s portfolio of securities; (b) any returns from hedging the portfolio against significant increases in long-term interest rates; (c) the impact of utilizing leverage to enhance returns to shareholders; and (d) the Fund s operating expenses. When all of these components are added together, they comprise the total return on NAV.

Components of DFP s Total Return on NAV

for Periods Ended November 30, 2015

		Six Months[1]	One Year
Total Return on Unleveraged Securities Portfolio (including principal change and income)		1.8%	5.5%
Return from Interest Rate Hedging Strategy		N/A	N/A
Impact of Leverage (including leverage expense)		0.9%	2.7%
Expenses (excluding leverage expense)		-0.5%	-1.1%
[1]Actual, not annualized	*Total Return on NAV*	**2.2%**	**7.1%**

For the six month and one year periods ended November 30, 2015 the BofA Merrill Lynch 8% Constrained Core West Preferred & Jr Subordinated Securities Index^{SM} (P8JC)[1] returned 2.3% and 5.7%, respectively. This index reflects the various segments of the preferred securities market constituting the Fund s primary focus. Since this index return excludes all expenses and the impact of leverage, it compares most directly to the top line in the Fund s performance table above (Total Return on Unleveraged Securities Portfolio).

Total Return on Market Price of Fund Shares

While our focus is primarily on managing the Fund s investment portfolio, our shareholders actual return is comprised of the Fund s monthly dividend payments *plus* changes in the *market price* of Fund shares. During the twelve-month period ending November 30, 2015, total return on market price of Fund shares was 5.7%.

Historically, the preferred securities market has experienced price volatility consistent with those of other fixed-income securities. However, since mid-2007 it has become clear that preferred-security valuations, including both the Fund s NAV and the market price of its shares, can move dramatically when there is volatility in financial markets. The chart on page 5 contrasts the relative stability of the Fund s earlier period with the more recent volatility in both its NAV and market price. Many fixed-income asset classes experienced increased volatility over this period.

[1] The BofA Merrill Lynch 8% Constrained Core West Preferred & Jr Subordinated Securities Index^{SM} (P8JC) includes U.S. dollar-denominated investment-grade or below investment-grade, fixed rate, floating rate or fixed-to-floating rate, retail or institutionally structured preferred securities of U.S. and foreign issuers with issuer concentration capped at 8%. All index returns include interest and dividend income, and, unlike the Fund s returns, are unmanaged and do not reflect any expenses.

In a more perfect world, the market price of Fund shares and its NAV, as shown in the above chart, would track closely. If so, any premium or discount, calculated as the difference between these two inputs and expressed as a percentage, would remain relatively close to zero. However, as can be seen in the chart below, this often has not been the case.

Although divergence between NAV and market price of a closed-end fund is generally driven by supply/demand imbalances affecting its market price, we can only speculate about why the relationship between the Fund s market price and NAV hasn t been closer.

Based on a closing price of $22.90 on December 31st and assuming its current monthly distribution of $0.16 does not change, the current annualized yield on market price of Fund shares is 8.4%. In our opinion, this distribution rate measures up favorably with most comparable fixed-income investment opportunities. Of course, there can be no guarantee that the Fund s dividend will not change based on market conditions.

Economic and Interest Rate Recap and Outlook

U.S. inflation-adjusted Gross Domestic Product (real GDP) probably grew about 2.2% in 2015, slower than its 2.5% pace in 2014 and below most forecasts (including ours) entering the year. Most of the miss in 2015 came in the first quarter, when cold and snow across much of the nation held growth to just 0.6%; it appears to have averaged about 2.7% thereafter, about in-line with earlier full-year forecasts. Private domestic final sales expanded by more than 3%, led by solid gains in personal consumption and residential investment. Business investment and government spending were a little weaker than expected, but a wider trade deficit was 2015 s biggest economic headwind. Although U.S. economic growth was only modest in 2015, it was better than that of most other developed nations, and the U.S. dollar rose sharply, curbing exports.

We expect slightly firmer real GDP growth of about 2.5% in 2016. Personal consumption and residential investment should remain strong in 2016 as rising employment and gradually-accelerating wages boost income. In turn, that should prompt higher business investment as the year progresses. Trade probably will remain a headwind, however, and government spending gains are likely to lag as well.

Inflation remained at or below 0.5% in 2015 due to sharply lower energy prices. Recent warm winter weather in the U.S., higher oil output from the Middle East, and rising energy efficiency may push energy prices still lower over the near term, although a sharp drop in exploration activity should put a floor under prices at some point. Core U.S. inflation (i.e., excluding food and energy) edged upward in 2015 and now ranges between 1.2% (core personal consumption expenditure deflator) and 2.0% (core consumer price index).

As a disinflationary impulse from lower energy prices wanes, overall inflation should move up toward core inflation. And because energy prices dropped especially sharply in late 2014 and early 2015, headline inflation could rise fairly quickly in 2016 as those negative months roll out of year-over-year inflation calculations. We re not inflation hawks, but we do expect inflation to pick up in 2016.

With economic growth modest and inflation low in 2015, long-term interest rates finished the year about where they began. Ten- and 30-year Treasury rates rose by 10 basis points (bp) to 2.27% and 26 bp to 3.01%, respectively. Short-term rates spent almost the whole year hovering near zero, finally rising by 25 bp in December when the Federal Open Market Committee (FOMC) ended seven years of zero-interest-rate policy.

We expect the FOMC to hike the fed funds rate by 25 bp per quarter until it reaches 2% or so, with more gradual moves thereafter, bringing rates back to 3-3.5%. We consider this the most likely path of rates, but risks are skewed toward less Fed tightening. Global economic growth is still slow, inflation is muted and most major central banks are easing monetary policy. Too-rapid Fed tightening could cause the U.S. dollar to soar, damaging exports and blunting inflation. Accordingly, markets discount somewhat less tightening than this most likely path of rates. We look for long-term Treasury rates to move modestly higher in 2016, but we do not expect another episode like 2013 s taper tantrum, when long-term interest rates shot up by more than 100 bp in short order.

Credit conditions were mixed in 2015. On a positive note, U.S. financial companies (especially banks) continued to build capital and liquidity, and loan defaults and delinquencies fell further. European banks, while not as far along in their recoveries as their U.S. counterparts, are also gradually rebuilding their balance sheets and looking more attractive. In contrast, nonfinancial companies increased leverage in 2015, and their credit metrics began to deteriorate, albeit from very strong levels in most cases. Looking ahead, we think economic and credit conditions should benefit preferred securities again in 2016. Although long-term U.S. interest rates are likely to rise modestly, spreads on preferred securities are wide and should absorb at least a portion of any rate increase. Financial issuers, which make up most of the preferred securities market, should benefit from gradual Fed tightening and improving credit profiles. We believe prospective returns on preferred securities remain attractive for long-term investors (that is, those within an investment horizon of at least 3-5 years).

Implications of Fed Tightening on Dividends and Investments

In December, the FOMC raised its target for the federal funds rate by 25 bp to 0.25-0.50% after seven years of near-zero interest rates. FOMC members project additional rate hikes over coming years: 100 bp in 2016, 100 bp in 2017 and another 100 bp or so thereafter, bringing the fed funds rate to about 3.5% over a long horizon. Markets currently price in less tightening: 75 bp in 2016, 50 bp in 2017 and a long-run rate of about 3%. Markets expect a slower-and-lower period of tightening than does the Fed. Our own forecasts are in-between.

What will higher short-term rates mean for the Fund? Most directly, cost of the Fund s floating-rate leverage will increase, while income on most of the Fund s investments will hold about steady. Thus, higher leverage cost will reduce distributable income over the short run. That does not necessarily mean that *the Fund s dividend* will fall immediately. We have anticipated rate hikes for some time and set the current dividend rate in light of that. However, higher leverage cost reduces income and will eventually lead to reduced Fund dividends unless it is offset by higher portfolio income. Higher rates could boost portfolio income over time as proceeds of called securities are reinvested (and some securities switch from fixed- to floating-rate), but it may take some time to adjust, and some coupons could float down rather than up. Distributable income is likely to fall over the next couple of years if rates rise as expected.

More positively, higher short-term rates should be associated with a stronger economy, which, in turn, should improve credit performance and lead to narrower yield spreads. This should be particularly true for financial institutions. Nearly all banks are asset sensitive, meaning their assets re-price more quickly than their liabilities. Banks net interest margins should expand as rates increase, improving profitability and allowing banks to build capital and reserves more quickly. Yield spreads on preferred securities are wide by historical standards and have ample room to contract, at least partly offsetting higher benchmark interest rates.

We have long said that a distribution yield of roughly 8% in a world of near-zero interest rates was bound to come to an end eventually. It has lasted longer than we and most other market participants expected. While that halcyon period may be coming to a close, we believe preferred securities still offer an attractive combination of high yield, good credit quality and tax-advantaged income.

Monthly Distributions to Fund Shareholders

When it comes to projecting income available to shareholders in future years, the elephant in the room is the expected cost of leverage. Use of leverage is an important part of the Fund s strategy for producing high current income, and we could not produce the Fund s current level of income without it. Leverage costs, which for the Fund are currently 3-month LIBOR + 0.75%, reset quarterly, remained low throughout 2015. We are, however, another year into economic recovery in the United States and the Fed raised short-term rates in December for the first time in seven years.

Looking into 2016 and beyond, with potentially higher leverage costs, there are two questions that shareholders might ask.

If you expect the cost of leverage to increase, why not remove (or at least reduce) leverage from the Fund?

The answer is twofold. First, as shown for this past fiscal year in the first discussion topic above, so long as the cost of leverage is below income earned on the portfolio which has almost always been the case income available to shareholders will be higher with leverage than it would be without leverage. Second, following the same logic, removing or substantially reducing leverage today would result in a material reduction in the current dividend rate, given current wide spreads between yields on preferred securities and cost of leverage. So even if leverage costs increase, benefits to distributable income over time can still be substantial as long as leverage costs do not exceed portfolio yield.

If you think short-term rates are going to increase, why don t you continue to hedge the cost of leverage?

In general, hedging is done for two reasons: first, to reduce absolute exposure to a particular risk; and second, to reduce volatility associated with a particular risk. When considering a hedge against a rise in short-term rates, one has to weigh cost versus benefit. If we knew exactly when rates would rise and by how much, then we could evaluate the explicit costs and determine if it would be a winning trade.

Since we don t know the exact timing or magnitude of higher short-term interest rates, a hedge is really another investment decision one in which we would be betting that the cost of a hedge now (in the form of higher leverage costs today) will be lower than the actual cost of leverage (unhedged) over the hedge s timeframe. In other words, the Fund s distributable income would be lower today if we were to hedge the cost of leverage very far into the future. This is because today s upward-sloping yield curve means the market already expects rates in the future to be higher, so that expected cost is reflected in hedging cost today.

We acknowledge this is complicated, but to simplify: hedging the cost of leverage today would result in lower income today and may or may not result in improved return (relative to no hedge) in the future. This is because hedging today costs money.

We are not opposed to hedging leverage costs in the right context for example, we did initially hedge the Fund s cost of leverage when we launched in 2013 because we wanted to offer investors a relatively stable initial distribution rate. However, we acknowledge that a hedge is a bet on the timing and magnitude of rate increases relative to the market s pricing of these risks. There are times when the market s expectations of future rates make this a worthwhile bet, or when risk reduction offered by hedging is particularly valuable, but we don t feel this is true today. Funds that hedged over the past couple years missed out on quite a bit of distributable income without providing protection until very recently, since short-term interest rates didn t move higher until December 2015.

We would like our shareholders to understand that we are not currently hedging the cost of leverage, and are unlikely to do so unless the market s expectations (and, therefore, hedging costs) change. As a result, shareholders are receiving more income today (and have received more over the last several years) in exchange for potentially lower income and returns in the future. Given the current cost of hedging, we have so far decided it is best to take short-term rates as they come.

Federal Tax Advantages of 2015 Calendar Year Distributions

In calendar year 2015, approximately 77.3% of distributions made by the Fund was eligible for treatment as qualified dividend income, or QDI. For taxpayers in the 15% marginal tax bracket, QDI is taxed by the federal government at 0% instead of an individual s ordinary income tax rate; for taxpayers in the 25%-35% marginal tax brackets, QDI is taxed at 15%; and for taxpayers in the 39.6% marginal tax bracket, QDI is taxed at 20%.

For an individual in the 28% marginal tax bracket, this means that the Fund s total distributions will only be taxed at a blended 18.0% rate versus the 28% rate which would apply to distributions by a fund investing in traditional corporate bonds. This tax advantage means that, all other things being equal, such an individual who held 100 shares of Common Stock of the Fund for the calendar year would have had to receive approximately $218.79 in distributions from a fully-taxable bond fund to net the same after-tax amount as the $192 in distributions paid by the Fund.

For detailed information about tax treatment of particular distributions received from the Fund, please see the Form 1099 you receive from either the Fund or your broker.

Corporate shareholders also receive a federal tax benefit from the 40.4% distributions that were eligible for the inter-corporate dividends received deduction, or DRD.

It is important to remember that composition of the portfolio and income distributions can change from one year to the next, and that the QDI or DRD portions of 2016 s distributions may not be the same (or even similar) to 2015.

Contingent Capital Securities

Some debt and traditional and hybrid preferred securities include loss absorption provisions that make the securities more like equity. These securities are generally referred to as contingent capital securities, or CoCos. CoCos are typically issued by financial companies, such as banks, in order to be a source of capital in a time of crisis.

In one type of a CoCo, the security has loss absorption characteristics whereby the liquidation value of the security may be written down to below original principal amount (even to zero) under certain circumstances. This may occur, for instance, in the event that business losses have eroded capital to a substantial extent. Such securities may, but are not required to, provide for circumstances under which liquidation value may be adjusted back up, such as an improvement in capitalization and/or earnings.

Another type of a CoCo provides for mandatory conversion of the security into common shares of the issuer under certain circumstances. A mandatory conversion might result, for instance, from the issuer s failure to maintain a capital minimum. In addition, some Cocos provide for an automatic write-down if the price of the common stock is below the conversion price on the conversion date.

An automatic write-down or conversion event is typically triggered by a reduction in the capital level of the issuer, but may also be triggered by regulatory actions (e.g., a change in capital requirements) or by other factors.

Risks of Investing in Contingent Capital Securities

CoCo s which are subject to an automatic write-down (i.e., automatic write-down of the original principal amount, potentially to zero, and cancellation of the securities) under certain circumstances could result in the Fund losing a portion or all of its investment in such securities. In addition, the Fund may not have any rights with respect to repayment of the principal amount of the securities that have not become due or the payment of interest or dividends on such securities for any period from (and including) the interest or dividend payment date falling immediately prior to the occurrence of such automatic write-down. An automatic write-down could also result in a reduced income rate if the dividend or interest payment is based on the security s written-down value. Finally, since the write-down would occur automatically, holders would not be able to protect the value of the security through the bankruptcy process.

If a CoCo provides for mandatory conversion of the security into common shares of the issuer under certain circumstances and such conversion event occurs, the Fund could experience a reduced income rate, potentially to zero, as a result of the issuer s common shares not paying a dividend. In addition, a conversion event would likely be the result of or related to the deterioration of the issuer s financial condition (e.g., a decrease in the issuer s regulatory capital ratio) and status as a going concern, so the market price of the issuer s common shares received by the Fund will have likely declined, perhaps substantially, and may continue to decline, which may adversely affect the Fund s NAV. Further, the issuer s common shares would be subordinate to the issuer s other security classes and therefore worsen the Fund s standing in a bankruptcy proceeding.

It will often be difficult to predict when, if at all, an automatic write-down or conversion event will occur. Accordingly, trading behavior of CoCos may not follow trading behavior of other types of debt and preferred securities. Any indication that an automatic write-down or conversion event may occur can be expected to have a material adverse effect on the market price of a CoCo. CoCos are a relatively new form of security and the full effects of an automatic write-down or conversion event have not been experienced broadly in the marketplace. An automatic write-down or conversion event may be unpredictable and the potential effects of such event on the Fund s yield, NAV and/or market price would likely be adverse, perhaps materially so. As of November 30, 2015, less than 2% of the Fund s assets were invested in CoCos. The Fund is not limited in the extent to which it can invest in CoCos.

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

PORTFOLIO OVERVIEW

November 30, 2015 (Unaudited)

Fund Statistics

Net Asset Value	$ 24.43
Market Price	$ 22.99
Discount	5.89%
Yield on Market Price	8.35%
Common Stock Shares Outstanding	19,156,782

Moody s Ratings*	**% of Net Assets**
A	2.3%
BBB	55.2%
BB	30.0%
Below BB	3.9%
Not Rated**	6.1%
Below Investment Grade***	35.5%

* Ratings are from Moody s Investors Service, Inc. Not Rated securities are those with no ratings available from Moody s.
** Does not include net other assets and liabilities of 2.5%.
*** Below investment grade by all of Moody s, S&P, and Fitch.

Industry Categories	**% of Net Assets**

Top 10 Holdings by Issuer	**% of Net Assets**
Citigroup	4.9%
Liberty Mutual Group	4.7%
Bank of America Corporation	4.4%
MetLife	4.2%
Fifth Third Bancorp	3.6%
PNC Financial Services Group	3.6%
Morgan Stanley	3.6%
M&T Bank Corporation	3.3%
Prudential Financial	3.2%
JPMorgan Chase	3.2%

% of Net Assets****

Holdings Generating Qualified Dividend Income (QDI) for Individuals	63%
Holdings Generating Income Eligible for the Corporate Dividends Received Deduction (DRD)	48%

**** This does not reflect year-end results or actual tax categorization of Fund distributions. These percentages can, and do, change, perhaps significantly, depending on market conditions. Investors should consult their tax advisor regarding their personal situation. See accompanying notes to financial statements for the tax characterization of 2015 distributions.

Net Assets includes asset attributable to the use of leverage.

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

PORTFOLIO OF INVESTMENTS

November 30, 2015

Shares/$ Par		Value
Preferred Securities 95.6%		
	Banking 51.5%	
7,000	AgStar Financial Services ACA, 6.75%, 144A****	$ 7,452,375*(1)
103,166	Astoria Financial Corp., 6.50%, Series C	2,703,104*(1)
	Bank of America Corporation:	
$ 9,107,000	6.50%, Series Z	9,630,652*(1)
$ 7,350,000	8.00%, Series K	7,607,250*(1)
$ 13,105,000	8.125%, Series M	13,629,200*(1)
60,000	Barclays Bank PLC, 7.10%, Series 3	1,555,800**(2)
$ 7,100,000	BNP Paribas, 7.375%, 144A****	7,304,125**(1)(2)
41,704	Capital One Financial Corporation, 6.70%, Series D	1,114,852*
	Citigroup, Inc.:	
1,180,807	6.875%, Series K	32,203,559*(1)
91,022	7.125%, Series J	2,569,779*
$ 5,000,000	Citizens Financial Group, Inc., 5.50%,144A****	4,937,500*(1)
	CoBank ACB:	
38,100	6.20%, Series H, 144A****	3,920,730*
3,450	6.25%, Series F, 144A****	357,291*
899,035	Fifth Third Bancorp, 6.625%, Series I	25,849,504*(1)
5,000	First Horizon National Corporation, 6.20%, Series A	127,063*
34,219	First Niagara Financial Group, Inc., 8.625%, Series B	931,493*(1)
25,000	First Republic Bank, 6.20%, Series B	660,158*
	Goldman Sachs Group:	
$ 1,170,000	5.70%, Series L	1,171,462*
51,609	5.95%, Series I	1,327,461*(1)
531,522	6.375%, Series K	14,351,094*(1)
	HSBC PLC:	
$ 4,458,000	HSBC Capital Funding LP, 10.176%, 144A****	6,707,106(1)(2)
44,800	HSBC Holdings PLC, 8.00%, Series 2	1,149,680**(2)
340,800	HSBC USA, Inc., 6.50%, Series H	8,854,836*(1)
	ING Groep NV:	
160,000	6.375%	4,083,200**(1)(2)
38,082	7.05%	1,003,175**(2)
3,201	7.20%	83,839**(1)(2)
	JPMorgan Chase & Company:	
$ 10,700,000	6.00%, Series R	10,766,554*(1)
$ 8,000,000	6.75%, Series S	8,678,000*(1)
$ 3,331,000	7.90%, Series I	3,435,094*
$ 14,022,000	Lloyds Banking Group PLC, 6.657%, 144A****	15,792,277**(1)(2)

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

November 30, 2015

Shares/$ Par		Value
Preferred Securities (Continued)		
	Banking (Continued)	
	M&T Bank Corporation:	
$ 15,425,000	6.450%, Series E	$ 16,396,775*[(1)]
$ 6,789,000	6.875%, Series D, 144A****	6,805,972*[(1)]
	Morgan Stanley:	
674,994	6.875%, Series F	18,643,334*[(1)]
241,200	7.125%, Series E	6,872,391*[(1)]
	PNC Financial Services Group, Inc.:	
451,824	6.125%, Series P	12,792,267*[(1)]
$ 11,748,000	6.75%, Series O	12,787,580*[(1)]
$ 8,625,000	RaboBank Nederland, 11.00%, 144A****	10,727,344[(1)(2)]
627,170	Regions Financial Corporation, 6.375%, Series B	16,740,108*[(1)]
	Royal Bank of Scotland Group PLC:	
$ 4,825,000	RBS Capital Trust II, 6.425%	5,355,750**[(1)(2)]
13,000	6.60%, Series S	332,280**[(2)]
538,500	7.25%, Series T	13,887,915**[(1)(2)]
$ 5,000,000	Societe Generale SA, 8.00%, 144A****	5,102,365**[(1)(2)]
110,317	State Street Corporation, 5.90%, Series D	3,029,470*[(1)]
288,008	SunTrust Banks, Inc., 5.875%, Series E	7,356,156*[(1)]
97,150	US Bancorp, 6.50%, Series F	2,823,422*[(1)]
50,000	Valley National Bancorp, 6.25%, Series A	1,342,500*
	Wells Fargo & Company:	
180,300	5.85%, Series Q	4,657,600*[(1)]
$ 8,000,000	7.98%, Series K	8,410,000*[(1)]
	Zions Bancorporation:	
10,000	6.30%, Series G	260,625*
$ 10,000,000	7.20%, Series J	10,762,500*[(1)]
		365,044,567
	Financial Services 1.2%	
60,000	Charles Schwab Corporation, 6.00%, Series C	1,566,690*
	Deutsche Bank:	
89,000	Deutsche Bank Contingent Capital Trust III, 7.60%	2,369,625**[(1)(2)]
8,103	Deutsche Bank Contingent Capital Trust V, 8.05%	223,979**[(1)(2)]
$ 2,500,000	General Electric Capital Corp., 7.125%, Series A	2,975,000*[(1)]
	HSBC PLC:	
72,515	HSBC Finance Corporation, 6.36%, Series B	1,844,600*
		8,979,894

The accompanying notes are an integral part of the financial statements.

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Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

November 30, 2015

Shares/$ Par		Value
Preferred Securities (Continued)		
	Insurance 27.4%	
430,701	Allstate Corp., 6.625%, Series E	$ 11,836,740*(1)
	American International Group:	
$ 280,000	AIG Life Holdings, Inc., 7.57%, 144A****	366,100
$ 497,000	AIG Life Holdings, Inc., 8.125%, 144A****	657,283
$ 350,000	American International Group, Inc., 8.175% 05/15/58	461,563
$ 1,010,000	Aon Corporation, 8.205% 01/01/27	1,272,600
317,980	Arch Capital Group, Ltd., 6.75%, Series C	8,586,255**(1)(2)
4,500	Aspen Insurance Holdings Ltd., 7.401%	115,594**(2)
	AXA SA:	
$ 6,550,000	6.379%, 144A****	7,053,564**(1)(2)
$ 8,500,000	8.60% 12/15/30	11,793,750(1)(2)
646,952	Axis Capital Holdings Ltd., 6.875%, Series C	17,391,040**(1)(2)
6,000	Delphi Financial Group, 7.376%, 05/15/37	148,875
	Endurance Specialty Holdings:	
47,000	6.35%, Series C	1,171,710**(2)
181,000	7.50%, Series B	4,668,261**(2)
$ 988,000	Everest Re Holdings, 6.60%, 05/15/37	901,550(1)
137,500	Hartford Financial Services Group, Inc., 7.875%	4,323,206
	Liberty Mutual Group:	
$ 17,950,000	7.80% 03/15/37, 144A****	21,046,375(1)
$ 8,195,000	10.75% 06/15/58, 144A****	12,312,987(1)
	MetLife:	
$ 3,759,000	MetLife, Inc., 10.75% 08/01/39	5,948,617(1)
$ 17,200,000	MetLife Capital Trust X, 9.25% 04/08/38, 144A****	24,037,000(1)
	PartnerRe Ltd.:	
30,486	5.875%, Series F	803,117**(2)
37,556	6.50%, Series D	1,026,924**(2)
238,490	7.25%, Series E	6,763,934**(2)
	Prudential Financial, Inc.:	
$ 5,574,000	5.625% 06/15/43	5,810,895(1)
$ 6,375,000	5.875% 09/15/42	6,802,125(1)
$ 9,070,000	8.875% 06/15/38	10,362,475(1)
	QBE Insurance:	
$ 8,000,000	QBE Capital Funding III Ltd., 7.25% 05/24/41, 144A****	8,890,000(1)(2)
23,446	RenaissanceRe Holdings Ltd., 6.08%, Series C	588,026**(2)
	Unum Group:	
$ 1,750,000	Provident Financing Trust I, 7.405% 03/15/38	1,925,000
235,477	W.R. Berkley Corporation, 5.625%	5,962,866(1)

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

November 30, 2015

Shares/$ Par		Value
Preferred Securities (Continued)		
	Insurance (Continued)	
	XL Group PLC:	
$ 14,850,000	XL Capital Ltd., 6.50%, Series E	$ 11,620,125(1)(2)
		194,648,557
	Utilities 2.7%	
	Commonwealth Edison:	
$ 2,000,000	COMED Financing III, 6.35% 03/15/33	2,078,980
121,452	Integrys Energy Group, Inc., 6.00%	3,104,617(1)
	PPL Corp:	
$ 8,500,000	PPL Capital Funding, Inc., 6.70% 03/30/67, Series A	7,014,531(1)
$ 5,500,000	Puget Sound Energy, Inc., 6.974% 06/01/67, Series A	4,606,250(1)
$ 2,000,000	Southern California Edison Co., 6.25%, Series E	2,225,000*
		19,029,378
	Energy 6.6%	
$ 9,780,000	DCP Midstream LLC, 5.85% 05/21/43, 144A****	7,775,100(1)
$ 15,133,000	Enbridge Energy Partners LP, 8.05% 10/01/37	13,508,170(1)
	Enterprise Products Operating L.P.:	
$ 3,675,000	7.034% 01/15/68, Series B	3,872,531(1)
$ 3,750,000	8.375% 08/01/66, Series A	3,684,375
403,000	Kinder Morgan, Inc., 9.75%, Series A	17,792,450*
		46,632,626
	Real Estate Investment Trust (REIT) 4.4%	
425,148	Alexandria Real Estate, 6.45%, Series E	10,981,573(1)
118,280	Equity CommonWealth, 7.25%, Series E	3,038,318
	National Retail Properties, Inc.:	
45,300	5.70%, Series E	1,143,938
127,879	6.625%, Series D	3,374,919
	PS Business Parks, Inc.:	
22,908	5.70%, Series V	573,422
20,867	5.75%, Series U	521,884
287,476	6.00%, Series T	7,462,877(1)
93,290	6.45%, Series S	2,463,089(1)
63,489	Regency Centers Corporation, 6.625%, Series 6	1,669,856
		31,229,876

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

November 30, 2015

Shares/$ Par			Value
Preferred Securities (Continued)			
	Miscellaneous Industries 1.8%		
	BHP Billiton Limited:		
$ 1,400,000	BHP Billiton Finance U.S.A., Ltd., 6.75% 10/19/75, 144A****		$ 1,398,250[2]
$ 10,800,000	Land O Lakes, Inc., 8.00%, 144A****		11,218,500*[1]
			12,616,750
	Total Preferred Securities (Cost $662,795,616)		678,181,648
Corporate Debt Securities 1.8%			
	Banking 1.5%		
305,686	Texas Capital Bancshares Inc., 6.50% 09/21/42, Sub Notes		7,890,520[1]
100,000	Zions Bancorporation, 6.95% 09/15/28, Sub Notes		2,815,630
			10,706,150
	Communication 0.3%		
63,200	Qwest Corporation, 7.375% 06/01/51		1,615,550
			1,615,550
	Total Corporate Debt Securities (Cost $11,647,823)		12,321,700
Money Market Fund 1.7%			
	BlackRock Liquidity Funds:		
12,296,148	T-Fund, Institutional Class		12,296,148
	Total Money Market Fund (Cost $12,296,148)		12,296,148
Total Investments (Cost $686,739,587***)		99.1%	702,799,496
Other Assets And Liabilities (Net)		0.9%	6,411,861
Total Managed Assets		100.0%	$ 709,211,357
Loan Principal Balance			(241,300,000)
Total Net Assets Available To Common Stock			$ 467,911,357

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

November 30, 2015

* Securities eligible for the Dividends Received Deduction and distributing Qualified Dividend Income.
** Securities distributing Qualified Dividend Income only.
*** Aggregate cost of securities held.
**** Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration to qualified institutional buyers. At November 30, 2015, these securities amounted to $163,862,244 or 23.1% of total managed assets.
(1) All or a portion of this security is pledged as collateral for the Fund s loan. The total value of such securities was $422,200,547 at November 30, 2015.
(2) Foreign Issuer.
The percentage shown for each investment category is the total value of that category as a percentage of total managed assets.

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

STATEMENT OF ASSETS AND LIABILITIES

November 30, 2015

ASSETS:		
Investments, at value (Cost $686,739,587)		$ 702,799,496
Receivable for investments sold		1,673,078
Dividends and interest receivable		7,228,799
Prepaid expenses		49,724
Total Assets		711,751,097
LIABILITIES:		
Loan Payable	$ 241,300,000	
Payable for investments purchased	1,961,107	
Dividends payable to Common Stock Shareholders	32,548	
Investment advisory fees payable	304,007	
Administration, Transfer Agent and Custodian fees payable	75,107	
Servicing Agent fees payable	38,503	
Professional fees payable	71,348	
Accrued expenses and other payables	57,120	
Total Liabilities		243,839,740
NET ASSETS AVAILABLE TO COMMON STOCK		$ 467,911,357
NET ASSETS AVAILABLE TO COMMON STOCK consist of:		
Undistributed net investment income		$ 1,579,061
Accumulated net realized loss on investments sold		(6,040,576)
Unrealized appreciation of investments		16,059,909
Par value of Common Stock		191,568
Paid-in capital in excess of par value of Common Stock		456,121,395
Total Net Assets Available to Common Stock		$ 467,911,357
NET ASSET VALUE PER SHARE OF COMMON STOCK:		
Common Stock (19,156,782 shares outstanding)		$ 24.43

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

STATEMENT OF OPERATIONS

For the Year Ended November 30, 2015

INVESTMENT INCOME:		
Dividends		$ 21,470,891
Interest		20,789,966
Total Investment Income		42,260,857
EXPENSES:		
Investment advisory fees	$ 3,709,731	
Interest expenses	2,825,927	
Administrator s fees	395,083	
Servicing Agent fees	472,982	
Professional fees	108,125	
Insurance expenses	102,032	
Transfer Agent fees	24,125	
Directors fees	71,911	
Custodian fees	59,773	
Compliance fees	35,000	
Other	151,932	
Total Expenses		7,956,621
NET INVESTMENT INCOME		34,304,236
REALIZED AND UNREALIZED GAIN/(LOSS) ON INVESTMENTS		
Net realized gain on investments sold during the year		1,617,636
Change in net unrealized appreciation/(depreciation) of investments		(6,392,533)
NET REALIZED AND UNREALIZED LOSS ON INVESTMENTS		(4,774,897)
NET INCREASE IN NET ASSETS TO COMMON STOCK RESULTING FROM OPERATIONS		$ 29,529,339

For Federal income tax purposes, a significant portion of this amount may not qualify for the inter-corporate dividends received deduction (DRD) or as qualified dividend income (QDI) for individuals.

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK

	Year Ended November 30, 2015	Year Ended November 30, 2014
OPERATIONS:		
Net investment income	$ 34,304,236	$ 33,670,348
Net realized gain/(loss) on investments sold during the year	1,617,636	2,345,306
Change in net unrealized appreciation/(depreciation) of investments	(6,392,533)	41,175,542
Net increase in net assets resulting from operations	**29,529,339**	**77,191,196**
DISTRIBUTIONS:		
Dividends paid from net investment income to Common Stock Shareholders[1]	(36,781,021)	(37,777,174)
Total Distributions to Common Stock Shareholders	**(36,781,021)**	**(37,777,174)**
NET INCREASE/(DECREASE) IN NET ASSETS AVAILABLE TO COMMON STOCK FOR THE YEAR	**$ (7,251,682)**	**$ 39,414,022**
NET ASSETS AVAILABLE TO COMMON STOCK:		
Beginning of year	$ 475,163,039	$ 435,749,017
Net increase/(decrease) in net assets during the year	(7,251,682)	39,414,022
End of year (including undistributed net investment income of $1,579,061 and $392,803, respectively)	$ 467,911,357	$ 475,163,039

[1] May include income earned, but not paid out, in prior fiscal year.

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Dynamic Preferred and Income Fund

STATEMENT OF CASH FLOWS

For the Year Ended November 30, 2015

INCREASE/(DECREASE) IN CASH	
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net increase in net assets resulting from operations	$ 29,529,339
ADJUSTMENTS TO RECONCILE NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Purchase of investment securities	(120,519,609)
Proceeds from disposition of investment securities	113,177,873
Net sales of short-term investment securities	144,067
Increase in dividends and interest receivable	(132,359)
Increase in receivable for investments sold	(1,108,351)
Increase in prepaid expenses	(3,381)
Net amortization/(accretion) of premium/(discount)	3,528,714
Increase in payable for investments purchased	1,558,057
Decrease in payables to related parties	(288)
Increase in accrued expenses and other liabilities	24,341
Change in net unrealized (appreciation)/depreciation of investments	6,392,533
Net realized gain from investments sold	(1,617,636)
Net cash provided by operating activities	30,973,300
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from loan	5,800,000
Dividends paid (net of change in dividends payable) to common stock shareholders from net investment income	(36,773,300)
Net cash used in financing activities	(30,973,300)
Net increase/(decrease) in cash	
CASH:	
Beginning of the year	$
End of the year	$
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Interest paid during the year	$ 2,832,562
Increase in dividends payable to common stock shareholders	7,721

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

FINANCIAL HIGHLIGHTS

For a Common Stock share outstanding throughout each period

Contained below is per share operating performance data, total investment returns, ratios to average net assets and other supplemental data. This information has been derived from information provided in the financial statements and market price data for the Fund s shares.

	Year Ended November 30, 2015	Year Ended November 30, 2014	For the period from May 29, 2013[1] through November 30, 2013
PER SHARE OPERATING PERFORMANCE:			
Net asset value, beginning of period	$ 24.80	$ 22.75	$ 23.83[2]
INVESTMENT OPERATIONS:			
Net investment income	1.79	1.76	0.72
Net realized and unrealized gain/(loss) on investments	(0.24)	2.26	(1.02)
Total from investment operations	1.55	4.02	(0.30)
DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:			
From net investment income	(1.92)	(1.97)	(0.78)
Total distributions to Common Stock Shareholders	(1.92)	(1.97)	(0.78)
Net asset value, end of period	$ 24.43	$ 24.80	$ 22.75
Market value, end of period	$ 22.99	$ 23.65	$ 19.89
Total investment return based on net asset value*	7.07%	19.05%	(0.93%)[3]***
Total investment return based on market value*	5.65%	29.86%	(17.44%)[3]***
RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK SHAREHOLDERS:			
Total net assets, end of period (in 000 s)	$ 467,911	$ 475,163	$ 435,749
Operating expenses including interest expense[4]	1.68%	1.67%	1.47%**
Operating expenses excluding interest expense	1.08%	1.09%	1.06%**
Net investment income	7.25%	7.30%	6.29%**
SUPPLEMENTAL DATA:			
Portfolio turnover rate	16%	31%	10%***
Total managed assets, end of period (in 000 s)	$ 709,211	$ 710,663	$ 656,749
Ratio of operating expenses including interest expense[4] to total managed assets	1.12%	1.12%	1.07%**
Ratio of operating expenses excluding interest expense to total managed assets	0.72%	0.73%	0.77%**

* Assumes reinvestment of distributions at the price obtained by the Fund s Dividend Reinvestment and Cash Purchase Plan.

** Annualized.

*** Not Annualized.

The net investment income ratios reflect income net of operating expenses, including interest expense.

Information presented under heading Supplemental Data includes loan principal balance.

(1) Commencement of operations.

(2) Net asset value at beginning of period reflects the deduction of the sales load of $1.125 per share and offering costs of $0.05 per share paid by the shareholder from the $25.00 offering price.

(3) Total return on net asset value is calculated assuming a purchase at the offering price of $25.00 on the inception date of trading (May 29, 2013) less the sales load of $1.125 and offering costs of $0.05 and the ending net asset value per share. Total return on market value is calculated assuming a purchase at the offering price of $25.00 on the inception date of trading (May 29, 2013) and the sale at the current market price on the last day of the period. Total return on net asset value and total return on market value are not computed on an annualized basis.

(4) See Note 8.

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

FINANCIAL HIGHLIGHTS (Continued)

Per Share of Common Stock

	Total Dividends Paid	Net Asset Value	NYSE Closing Price	Dividend Reinvestment Price[1]
December 31, 2014	$ 0.1600	$ 24.72	$ 22.25	$ 22.57
January 30, 2015	0.1600	24.90	23.72	23.89
February 27, 2015	0.1600	25.01	23.53	23.65
March 31, 2015	0.1600	25.21	23.41	23.48
April 30, 2015	0.1600	25.10	23.94	23.95
May 29, 2015	0.1600	24.94	23.08	23.16
June 30, 2015	0.1600	24.38	22.31	22.17
July 31, 2015	0.1600	24.58	22.00	22.10
August 31, 2015	0.1600	24.24	22.29	22.32
September 30, 2015	0.1600	24.15	22.38	22.35
October 30, 2015	0.1600	24.50	22.94	23.06
November 30, 2015	0.1600	24.43	22.99	23.06

(1) Whenever the net asset value per share of the Fund s Common Stock is less than or equal to the market price per share on the reinvestment date, new shares issued will be valued at the higher of net asset value or 95% of the then current market price. Otherwise, the reinvestment shares of Common Stock will be purchased in the open market.

Senior Securities

	11/30/2015	11/30/2014	11/30/2013
Total Debt Outstanding, End of Period (000s)[1]	$ 241,300	$ 235,500	$ 221,000
Asset Coverage per $1,000 of Debt[2]	2,939	3,018	2,972

(1) See Note 8.

(2) Calculated by subtracting the Fund s total liabilities (excluding the loan) from the Fund s total assets and dividing that amount by the loan outstanding in 000 s.

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

1. Organization

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated (the Fund) was incorporated as a Maryland corporation on October 10, 2012, and commenced operations on May 29, 2013 as a non-diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the 1940 Act). The Fund s investment objective is to seek total return, with an emphasis on high current income.

2. Significant Accounting Policies

The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. The preparation of the financial statements is in conformity with U.S. generally accepted accounting principles (U.S. GAAP) and requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

Portfolio valuation: The net asset value of the Fund s Common Stock is determined by the Fund s Administrator daily in accordance with the policies and procedures approved by the Board of Directors of the Fund. It is determined by dividing the value of the Fund s net assets available to Common Stock by the number of shares of Common Stock outstanding. The value of the Fund s net assets available to Common Stock is deemed to equal the value of the Fund s total assets less (i) the Fund s liabilities and (ii) the aggregate liquidation value of any outstanding preferred stock.

The Fund s preferred and debt securities are valued on the basis of current market quotations provided by independent pricing services or dealers approved by the Board of Directors of the Fund. Each quotation is based on the mean of the bid and asked prices of a security. In determining the value of a particular preferred or debt security, a pricing service or dealer may use information with respect to transactions in such investments, quotations, market transactions in comparable investments, various relationships observed in the market between investments, and/or calculated yield measures based on valuation technology commonly employed in the market for such investments. Common stocks that are traded on stock exchanges are valued at the last sale price or official close price on the exchange, as of the close of business on the day the securities are being valued or, lacking any sales, at the last available mean price. Futures contracts and option contracts on futures contracts are valued on the basis of the settlement price for such contracts on the primary exchange on which they trade. Investments in over-the-counter derivative instruments, such as interest rate swaps and options thereon (swaptions), are valued using prices supplied by a pricing service, or if such prices are unavailable, prices provided by a single broker or dealer that is not the counterparty or, if no such prices are available, at a price at which the counterparty to the contract would repurchase the instrument or terminate the contract. Investments for which market quotations are not readily available or for which management determines that the prices are not reflective of current market conditions are valued at fair value as determined in good faith by or under the direction of the Board of Directors of the Fund, including reference to valuations of other securities which are comparable in quality, maturity and type.

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

NOTES TO FINANCIAL STATEMENTS (Continued)

Investments in money market instruments and all debt and preferred securities which mature in 60 days or less are valued at amortized cost. Investments in money market funds are valued at the net asset value of such funds.

Fair Value Measurements: The Fund has analyzed all existing investments to determine the significance and character of all inputs to their fair value determination. The levels of fair value inputs used to measure the Fund s investments are characterized into a fair value hierarchy. Where inputs for an asset or liability fall into more than one level in the fair value hierarchy, the investment is classified in its entirety based on the lowest level input that is significant to that investment s valuation. The three levels of the fair value hierarchy are described below:

Level 1	quoted prices in active markets for identical securities
Level 2	other significant observable inputs (including quoted prices for similar securities, 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 inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Transfers in and out of levels are recognized at market value at the end of the period.

A summary of the inputs used to value the Fund s investments as of November 30, 2015 is as follows:

	Total Value at November 30, 2015	Level 1 Quoted Price	Level 2 Significant Observable Inputs	Level 3 Significant Unobservable Inputs
Preferred Securities				
Banking	$ 365,044,567	$ 308,017,999	$ 57,026,568	$
Financial Services	8,979,894	8,979,894		
Insurance	194,648,557	117,917,998	76,730,559	
Utilities	19,029,378	10,119,148	8,910,230	
Energy	46,632,626	25,349,356	21,283,270	
Real Estate Investment Trust (REIT)	31,229,876	31,229,876		
Miscellaneous Industries	12,616,750	1,398,250	11,218,500	
Corporate Debt Securities				
Banking	10,706,150	10,706,150		
Communication	1,615,550	1,615,550		
Money Market Fund	12,296,148	12,296,148		
Total Investments	$ 702,799,496	$ 527,630,369	$ 175,169,127	$

During the reporting period, securities with an aggregate market value of $37,280,093 were transferred into Level 2 from Level 1. The securities were transferred due to a decrease in the quantity and quality of information related to trading activity or broker quotes for these securities. During the reporting period, there were no transfers into Level 1 from Level 2. During the reporting period, there were no transfers into or out of Level 3.

NOTES TO FINANCIAL STATEMENTS (Continued)

The fair values of the Fund s investments are generally based on market information and quotes received from brokers or independent pricing services that are approved by the Board of Directors and are unaffiliated with the Adviser. To assess the continuing appropriateness of security valuations, management, in consultation with the Adviser, regularly compares current prices to prior prices, prices across comparable securities, actual sale prices for securities in the Fund s portfolio, and market information obtained by the Adviser as a function of being an active market participant.

Securities with quotes that are based on actual trades or actionable bids and offers with a sufficient level of activity on or near the measurement date are classified as Level 1. Securities that are priced using quotes derived from implied values, indicative bids and offers, or a limited number of actual trades or the same information for securities that are similar in many respects to those being valued are classified as Level 2. If market information is not available for securities being valued, or materially-comparable securities, then those securities are classified as Level 3. In considering market information, management evaluates changes in liquidity, willingness of a broker to execute at the quoted price, the depth and consistency of prices from pricing services, and the existence of observable trades in the market.

Securities transactions and investment income: Securities transactions are recorded as of the trade date. Realized gains and losses from securities sold are recorded on the specific identified cost basis. Dividend income is recorded on ex-dividend dates. Interest income is recorded on the accrual basis. The Fund also amortizes premiums and accretes discounts on fixed income securities using the effective yield method.

Options: Purchases of options are recorded as an investment, the value of which is marked-to-market at each valuation date. When the Fund enters into a closing sale transaction, the Fund will record a gain or loss depending on the difference between the purchase and sale price.

When the Fund writes an option, an amount equal to the premium received by the Fund is recorded as a liability, the value of which is marked-to-market at each valuation date. When a written option expires, the Fund realizes a gain equal to the amount of the premium originally received. When the Fund enters into a closing purchase transaction, the Fund realizes a gain (or loss if the cost of the closing purchase transaction exceeds the premium received when the option was written) without regard to any unrealized gain or loss on the underlying security, and the liability related to such option is eliminated. When a call option is exercised, the Fund realizes a gain or loss from the sale of the underlying security and the proceeds from such sale are increased by the amount of the premium originally received. When a put option is exercised, the amount of the premium originally received will reduce the cost of the security which the Fund purchased upon exercise.

Repurchase agreements: The Fund may engage in repurchase agreement transactions. The Adviser reviews and approves the eligibility of the banks and dealers with which the Fund may enter into repurchase agreement transactions. The value of the collateral underlying such transactions must be at least equal at all times to the total amount of the repurchase obligations, including interest. The Fund maintains possession of the collateral through its custodian and, in the event of counterparty default, the Fund has the right to use the collateral to offset losses incurred. There is the possibility of loss to the Fund in the event the Fund is delayed or prevented from exercising its rights to dispose of the collateral securities.

Federal income taxes: The Fund intends to continue to qualify as a regulated investment company by complying with the requirements under subchapter M of the Internal Revenue Code of 1986, as amended,

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

NOTES TO FINANCIAL STATEMENTS (Continued)

(the Code) applicable to regulated investment companies and intends to distribute substantially all of its taxable net investment income to its shareholders. Therefore, no federal income tax provision is required.

Management has analyzed the Fund s tax positions taken on federal income tax returns for all open tax years (November 30, 2015, 2014 and 2013), and has concluded that no provision for federal income tax is required in the Fund s financial statements. The Fund s major tax jurisdictions are federal and the State of California. The Fund s federal and state income and federal excise tax returns for tax years for which the applicable statutes of limitations have not expired are subject to examination by the Internal Revenue Service and state departments of revenue.

Dividends and distributions to shareholders: The Fund expects to declare dividends on a monthly basis to holders of Common Stock (Shareholders). Distributions to Shareholders are recorded on the ex-dividend date. Any net realized short-term capital gains will be distributed to Shareholders at least annually. Any net realized long-term capital gains may be distributed to Shareholders at least annually or may be retained by the Fund as determined by the Fund s Board of Directors. Capital gains retained by the Fund are subject to tax at the capital gains corporate tax rate. Subject to the Fund qualifying as a regulated investment company, any taxes paid by the Fund on such net realized long-term capital gains may be used by the Fund s Shareholders as a credit against their own tax liabilities. The Fund may pay distributions in excess of the Fund s net investment company taxable income and this excess would be a tax-free return of capital distributed from the Fund s assets.

Income and capital gain distributions are determined and characterized in accordance with income tax regulations which may differ from U.S. GAAP. These differences are primarily due to (1) differing treatments of income and gains on various investment securities held by the Fund, including timing differences, (2) the attribution of expenses against certain components of taxable investment income, and (3) federal regulations requiring proportionate allocation of income and gains to all classes of shareholders.

Distributions from net realized gains for book purposes may include short-term capital gains, which are included as ordinary income for tax purposes, and may exclude amortization of premium and discount on certain fixed income securities, which are not reflected in ordinary income for tax purposes. The tax character of distributions paid during 2015 and 2014 were as follows:

	Distributions paid in fiscal year 2015		**Distributions paid in fiscal year 2014**	
	Ordinary Income	**Long-Term Capital Gains**	**Ordinary Income**	**Long-Term Capital Gains**
Common Stock	$36,781,021	$0	$37,777,174	$0

As of November 30, 2015, the components of distributable earnings (i.e., ordinary income and capital gain/loss) available to Shareholders, on a tax basis, were as follows:

Capital (Loss) Carryforward	**Undistributed Ordinary Income**	**Undistributed Long-Term Gain**	**Net Unrealized Appreciation/(Depreciation)**
$(573,668)	$2,008,541	$0	$9,939,901

NOTES TO FINANCIAL STATEMENTS (Continued)

The composition of the Fund s accumulated realized capital losses is indicated below. These losses may be carried forward and offset against future capital gains through the dates listed below. During the year ended November 30, 2015, the Fund utilized $142,279 of capital losses.

No Expiration Short Term	No Expiration Long Term	Total
$161,590	$412,078	$573,668

Reclassification of accounts: During the year ended November 30, 2015, reclassifications were made in the Fund s capital accounts to report these balances on a tax basis, excluding temporary differences, as of November 30, 2015. Additional adjustments may be required in subsequent reporting periods. These reclassifications have no impact on the net asset value of the Fund. The calculation of net investment income per share in the financial highlights excludes these adjustments. Below are the reclassifications:

Paid-in Capital	Undistributed Net Investment Income	Accumulated Net Realized Gain on Investments
$(71,574)	$3,663,043	$(3,591,469)

Excise tax: The Code imposes a 4% nondeductible excise tax on the Fund to the extent the Fund does not distribute by the end of any calendar year at least (1) 98% of the sum of its net investment income for that year and 98.2% of its capital gains (both long-term and short-term) for its fiscal year and (2) certain undistributed amounts from previous years. The Fund is subject to a payment of an estimated $63,000 of federal excise taxes attributed to calendar year 2015. The Fund paid $27,763 of federal excise taxes attributable to calendar year 2014 in March 2015.

3. Derivative Instruments

The Fund intends to use derivatives primarily to economically hedge against risks in the portfolio, namely interest rate risk and credit risk. The Fund may use options on Treasury futures contracts for the purpose of economically hedging against a significant increase in long-term interest rates. If the strategy is employed, the Fund would purchase put options on Treasury futures contracts that would increase in value if long-term interest rates increased significantly, offsetting some of the related decline in portfolio asset values. The Fund may also purchase and write call options on Treasury futures contracts to supplement the put option strategy and also to reduce the overall cost of the interest rate hedge (by earning premiums from the net sale of call options).

The Fund has the authority to use other derivatives for hedging or to increase expected return, but has not employed any of these derivatives to-date and does not anticipate broad use of these derivatives in the near future (although this may change without advance notice). Other approved derivatives strategies include: buying and selling credit default swaps, interest rate swaps and options thereon (swaptions), and options on securities. Accounting policies for specific derivatives, including the location of these items in the financial statements, are included in Note 2 as appropriate. No assurance can be given that such use of derivatives will achieve their desired purposes or, in the case of hedging, will result in an overall reduction of risk to the Fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

The Fund did not use any derivatives during the fiscal years ended November 30, 2015 and November 30, 2014.

Options on Financial Futures Contracts: When an interest rate hedging strategy is employed, the Fund intends to use options on financial futures contracts in much the same way as described above. The risk associated with purchasing options, and therefore the maximum loss the Fund would incur, is limited to the purchase price originally paid. The risk in writing a call option is that the Fund may forego the opportunity for profit if the market price of the underlying security increases and the option is exercised. The risk in writing a put option is that the Fund may incur a loss if the market price of the underlying security decreases and the option is exercised.

4. Investment Advisory Fee, Servicing Agent Fee, Administration Fee, Transfer Agent Fee, Custodian Fee, Directors Fees and Chief Compliance Officer Fee

Flaherty & Crumrine Incorporated (the Adviser) serves as the Fund s investment adviser. The Fund pays the Adviser a monthly fee at an annual rate of 0.575% of the Fund s average daily managed assets up to $200 million and 0.50% of the Fund s average daily managed assets of $200 million or more. For purposes of calculating such a fee managed assets means the Fund s net assets, plus the principal amount of loans from financial institutions or debt securities issued by the Fund, the liquidation preference of preferred stock issued by the Fund, if any, and the proceeds of any reverse repurchase agreements entered into by the Fund.

Destra Capital Investments LLC (the Servicing Agent) serves as the Fund s shareholder servicing agent. As compensation for its services, the Fund pays the Servicing Agent a fee computed and paid monthly at the annual rate of 0.12% of the Fund s Average Net Assets through the first year of the Fund s agreement with the Servicing Agent and 0.10% of the Fund s Average Net Assets for the remainder of the term of the agreement. For these purposes, Average Net Assets are the average daily net assets available to the Fund s common shareholders.

BNY Mellon Investment Servicing (US) Inc. (BNY Mellon) serves as the Fund s administrator (the Administrator). As Administrator, BNY Mellon calculates the net asset value of the Fund s shares attributable to Common Stock and generally assists in all aspects of the Fund s administration and operation. As compensation for BNY Mellon s services as Administrator, the Fund pays BNY Mellon a monthly fee at an annual rate of 0.10% of the first $200 million of the Fund s average daily total managed assets, 0.04% of the next $300 million of the Fund s average daily total managed assets, 0.03% of the next $500 million of the Fund s average daily total managed assets and 0.02% of the Fund s average daily total managed assets above $1 billion. For purposes of calculating such fee, the Fund s total managed assets means the total assets of the Fund (including any assets attributable to the Fund s preferred stock that may be outstanding or otherwise attributable to the use of leverage) minus the sum of accrued liabilities (other than debt, if any, representing financial leverage).

BNY Mellon (c/o, Computershare) also serves as the Fund s Common Stock dividend-paying agent and registrar (the Transfer Agent). As compensation for BNY Mellon s services as Transfer Agent, the Fund pays BNY Mellon a monthly fee in the amount of $1,500, plus certain out of pocket expenses.

NOTES TO FINANCIAL STATEMENTS (Continued)

The Bank of New York Mellon (the Custodian) serves as the Fund s Custodian. As compensation for the Custodian s services as custodian, the Fund pays the Custodian a monthly fee at the annual rate of 0.01% of the first $200 million of the Fund s average daily total managed assets, 0.008% of the next $300 million of the Fund s average daily total managed assets, 0.006% of the next $500 million of the Fund s average daily total managed assets, and 0.005% of the Fund s average daily total managed assets above $1 billion. For purposes of calculating such fee, the Fund s total managed assets means the total assets of the Fund (including any assets attributable to any Fund auction rate preferred stock that may be outstanding or otherwise attributable to the use of leverage) minus the sum of accrued liabilities (other than debt, if any, representing financial leverage).

The Fund pays each Director who is not a director, officer or employee of the Adviser a fee of $9,000 per annum, plus $750 for each in-person meeting of the Board of Directors or Audit Committee, $500 for each in-person meeting of the Nominating Committee attended, and $250 for each telephone meeting attended. The Audit Committee Chairman receives an additional annual fee of $3,000. The Fund also reimburses all Directors for travel and out-of-pocket expenses incurred in connection with such meetings.

The Fund pays the Adviser a fee of $35,000 per annum for Chief Compliance Officer services and reimburses out-of-pocket expenses incurred in connection with providing services in this role.

5. Purchases and Sales of Securities

For the year ended November 30, 2015, the cost of purchases and proceeds from sales of securities, excluding short-term investments, aggregated $120,519,609 and $113,177,873, respectively.

At November 30, 2015, the aggregate cost of securities for federal income tax purposes was $692,859,595, the aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost was $29,613,071 and the aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value was $19,673,170.

6. Common Stock

At November 30, 2015, 240,000,000 shares of $0.01 par value Common Stock were authorized.

7. Preferred Stock

The Fund has the authority to issue 10,000,000 shares of $0.01 par value preferred stock. The Fund does not currently have any issued and outstanding shares of preferred stock.

8. Committed Financing Agreement

The Fund has entered into a committed financing agreement (Financing Agreement) with BNP Paribas Prime Brokerage International, Ltd. that allows the Fund to borrow on a secured basis, which the Fund uses in the normal course of business as financial leverage. Such leveraging tends to magnify both the risks and opportunities to Shareholders. As of November 30, 2015, the committed amount, and amount borrowed, under the Financing Agreement was $241.3 million.

NOTES TO FINANCIAL STATEMENTS (Continued)

The lender charges an annualized rate of 0.65% on the undrawn (committed) balance, and three-month LIBOR (reset quarterly) plus 0.75% on the drawn (borrowed) balance. Effective December 13, 2013, the Fund fixed the cost on $205 million of the leverage balance at a rate of 1.19% for a period of two years. The remaining leverage balance (and any increase in leverage balance) will continue to be at a variable rate. For the year ended November 30, 2015, the daily weighted average annualized interest rate on the drawn balance was 1.17% and the average daily loan balance was $238,995,890. LIBOR rates may vary in a manner unrelated to the income received on the Fund s assets, which could have either a beneficial or detrimental impact on net investment income and gains available to Shareholders.

The Fund is required to meet certain asset coverage requirements under the Financing Agreement and under the 1940 Act. In accordance with the asset coverage requirements, at least two-thirds of the Fund s assets are expected to be pledged as collateral assuming the full committed amount is drawn. Securities pledged as collateral are identified in the portfolio of investments. If the Fund fails to meet these requirements, or maintain other financial covenants required under the Financing Agreement, the Fund may be required to repay immediately, in part or in full, the amount borrowed under the Financing Agreement. Additionally, failure to meet the foregoing requirements or covenants could restrict the Fund s ability to pay dividends to Shareholders and could necessitate sales of portfolio securities at inopportune times. The Financing Agreement has no stated maturity, but may be terminated by either party without cause with six months advance notice.

Under the terms of the Financing Agreement, the lender has the ability to borrow a portion of the securities pledged as collateral against the loan (Rehypothecated Securities), subject to certain limits. In connection with any Rehypothecated Securities, the Fund receives a fee from the lender equal to the greater of (x) 0.05% of the value of the Rehypothecated Securities and (y) 70% of the net securities lending income. The Fund may recall any Rehypothecated Security at any time and the lender is required to return the security in a timely fashion. In the event the lender does not return the security, the Fund will have the right to, among other things, apply and set off an amount equal to 100% of the then-current fair market value of such Rehypothecated Securities against any loan amounts owed to the lender under the Financing Agreement. Rehypothecated Securities are marked-to-market daily and adjusted as necessary so the value of all Rehypothecated Securities does not exceed 100% of the loan amount under the Financing Agreement. The Fund will continue to earn and receive all dividends, interest, and other distributions on Rehypothecated Securities. Rehypothecated Securities are identified in the Portfolio of Investments, and fees earned from rehypothecation are included in the Statement of Operations.

9. Portfolio Investments, Concentration and Investment Quality

Under normal market conditions, the Fund invests at least 80% of its managed assets in a portfolio of preferred and other income-producing securities issued by U.S. and non-U.S. companies, including traditional preferred stock, hybrid and trust preferred securities that have characteristics of both equity and debt securities, convertible securities, subordinated debt, and senior debt. Managed assets means the Fund s net assets, plus the principal amount of loans from financial institutions or debt securities issued by the Fund, the liquidation preference of preferred stock issued by the Fund, if any, and the proceeds of any reverse repurchase agreements entered into by the Fund. Also, under normal market conditions, the Fund will invest more than 25% of its total assets in the financials sector, which for this purpose is comprised of the bank, thrifts and mortgage finance, diversified financial services, finance, consumer finance, capital markets, asset management and custody, investment banking and brokerage, insurance, insurance brokerage, and real estate investment trust (REIT) industries. From time to time, the Fund may have 25% or more of its total assets invested in any one of these industries. The Fund s portfolio may therefore be subject to greater risk and market fluctuation than a portfolio of securities representing a broader range of investment alternatives.

The Fund will invest at least 80% of its managed assets in (a) investment grade quality securities or (b) below investment grade quality securities of companies with investment grade senior unsecured debt outstanding, in either case determined at the time of purchase. Consequently, the Fund may invest up to 20% of its managed assets in securities of companies with below investment grade quality senior unsecured debt outstanding. In addition, the Fund may invest in unrated securities that the Fund s investment adviser deems to be comparable in quality to rated issues in which the Fund is authorized to invest.

The Fund may invest up to 15% of its managed assets in common stocks, and up to 100% of its managed assets in securities of non-U.S. companies. Investments may include U.S. dollar-denominated securities and non-U.S. dollar-denominated securities issued by companies organized or headquartered in foreign countries and/or doing significant business outside the United States.

The Fund may employ certain investment techniques in accordance with its fundamental investment policies. These may include the use of when-issued and delayed delivery transactions. Securities purchased or sold on a when-issued or delayed delivery basis may be settled within 45 days after the date of the transaction. The Fund may also enter into transactions, in accordance with its investment policies, involving short sales of securities and purchases of securities on margin. Such transactions may expose the Fund to credit and market valuation risk greater than that associated with regular trade settlement procedures.

10. Subsequent Events

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Shareholders and Board of Directors of

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

We have audited the accompanying statement of assets and liabilities of Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated, including the portfolio of investments, as of November 30, 2015, and the related statement of operations and cash flows for the year then ended, the statements of changes in net assets available to common stock for each of the years in the two-year period then ended, and the financial highlights for the each of the years in the two-year period ended November 30, 2015 and for the period from May 29, 2013 (commencement of operations) to November 30, 2013. These financial statements and financial highlights are the responsibility of the Fund s management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. 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 November 30, 2015, by correspondence with the custodian, transfer agent or by other procedures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated as of November 30, 2015, the results of its operations and its cash flows for the year then ended, the changes in its net assets available to common stock for each of the years in the two-year period then ended, and the financial highlights for each of the years or periods described above, in conformity with U.S. generally accepted accounting principles.

Boston, Massachusetts

January 21, 2016

ADDITIONAL INFORMATION (Unaudited)

Dividend Reinvestment and Cash Purchase Plan

Under the Fund s Dividend Reinvestment and Cash Purchase Plan (the Plan), a shareholder whose Common Stock is registered in his or her own name will have all distributions reinvested automatically by BNY Mellon as agent under the Plan, unless the shareholder elects to receive cash. Registered shareholders may elect to receive cash by contacting BNY Mellon at the number provided below. If shares are registered in the name of a broker-dealer or other nominee (that is, in street name) and the broker or nominee participates in the Plan, distributions may be reinvested by the broker or nominee in additional shares under the Plan, unless the shareholder elects to receive distributions in cash. Shareholders may elect to receive cash by contacting their broker or nominee. A shareholder who holds Common Stock registered in the name of a broker or other nominee may not be able to transfer the Common Stock to another broker or nominee and continue to participate in the Plan. Investors who own Common Stock registered in street name should consult their broker or nomine60; 86,282 1,619 16,287 104,188

The “Corporate” column includes general and administrative overhead expenses. Property and equipment, net, included in the “Corporate” column above includes assets related to corporate and support functions.

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements as of, and for, the three and six months ended June 30, 2014 and 2013 and our Annual Report for the year ended December 31, 2013 on Form 10-K, filed with the U.S. Securities and Exchange Commission, or the Commission, on March 28, 2014.

Forward-Looking Statements

This quarterly report for the quarterly period ended June 30, 2014 on Form 10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate, or imply future results, performance or achievements, and may contain the words “estimate,” “project,” “intend,” “forecast,” “anticipate,” “plan,” “planning,” “expect,” “believe,” “w likely,” “should,” “could,” “would,” “may” or, in each case, their negative, or words or expressions of similar meaning. These forward-looking statements include, but are not limited to, statements concerning the timing, progress and results of the clinical development and trials, reporting of data, regulatory processes, potential clinical trial initiations, potential investigational new product applications, biologics license applications, and commercialization efforts relating to our product candidate(s) and the limitation of our available cash. The forward-looking statements contained in this report represent our estimates and assumptions only as of the date of this report and we undertake no duty or obligation to update or revise publicly any forward-looking statements contained in this report as a result of new information, future events or changes in our expectations, except as required by applicable law or rules. Forward-looking statements are subject to many risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled “Risk Factors” in our Annual Report for the year ended December 31, 2013 on Form 10-K as filed with the Commission on March 28, 2014, and in other filings with the Commission.

In addition to the risks identified under the heading “Risk Factors” in the filings referenced above, many important factors affect our ability to achieve our plans and objectives and to successfully develop and commercialize our product candidates. Among other things, the projected commencement and completion of our clinical trials and availability of data may be affected by difficulties or delays. In addition, our results may be affected by our ability to manage our financial resources, difficulties or delays in developing manufacturing processes for our product candidates, preclinical and toxicology testing and regulatory developments. Delays in clinical programs, whether caused by competitive developments, adverse events, patient enrollment rates, regulatory issues or other factors, could adversely affect our financial position and prospects. Prior clinical trial program designs and results are not necessarily indicative of future clinical trial designs or results. If our product candidates do not meet safety or efficacy endpoints in clinical evaluations, they will not receive regulatory approval and we will not be able to market them. We may not be able to enter into any strategic partnership agreements. Operating expense and cash flow projections involve a high degree of uncertainty, including variances in future spending rates due to changes in corporate priorities, the timing and outcomes of clinical trials, competitive developments and the impact on expenditures and available capital from licensing and strategic collaboration opportunities. If we are unable to raise additional capital when required or on acceptable terms, we may have to significantly delay, scale back or discontinue one or more of our drug development or discovery research programs. We may not ever have any products that generate significant revenue.

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Therefore, current and prospective security holders are cautioned that there can be no assurance that the forward-looking statements included in this document will prove to be accurate.

Overview

We are a late stage biopharmaceutical company that develops, manufactures, and intends to market specialty plasma-based biologics for the treatment and prevention of certain infectious diseases. Our targeted patient populations include immune-compromised individuals who suffer from an underlying immune deficiency disorder or who may be immune-suppressed for medical reasons. Our product candidates are intended to be used by physician specialists focused on caring for immune-compromised patients with infectious diseases.

RI-002 is our lead product candidate currently being evaluated in a pivotal Phase III trial, for which we anticipate completing during the fourth quarter of 2014. RI-002 is intended for the treatment of primary immune deficiency disease, or PIDD. RI-002 is an injectable immune globulin (human), or IGIV, derived from human plasma, which contains immune globulins extracted from source plasma in a manufacturing process called fractionation and is enriched with naturally occurring polyclonal antibodies (e.g., streptococcus pneumoniae, H. influenza type B, Cytomegalovirus or CMV, measles, tetanus, etc.) as well as high levels of antibodies targeted to respiratory syncytial virus, or RSV. RSV is a common virus that ordinarily leads to mild, cold-like symptoms in healthy adults and children. In high-risk groups, such as the immune-compromised, RSV can lead to a more serious infection and may even cause death. Our unique and exclusive microneutralization assay allows us to effectively identify and isolate donor plasma with high-titer RSV antibodies, to standardize RI-002’s potency and thereby potentially garner a premium price.

We completed patient enrollment in our pivotal Phase III clinical trial of RI-002 for the treatment of patients with PIDD during the fourth quarter of 2013 and anticipate the trial’s completion during the fourth quarter of 2014. The trial is a single arm, open label study in which patients will be treated approximately once per month for a period of 12 months of treatment plus up to 90 days of safety monitoring and follow up. We have enrolled 59 patients in 9 treatment centers throughout the United States. As of the date of this report, we have administered greater than 90% of the number of infusions to patients and approximately one half of the patients enrolled have already completed all scheduled infusions and study visits. We believe that the remaining patients will complete their 12 months of treatments in our Phase III study before December 31, 2014. Also, as of the date of this report there have been no reported serious adverse events related to RI-002. The pivotal Phase III study design follows the published U.S. Food and Drug Administration’s or FDA’s “Guidance for Industry: Safety, Efficacy, and Pharmacokinetic Studies to Support Marketing of Immune Globulin Intravenous (Human) as Replacement Therapy for Primary Humoral Immunodeficiency” (Center for Biologics Evaluation and Research June 2008). The primary endpoint in our Phase III study, as described in the FDA’s guidance for industry provides for a reduction in the incidence of serious infections to less than one per year in each subject receiving IGIV. The secondary endpoint is safety and includes other data collection points including antibody titers for certain agents, including RSV antibody levels at various time points after infusion. Our protocol has been developed in accordance with the FDA’s Guidance for Industry (June 2008), and if successful data is obtained, we believe that this single Phase III trial and complete Biological License Application, or BLA, submission should lead to FDA approval for RI-002. We expect to have preliminary data from the pivotal Phase III clinical trial during the fourth quarter of 2014. Once data is available, we expect to file a BLA with the FDA during the first half of 2015 in accordance with the FDA’s guidance for industry. The FDA could approve our BLA within approximately one year of filing, and potential first commercial sales could occur as early as the first half of 2016.

In prior clinical studies, we conducted a randomized, double-blind, placebo-controlled Phase II clinical trial to evaluate RI-001, RI-002's predecessor product candidate, in immune-compromised, RSV-infected patients. This trial was conducted with 21 patients in the United States, Canada, Australia, and New Zealand. The Phase II dose-ranging trial demonstrated a statistically significant improvement in the change from baseline RSV titers to Day 18 in the high dose and low dose treatment groups when compared with placebo (p=0.0043 and p=0.0268, respectively). The mean fold increase for high dose was 9.24 (95% CI 4.07, 21.02) and the observed mean fold increase for low dose was 4.85 (95% CI 2.22, 10.59). The mean fold change for placebo treated patients was 1.42 (95% CI 0.64, 3.17). In addition, more patients in the high dose (85.7%) and lose dose (42.9%) groups experienced greater than a 4-fold increase from baseline to Day 18 in RSV titer levels compared to placebo (0%). There were no serious drug-related adverse events reported during the trial.

From April 2009 through February 2011, RI-001 was administered to 15 compassionate use patients where physicians requested emergency access to the product for treating their patients with documented lower respiratory tract RSV infections. Serum samples were obtained from 13 patients. Samples showed that after treatment with RI-001, patients had a four-fold or greater rise in RSV antibody titers from baseline. Serum samples were not obtained from two patients that received Palivizumab. The drug was well-tolerated in these 15 patients and there were no reports of serious adverse events attributable to RI-001.

Data from our previously conducted Phase II trial, prior compassionate use experience and testing of RI-002 in the cotton rat RSV animal model has been presented at various conferences during 2013 and 2014 and is accessible on our website under posters and publications at www.admabiologics.com.

Financial Operations Overview

Revenues

Our revenues are substantially comprised of the product sale of normal source human plasma collected at our plasma collection center and plasma-derived medicinal products which are primarily attributed to one customer. Revenue is recognized at the time of transfer of title and risk of loss to the customer, which usually occurs at the time of shipment; however, revenue is recognized at the time of delivery if we retain the risk of loss during shipment. Revenue from license fees and research and development services rendered are recognized as revenue when we have completed the performance obligations under the terms of the license agreement with Biotest Pharmaceuticals Corporation, or Biotest, a subsidiary of Biotest AG. Deferred revenue of $1.7 million was recorded in the second quarter of 2013 as a result of certain research and development services to be provided in accordance with a license agreement and is being recognized over the term of the license.

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Research and Development Expense

Research and development, or R&D, expense consists of clinical research organization costs and clinical trial costs related to our Phase III clinical trial, consulting expenses relating to regulatory affairs, quality control and manufacturing, assay development and ongoing testing costs, drug product manufacturing including the cost of plasma, plasma storage and transportation costs, as well as wages and benefits for employees including stock based compensation directly related to the research and development of RI-002. All R&D is expensed as incurred.

The process of conducting pre-clinical studies and clinical trials necessary to obtain FDA approval is costly and time consuming. The probability of success for each product candidate and clinical trial may be affected by a variety of factors, including, among others, the quality of the product candidate's early clinical data, investment in the program, competition, manufacturing capabilities and commercial viability. As a result of the uncertainties discussed above, the uncertainty associated with clinical trial enrollments and the risks inherent in the development process, we are unable to determine the duration and completion costs of current or future clinical stages of our product candidates or when, or to what extent, we will generate revenues from the commercialization and sale of any of our product candidates. Development timelines, probability of success and development costs vary widely. R&D expense for the three months ended June 30, 2014 decreased compared to the three months ended June 30, 2013, primarily attributed to higher manufacturing costs in the second quarter of 2013 versus the second quarter of 2014. R&D expense for the six months ended June 30, 2014 increased significantly compared to six months ended June 30, 2013, as a result of our Phase III clinical study being fully enrolled at the end of 2013 along with completing the manufacturing of our clinical drug product supply during the first quarter of 2014. We expect that our R&D expense will not increase throughout 2014, as we focus our efforts on the completion of the Phase III clinical study.

General and Administrative Expense

General and administrative, or G&A expense, consists of wages, stock based compensation and benefits for senior management and staff unrelated to R&D, consulting fees for commercialization planning and market research, legal fees, accounting and auditing fees, information technology, rent, maintenance and utilities, insurance, travel and other expenses related to the general operations of the business. G&A expense also includes a write-off of deferred financing fees related to our financing activities during 2013. We expect that our G&A expense will continue to increase throughout the remainder of 2014 as a result of commercial planning, market research costs and the hiring of additional staff related to commercialization and marketing in anticipation of the commercial development of RI-002.

Interest Income and Interest Expense

Interest income consists of interest earned on our cash and cash equivalents and short-term investments. Interest expense consists of interest incurred on our notes payable, as well as the amortization and write-off of deferred financing costs and debt discounts.

Results of Operations

Three Months Ended June 30, 2014 Compared to Three Months Ended June 30, 2013

Summary table

The following table presents a summary of the changes in our results of operations for the three months ended June 30, 2014 compared to the three months ended June 30, 2013:

	Three Months Ended June 30, 2014	2013	Percentage Increase/ (Decrease)
Revenues	$ 1,500,319	$ 743,270	>100 %
Cost of product revenue	$ 940,815	$ 485,761	94 %
Research and development expenses	$ 1,783,909	$ 3,470,350	-49 %
Plasma center operating expenses	$ 820,849	$ 539,994	52 %
General and administrative expenses	$ 1,542,066	$ 1,090,292	41 %
Total operating expenses	$ 5,087,639	$ 5,586,397	-9 %
Other income (expense), net	$ (373,925)	$ (52,317)	>100 %
Net loss	$ (3,961,245)	$ (4,895,444)	-19 %
Loss in plasma collection segment	$ (278,242)	$ (290,710)	-4 %
Loss attributable to research and development	$ (1,783,909)	$ (3,470,350)	-49 %

Revenues

We recorded total revenues of $1,500,319 for the three months ended June 30, 2014 and $743,270 for the three months ended June 30, 2013. Product revenue was $1,481,430 for the three months ended June 30, 2014 from the sale of blood plasma collected in our FDA-licensed, GHA-certified Georgia-based blood plasma collection center, compared to product revenue of $736,974 for the three months ended June 30, 2013. Product revenue for the quarter ended June 30, 2014 was primarily attributed to sales made pursuant to our plasma supply agreement with Biotest under which Biotest purchases normal source plasma from our wholly owned subsidiary, ADMA BioCenters, to be used in their manufacturing. The increase in product revenue of $744,456 was attributed to increased donor collections, advertising and promotions to attract more plasma donors, as well as the expansion of additional plasma donor equipment. For the three months ended June 30, 2014 and 2013, license revenue was $18,889 and $6,296, respectively, which relates to services provided by Biotest in accordance with our license agreement. We have not generated any revenue from our therapeutics research and development business.

Cost of Product Revenue

Cost of product revenue was $940,815 for the three months ended June 30, 2014, and $485,761 for the three months ended June 30, 2013. The increased cost of product revenues for the three months ended June 30, 2014 and 2013 was related to the costs associated with the increased donor collections, production and sale of normal source plasma.

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Research and Development Expenses

R&D expenses were $1,783,909 for the three months ended June 30, 2014, a decrease of $1,686,441 from $3,470,350 for the three months ended June 30, 2013. R&D expenses decreased during the three months ended June 30, 2014, compared to the three months ended June 30, 2013, primarily attributed to substantially all drug product supply manufacturing costs being completed during the first quarter of 2014.

Plasma Center Operating Expenses

Our wholly owned subsidiary, ADMA BioCenters' operating expenses were $820,849 for the three months ended June 30, 2014, an increase of $280,855 from $539,994 for the three months ended June 30, 2013. These operating expenses consist of G&A overhead, comprised of: rent, maintenance, utilities, wages and benefits for center staff, plasma collection supplies, plasma transportation and storage (off-site), advertising and promotion expenses, and computer software fees related to donor collections. The increase in expenses was primarily a result of increased overhead expenses which include additional employees and increased plasma facility supplies, attributed to increased donor collections during the three months ended June 30, 2014. We expect that as plasma collection increases, our operating expenses will also increase accordingly.

General and Administrative Expenses

G&A expenses were $1,542,066 for the three months ended June 30, 2014, an increase of $451,774 from $1,090,292 for the three months ended June 30, 2013. G&A expenses primarily increased as a result of fees incurred for consulting services provided to us related to commercial planning, market research and analysis during the second quarter 2014, compared to the three months ended June 30, 2013.

Total Operating Expenses

Total operating expenses were $5,087,639 for the three months ended June 30, 2014, a decrease of $498,758 from $5,586,397 for the three months ended June 30, 2013, for the reasons stated above.

Other Income (Expense); Interest Expense

Other expense, net was $373,925 for the three months ended June 30, 2014, compared to $52,317 for the three months ended June 30, 2013. The increase in interest expense was attributed to increased debt, amortization of debt discount and deferred financing fees related to the Hercules notes outstanding as of June 30, 2014. In connection with the Hercules notes, as of March 31, 2014, we recorded $214,368 as the fair value of the warrant issued to Hercules, as warrant liability and as a debt discount to the carrying value of the loan. As of June 30, 2014, we recorded $249,168 as the fair value of the warrant, as a warrant liability. As a result of the increase in warrant liability during the quarter ended June 30, 2014, we recorded a $34,800 change in the fair value of warrant liability. This warrant liability is adjusted to fair value each reporting period using a lattice-based option model. The debt discount is being amortized to interest expense over the term of the loan.

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Net Loss

Net loss decreased to $3,961,245 for the three months ended June 30, 2014, from $4,895,444 for the three months ended June 30, 2013 for the reasons stated above.

Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013

Summary table

The following table presents a summary of the changes in our results of operations for the six months ended June 30, 2014 compared to the six months ended June 30, 2013:

	Six Months Ended June 30, 2014	2013	Percentage Increase/ (Decrease)
Revenues	$ 3,060,878	$ 1,536,205	99 %
Cost of product revenue	$ 1,917,845	$ 1,014,807	89 %
Research and development expenses	$ 6,114,366	$ 4,937,934	24 %
Plasma center operating expenses	$ 1,623,318	$ 1,055,282	54 %
General and administrative expenses	$ 2,676,655	$ 2,521,398	6 %
Total operating expenses	$ 12,332,184	$ 9,529,421	29 %
Other income (expense), net	$ (593,811)	$ (143,875)	>100 %
Net loss	$ (9,865,117)	$ (8,137,091)	21 %
Loss in plasma collection segment	$ (517,801)	$ (544,101)	-5 %
Loss attributable to research and development	$ (6,114,366)	$ (4,937,934)	24 %

Revenues

We recorded total revenues of $3,060,878 for the six months ended June 30, 2014 and $1,536,205 for the six months ended June 30, 2013. Product revenue was $3,023,100 for the six months ended June 30, 2014 from the sale of blood plasma collected in our FDA-licensed, GHA-certified Georgia-based blood plasma collection center, compared to product revenue of $1,529,909 for the six months ended June 30, 2013. Product revenue for the six months ended June 30, 2014 was primarily attributed to sales made pursuant to our plasma supply agreement with Biotest under which Biotest purchases normal source plasma from our wholly owned subsidiary, ADMA BioCenters, to be used in their manufacturing. The increase in product revenue of $1,493,191 was attributed to increased donor collections, advertising and promotions to attract more plasma donors, as well as the expansion of additional plasma donor equipment. For the six months ended June 30, 2014 and 2013, license revenue was $37,778 and $6,296, respectively, which relates to services provided by Biotest in accordance with our license agreement. We have not generated any revenue from our therapeutics research and development business.

Cost of Product Revenue

Cost of product revenue was $1,917,845 for the six months ended June 30, 2014, and $1,014,807 for the six months ended June 30, 2013. The increased cost of product revenues for the six months ended June 30, 2014 and 2013 was related to the costs associated with the increased donor collections, production and sale of normal source plasma.

Research and Development Expenses

R&D expenses were $6,114,366 for the six months ended June 30, 2014, an increase of $1,176,432 from $4,937,934 for the six months ended June 30, 2013. R&D expenses increased during the six months ended June 30, 2014, compared to the six months ended June 30, 2013, primarily attributed to increased manufacturing costs as a result of completing substantially all drug product supply manufacturing during the six months ended June 30, 2014 along with the full enrollment of our Phase III clinical study during the fourth quarter of 2013.

Plasma Center Operating Expenses

Our wholly owned subsidiary, ADMA BioCenters' operating expenses were $1,623,318 for the six months ended June 30, 2014, an increase of $568,036 from $1,055,282 for the six months ended June 30, 2013. These operating expenses consist of G&A overhead, comprised of: rent, maintenance, utilities, wages and benefits for center staff, plasma collection supplies, plasma transportation and storage (off-site), advertising and promotion expenses, and computer software fees related to donor collections. The increase in expenses was primarily a result of increased overhead expenses which include additional employees and increased plasma facility supplies, attributed to increased donor collections during the six months ended June 30, 2014. We expect that as plasma collection increases, our operating expenses will also increase accordingly.

General and Administrative Expenses

G&A expenses were $2,676,655 for the six months ended June 30, 2014, an increase of $155,257 from $2,521,398 for the six months ended June 30, 2013. G&A expenses primarily increased as a result of fees incurred for consulting services provided to us related to commercial planning, market research and analysis during the six months ended June 30, 2014 compared to the six months ended June 30, 2013.

Total Operating Expenses

Total operating expenses were $12,332,184 for the six months ended June 30, 2014, an increase of $2,802,763 from $9,529,421 for the six months ended June 30, 2013, for the reasons stated above.

Other Income (Expense); Interest Expense

Other expense, net was $593,811 for the six months ended June 30, 2014, compared to $143,875 for the six months ended June 30, 2013. The increase in interest expense was attributed to increased debt, amortization of debt discount and deferred financing fees related to the Hercules notes outstanding as of June 30, 2014. In connection with the Hercules notes, as of February 24, 2014, we recorded $219,588 as the fair value of the warrant issued to Hercules, as warrant liability and as a debt discount to the carrying value of the loan. As of June 30, 2014, we recorded $249,168 as the fair value of the warrant, as a warrant liability. As a result of the increase in warrant liability during the six months ended June 30, 2014, we recorded a $29,580 change in the fair value of warrant liability. This warrant liability is adjusted to fair value each reporting period using a lattice-based option model. The debt discount is being amortized to interest expense over the term of the loan.

Net Loss

Net loss increased to $9,865,117 for the six months ended June 30, 2014, from $8,137,091 for the six months ended June 30, 2013 for the reasons stated above.

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Cash Flows

Net Cash Used in Operating Activities

Net cash used in operating activities was $9,336,609 for the six months ended June 30, 2014. The net loss for this period was higher than net cash used in operating activities by $528,508, which was primarily attributable to increases in accounts receivable of $803,513, related to sales of our normal source plasma, prepaid expenses of $96,155 mostly related to our Phase III vendor payments for manufacturing and clinical research organization services, accrued expenses of $356,532 related to vendors and service providers, and a decrease in inventories of $556,457 related to the sales of our normal source plasma and use in our clinical trial, accounts payable of $369,767, offset by depreciation and amortization of $218,822 and stock-based compensation of $594,334.

Net cash used in operating activities was $5,701,729 for the six months ended June 30, 2013. The net loss for this period was higher than net cash used in operating activities by $2,435,362, which was primarily attributable to increases in deferred revenue of $1,700,000 related to license revenue, prepaid expenses of $259,199 mostly related to our Phase III vendor payments for manufacturing and clinical research organization services, accounts receivable of $197,806 related to sales of our normal source plasma, accounts payable of $100,155 related to vendors and service providers, and a decrease in inventories of $350,437 related to the sales of our normal source plasma, offset by depreciation and amortization of $193,078 and stock-based compensation of $441,315.

Net Cash Used in Investing Activities

Net cash used in investing activities was $3,748,885 for the six months ended June 30, 2014, which was related to the increase in short-term investments of $3,378,394 and purchases of equipment, primarily for expansion of our ADMA BioCenters in Norcross, Georgia and construction of ADMA BioCenters in Marietta, Georgia, wholly owned subsidiaries of $370,491.

Net cash used in investing activities was $174,809 for the six months ended June 30, 2013, which pertained to purchases of office equipment and licensing software.

Net Cash Provided by Financing Activities

Net cash provided by financing activities totaled $4,805,048 for the six months ended June 30, 2014, which primarily consisted of $4,850,000 of net proceeds received from the loan by Hercules during the first quarter of 2014, offset by debt issue costs of $30,140, equity issuance costs of $8,627, and payments on our leasehold improvement loan for our ADMA BioCenters wholly owned subsidiary.

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Net cash provided by financing activities totaled $994,345 for the six months ended June 30, 2013, which primarily pertained to proceeds from a $1,000,000 loan from Hercules.

Liquidity and Capital Resources

Overview

As of June 30, 2014, we had working capital of $22.7 million, consisting primarily of $17.9 million of cash and cash equivalents, $6.3 million of short-term investments and $1.1 million of inventories, accounts receivable of $0.8 million and prepaid expenses of $0.4 million offset primarily by $2.4 million of accounts payable and $1.4 million of accrued expenses. We have had limited revenue from operations and we have incurred cumulative losses of $62.5 million since inception. We have funded our operations to date primarily from equity investments, loans from a venture debt lender and loans from our primary stockholders. We received net cash proceeds of approximately $26.5 million in October 2013 from our Initial Public Offering, or IPO, a total of $10.0 million from a venture debt lender in various financings since 2012; and $15.3 million in the 2012 Financing.

Based upon our projected revenue and expenditures for 2014, we currently believe that our cash and cash equivalents, short-term investments and accounts receivable as of June 30, 2014, in addition to the funds available from our credit facility, are anticipated to be sufficient to fund our operations into the first half of 2016. We estimate that such funds will be sufficient to enable us to achieve FDA approval for RI-002 in the United States at the earliest in the second half of 2015, if at all, and, therefore, we will not be able to generate revenues from the commercialization of RI-002 until the earliest, the first half of 2016, if at all. Furthermore, if our assumptions underlying our estimated revenues and expenses prove to be wrong, we may have to raise additional capital earlier than anticipated. Due to numerous risks and uncertainties associated with the research and development and potential future commercialization of its product candidate, we are unable to estimate with certainty the amounts of increased capital outlays and operating expenditures associated with its anticipated clinical trials and development activities. Our current estimates may be subject to change as circumstances regarding its business requirements develop. We may decide to raise capital through public or private equity offerings, debt financings or corporate collaboration and licensing arrangements. We do not have any existing commitments for future external funding. We may seek to sell additional equity or debt securities or obtain an additional bank credit facility. The sale of additional equity or debt securities, if convertible, could result in dilution to our stockholders. The incurrence of additional indebtedness would result in increased fixed obligations and could also result in covenants that would restrict our operations or other financing alternatives. Additional equity or debt financing, grants, or corporate collaboration and potential licensing arrangements may not be available on acceptable terms, if at all. If adequate funds are not available, we may be required to delay, reduce the scope of or eliminate our research and development programs, reduce our planned clinical trials and delay or abandon potential commercialization efforts of our lead product candidate.

Additional equity or debt financing, grants, or corporate collaboration and potential licensing arrangements may not be available on acceptable terms, if at all. If adequate funds are not available, we may be required to delay, reduce the scope of or eliminate our research and development programs, reduce our planned clinical trials and delay or abandon potential commercialization efforts of our lead product candidate. See also “Future Financing Needs” below.

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Future Financing Needs

The net proceeds of $26.5 million from our IPO, $10.0 million from Hercules our venture debt lender and $15.3 million from the 2012 Financing have been and are being used to test plasma donors for RSV titers, collect and procure plasma, manufacture drug product, conduct clinical trial(s), expansion of our ADMA BioCenters operations and satisfy existing accounts payable, consulting services for commercial planning, market research and analysis, general and administrative expenses and other business activities and general corporate purposes, including for the payment of accrued expenses and premiums for directors' and officers' insurance. We currently believe that based on our projected revenue and expenditures for 2014, and our cash and cash equivalents, short-term investments, accounts receivable and funds potentially available from our venture debt lender as of June 30, 2014, are anticipated to be sufficient to fund our operations into the first half of 2016.

Our ability to continue as a going concern will be dependent on our ability to raise additional capital when needed, to fund our research and development and commercial programs and to meet our obligations on a timely basis. In particular, if the results of our trial for RI-002 are delayed or not as expected, we will likely be unable to raise funds on advantageous terms. If we are unable to successfully raise sufficient additional capital, we will likely have insufficient cash flow and liquidity to fund our business operations, forcing us to delay, discontinue or prevent product development and clinical trial activities or the approval of any of our potential products or curtail our activities and, ultimately, potentially cease operations. Even if we are able to raise additional capital, such financings may only be available on unattractive terms, or could result in significant dilution of stockholders' interests and, in such event, the value and potential future market price of our common stock may decline. In addition, the incurrence of additional indebtedness would result in increased fixed obligations and could result in covenants that could restrict our operations or other financing alternatives.

Recent Accounting Pronouncements

In May 2014, the FASB issued an update to ASC 606, Revenue from Contracts with Customers. This update to ASC 606 provides a five-step process to determine when and how revenue is recognized. The core principle of the guidance is that a Company should recognize revenue upon transfer of promised goods or services to customers in an amount that reflects the expected consideration to be received in exchange for those goods or services. This update to ASC 606 will also result in enhanced disclosures about revenue, providing guidance for transactions that were not previously addressed comprehensively, and improving guidance for multiple-element arrangements. This update to ASC 606 is effective for the Company beginning in fiscal 2017. The Company is currently evaluating the impact of this update on its consolidated financial statements.

The Financial Accounting Standards Board has issued certain accounting pronouncements as of June 30, 2014 that will become effective in subsequent periods; however, we do not believe that any of those pronouncements would have significantly affected our financial accounting measurements or disclosures had they been in effect during the six months ended June 30, 2014 or that they will have a significant impact at the time they become effective.

Critical Accounting Policies and Estimates

On April 5, 2012, the Jumpstart Our Business Startups Act, or the JOBS Act, was signed into law. The JOBS Act contains provisions that, among other things, reduce certain reporting requirements for qualifying public companies. As an "emerging growth company," under Section 7(a)(2)(B) of the Securities Act, we may delay adoption of new or revised accounting standards applicable to public companies until such standards would otherwise apply to private companies. We may take advantage of this extended transition period until the first to occur of the date that we (i) are no longer an "emerging growth company" or (ii) affirmatively and irrevocably opt out of this extended transition period. We have elected to take advantage of the benefits of this extended transition period. Our financial statements may therefore not be comparable to those of companies that comply with such new or revised accounting standards. Until the date that we are no longer an "emerging growth company" or affirmatively and irrevocably opt out of the exemption provided by Section 7(a)(2)(B) of the Securities Act, upon issuance of a new or revised accounting standard that applies to our financial statements and that has a different effective date for public and private companies, we will disclose the date on which adoption is required for non-emerging growth companies and the date on which we will adopt the recently issued accounting standard.

Our management's discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with Generally Accepted Accounting Principles, or GAAP in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities and expenses. On an ongoing basis, we evaluate these estimates and judgments, including those described below. We base our estimates on our historical experience and on various other assumptions that we believe to be reasonable under the circumstances. These estimates and assumptions form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results and experiences may differ materially from these estimates.

While our significant accounting policies are more fully described in our Annual Report on Form 10-K for the year ended December 31, 2013, filed with the Commission on March 28, 2014 and in other filings we make with the Commission, we believe that the following accounting policies are the most critical to aid you in fully understanding and evaluating our reported financial results and affect the more significant judgments and estimates that we use in preparing our financial statements.

Stock-Based Compensation

Stock-based compensation cost is measured at grant date, based on the estimated fair value of the award, and is recognized as expense over the employee's requisite service period on a straight-line basis.

We account for stock options granted to non-employees on a fair value basis using the Black-Scholes option pricing method. The non-cash charge to operations for non-employee options with vesting are revalued at the end of each reporting period based upon the change in the fair value of the options and amortized to consulting expense over the related contract service period.

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For purposes of valuing options and warrants granted to our employees, non-employees and directors and officers through the six months ended June 30, 2014, we used the Black-Scholes option pricing model. To determine the risk-free interest rate, we utilized the U.S. Treasury yield curve in effect at the time of the grant with a term consistent with the expected term of our awards. The expected term of the options granted is in accordance with Staff Accounting Bulletin 107, which is based on the average between vesting terms and contractual terms. The expected dividend yield reflects our current and expected future policy for dividends on our common stock. The expected stock price volatility for our stock options was calculated by examining historical volatilities for similar publicly traded industry peers, since we do not have any trading history for our common stock. We will continue to analyze the expected stock price volatility and expected term assumptions as historical data for our common stock becomes available. We have not experienced any material forfeitures of stock options and, as such, have not established a forfeiture rate since the stock options currently outstanding are primarily held by our senior management and directors. We will continue to evaluate the effects of such future potential forfeitures, as they may arise, to evaluate our estimated forfeiture rate.

Research and Development Costs

Our expenses include all R&D costs as incurred including the disposition of plasma and equipment for which there is no alternative future use. Such expenses include costs associated with planning and conducting clinical trials.

Our agreement with Biotest includes the in-license of certain rights to incomplete, in-process technology, the terms of which we expect to finalize by the end of the second half of 2014. As such, we expect to account for the value of this license as a charge to operations once the terms of the in-license agreement are finalized.

Revenue Recognition

Revenue from the sale of human plasma collected by ADMA BioCenters and plasma-derived medicinal products is recognized at the time of transfer of title and risk of loss to the customer, which usually occurs at the time of shipment. Revenue is recognized at the time of delivery if we retain the risk of loss during shipment. Our revenues are substantially attributed to one customer. Revenue from license fees and research and development services rendered are recognized as revenue when we have completed the performance obligations under the terms of the license agreement with Biotest. Deferred revenue of $1.7 million was recorded in the second quarter of 2013 as a result of certain research and development services to be provided in accordance with a license agreement and recognized over the term of the license.

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Accounting for Hercules Loan and Security Agreement

On December 21, 2012, the Company and its subsidiaries entered into a Loan and Security Agreement, or the Loan Agreement, with Hercules Technology Growth Capital, Inc., or Hercules. Under the Loan Agreement, the Company borrowed $5.0 million, consisting of $4.0 million on the closing date, and an additional $1.0 million upon enrolling its first patient in its pivotal (Phase III) clinical study of its lead product candidate RI-002. On February 24, 2014, we entered into the First Amendment to the Loan Agreement, or Loan Amendment, under which the Company may borrow up to a maximum of $15.0 million. The Company borrowed $10.0 million on the closing date ($5.0 million of which was used to refinance existing debt with Hercules) and an additional $5.0 million will be made available upon the Company successfully meeting the clinical endpoints of a Phase III clinical study of RI-002 as a treatment for Primary Immunodeficiency Diseases in an manner that supports a BLA filing. If this objective is met, this $5.0 million tranche will be at the Company's sole option. The loan bears interest at a rate per annum equal to the greater of (i) 8.75% and (ii) the sum of (a) 8.75% plus (b) the Prime Rate (as reported in The Wall Street Journal) minus (c) 5.75%. Payment-in-kind interest accrues on the outstanding principal balance of the loan compounded monthly at 1.95% per annum. Such accrued and unpaid interest is added to the principal balance of the loan on the first day of each month beginning on the month after the closing. The Company plans to repay the principal over 27 months beginning no later than April 1, 2015 (unless extended to October 1, 2015 upon the Company meeting certain eligibility criteria for the final tranche), unless accelerated as a result of certain events of default. A backend fee equal to $132,500 is due the earliest of April 1, 2016, the prepayment date and the date that the secured obligations become due and payable. In addition, a first amendment commitment fee and a facility fee in the amount of $15,000 and $135,000, respectively, were paid at closing. In the event the Company elects to prepay the loan, the Company is obligated to pay a prepayment charge corresponding to a percentage of the principal amount of the loan, with such percentage being: 2.5% if prepayment occurs in the first year, 1.5% if prepayment occurs in the second year and 0.5% if prepayment occurs after the second year but prior to the final day of the term. The loan matures no later than January 1, 2018. The loan is secured by the Company's assets, except for its intellectual property (which is subject to a negative pledge). Interest is due and payable on the 1st of every month and at the termination date, unless accelerated as a result of an event of default. The Loan Agreement contains customary representations, warranties and covenants, including limitations on incurring indebtedness, engaging in mergers or acquisitions and making investments, distributions or transfers. The representations, warranties and covenants contained in the Loan Agreement were made only for purposes of such agreement and as of a specific date or specific dates, were solely for the benefit of the parties to such agreement, and may be subject to limitations agreed upon by the contracting parties, including being qualified by confidential disclosures exchanged between the parties in connection with the execution of the Loan Agreement. Events of default under the agreement include, but are not limited to: (i) insolvency, liquidation, bankruptcy or similar events; (ii) failure to pay any debts due under the Loan Agreement or other loan documents on a timely basis; (iii) failure to observe any covenant or secured obligation under the Loan Agreement or other loan documents, which failure, in most cases, is not cured within 10 days of written notice by lender; (iv) occurrence of any default under any other agreement between us and the lender, which is not cured within 10 days; (v) occurrence of an event that could reasonably be expected to have a material adverse effect; (vi) material misrepresentations; (vii) occurrence of any default under any other agreement involving indebtedness in excess of $50,000 or the occurrence of a default under any agreement that could reasonably be expected to have a material adverse effect; and (viii) certain money judgments are entered against us or a certain portion of our assets are attached or seized. Remedies for events of default include acceleration of amounts owing under the Loan Agreement and taking immediate possession of, and selling, any collateral securing the loan.

In connection with the original Loan Agreement, the Company issued to Hercules a warrant to purchase 31,750 shares of common stock with an exercise price of $7.56, and under the amended Loan Agreement, the Company issued to Hercules a warrant to purchase an additional 34,800 shares of its common stock (and a warrant for an additional 23,200 shares of common stock if we borrow an additional $5.0 million as described above), with an exercise price set at the lower of (i) $7.50 per share or (ii) the price per share of the next round of financing over the next twelve months, subject to customary anti-dilution adjustments. The warrants expire after 10 years and have piggyback registration rights with respect to the shares of common stock underlying the warrant. In addition, the Company has also granted Hercules the option to invest (until the loan maturity date) up to $1.0 million in future equity financings at the same terms as the other investors. The Loan Agreement contains certain provisions that require the warrants issued to Hercules to be accounted for as a liability and to be "mark-to-market" each reporting period. Changes in the valuation of this liability at the end of each reporting period will be included in its reported operating results, and may create volatility in its reported operating results. The fair value of the initial Loan Agreement warrant was calculated using a lattice-based option model in order to account for features in the warrant that could cause the exercise price to reset ("down round protection") in the next issuance of our common stock (the next round of equity financing). The Company recorded the fair value of the warrant of $229,345 as warrant liability and as a debt discount to the carrying value of the loan. The key assumptions used to value the warrants included the expected date of the next round of equity financing, volatility of 59% on our common stock based upon similar public companies volatilities for comparison, an expected dividend yield of 0.0%, a risk-free interest rate of 2.54% and a term of 10 years. As of October 22, 2013, the closing of the Initial Public Offering ("IPO"), the Company recorded $186,055 as the fair value of the warrant, as additional paid in capital. As a result of the decrease in warrant liability, the Company recorded a $43,290 change in the fair value of warrant liability. This warrant liability was adjusted from inception of the initial Loan Agreement to October 22, 2013, to fair value each reporting period using a lattice-based option model and the debt discount will be amortized to interest expense over the term of the loan. Upon the completion of the IPO of common stock in October 2013, the down round warrant protection feature resulting in the warrant liability's quarterly "mark-to-market" valuation being terminated and, therefore, this liability was reclassified to additional paid-in capital during the fourth quarter of 2013. The fair value of the amended Loan Agreement warrant was calculated using a lattice-based option model in order to account for features in the warrant that could cause the exercise price to reset ("down round protection") in the next issuance of our common stock (the next round of equity financing). The Company recorded the fair value of the warrant of $219,588 as warrant liability and as a debt discount to the carrying value of the loan. The key assumptions used to value the warrants included the expected date of the next round of equity financing, volatility of 59% on our common stock based upon similar public companies volatilities for comparison, an expected dividend yield of 0.0%, a risk-free interest rate of 2.53% and a term of 10 years. As of June 30, 2014, the Company recorded $249,168 as the fair value of the warrant. As a result of the increase in warrant liability, the Company recorded a $29,580 change in the fair value of warrant liability. This warrant liability will be adjusted from the date of the Loan Agreement on February 24, 2014, to fair value each reporting period using a lattice-based option model and the debt discount will be amortized to interest expense over the term of the loan. The down round warrant protection feature resulting in the warrant liability's quarterly "mark-to-market" valuation will terminate at the end of the one-year period following the amended Loan Closing on February 24, 2014.

Off-Balance Sheet Arrangements

The Company has entered into leases for its wholly owned subsidiary, ADMA BioCenters in Georgia. There is a total minimum rent due under these leases of $3.3 million through the end of the lease terms.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We designed our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act, to provide reasonable assurance that information required to be disclosed by us in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission’s rules and forms, and is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

As of the end of the six months ended June 30, 2014, our management, including our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures. Based on such evaluation of our disclosure controls and procedures, management, including our principal executive officer and principal financial officer, have concluded that our disclosure controls and procedures were effective as of June 30, 2014.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met, and therefore, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. We do not expect that our disclosure controls and procedures or our internal control over financial reporting are able to prevent with certainty all errors and all fraud.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings.

We are subject to certain legal proceedings and claims arising in connection with the normal course of our business. In the opinion of management, there are currently no pending legal proceedings that would have a material adverse effect on our consolidated financial position, results of operations or cash flows.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

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Item 5. Other Information.

None.

Item 6. Exhibits.

The following is a list of exhibits filed as part of this Form 10-Q:

Exhibit Number	Description
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from ADMA Biologics, Inc. Form 10-Q for the quarter ended June 30, 2014, formatted in Extensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets at June 30, 2014 and December 31, 2013, (ii) Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2014 and 2013, (iii) Condensed Consolidated Statements of Changes in Stockholders' Equity for the six months ended June 30, 2014, (iv) Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2014 and 2013, and (v) Notes to the Unaudited Condensed Consolidated Financial Statements.*

* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files in Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended and otherwise are not subject to liability under those sections.

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SIGNATURES

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

ADMA Biologics, Inc.

Date: August 11, 2014	By:	/s/ Adam S. Grossman	
		Name:	Adam S. Grossman
		Title:	President and Chief Executive Officer (Principal Executive Officer)
Date: August 11, 2014	By:	/s/ Brian Lenz	
		Name:	Brian Lenz
		Title:	Chief Financial Officer (Principal Financial and Accounting Officer)

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EXHIBIT INDEX

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