PEPSICO INC
Form 11-K
May 26, 2005

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11-K

ANNUAL REPORT

PURSUANT TO SECTION 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

(Mark One):

x **ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2004

OR

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

For the transition period from__________ to __________

Commission file number 1-1183

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

PepsiCo Puerto Rico 1165(e) Plan

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

PepsiCo, Inc.

700 Anderson Hill Road

Purchase, New York 10577

PEPSICO PUERTO RICO 1165(e) PLAN

December 31, 2004 and 2003

Index

	Page
Report of Independent Registered Public Accounting Firm	1
Financial Statements:	
Statement of Net Assets Available for Benefits as of December 31, 2004 and 2003	2
Statement of Changes in Net Assets Available for Benefits for the year ended December 31, 2004	3
Notes to Financial Statements	4-10
Supplemental Schedule H, line 4i Schedule of Assets (Held at End of Year) as of December 31, 2004	11
Signatures	12
Index to Exhibit	13

Report of Independent Registered Public Accounting Firm

To the Plan Administrator of the PepsiCo Puerto Rico 1165(e) Plan:

We have audited the accompanying Statement of Net Assets Available for Benefits of the PepsiCo Puerto Rico 1165(e) Plan (the Plan) as of December 31, 2004 and 2003, and the related Statement of Changes in Net Assets Available for Benefits for the year ended December 31, 2004. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements 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 are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2004 and 2003, and the changes in net assets available for benefits for the year ended December 31, 2004 in conformity with U.S. generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental Schedule H, line 4i Schedule of Assets (Held at End of Year) as of December 31, 2004 is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan s management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ KPMG LLP

New York, New York

May 26, 2005

PEPSICO PUERTO RICO 1165(e) PLAN

Statement of Net Assets Available for Benefits

As of December 31, 2004 and 2003

(dollars in thousands)

	2004	2003
Assets		
Investments, at fair value:		
Plan interest in the PepsiCo Master Trust	$1,646	$1,216
Participant loans	45	27
Net Assets Available for Benefits	$1,691	$1,243

See accompanying notes to financial statements.

2

PEPSICO PUERTO RICO 1165(e) PLAN

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2004

(dollars in thousands)

Additions to Net Assets	
Investment income from the PepsiCo Master Trust:	
Net appreciation in fair value of investments	$ 80
Interest and dividends	11
Interest from participant loans	1
Net investment income	92
Participant contributions	427
Total additions to net assets	519
Deductions in Net Assets	
Distributions to participants	70
Administrative expenses	1
Total deductions from net assets	71
Net increase in net assets	448
Net assets available for benefits at beginning of year	1,243
Net assets available for benefits at end of year	$1,691

See accompanying notes to financial statements.

PEPSICO PUERTO RICO 1165(e) PLAN

Notes to Financial Statements

December 31, 2004 and 2003

Note 1 Description of Plan

The following brief description of the PepsiCo Puerto Rico 1165(e) Plan (the Plan) provides only general information. Participants should refer to the Plan document for a more complete description of the Plan s provisions.

General

PepsiCo Puerto Rico, Inc., a subsidiary of PepsiCo, Inc. (the Company), adopted the Plan in 2001. The Plan provides a program under which eligible employees may accumulate funds on a pre-tax basis for long-term retirement savings. The Plan covers all employees who are residents of Puerto Rico, except certain employees covered under a collective bargaining agreement and other specifically excluded employees as defined in the Plan. All eligible employees can participate in the Plan on their first day of service. The Plan is a defined contribution plan with a cash or deferred arrangement and is intended to satisfy the qualification requirements under Sections 1165(a) and 1165(e) of the Puerto Rico Internal Revenue Code. In addition, the Plan is subject to the provisions of the Employee Retirement Income Security Act (ERISA) of 1974.

The Company maintains sponsorship of the Plan and has appointed the Senior Vice President and Treasurer as the Executive Pension Officer. Overall responsibility for administering the Plan rests with the PepsiCo Administration Committee. The PepsiCo Administration Committee has appointed Banco Santander Puerto Rico, Inc. as the trustee and Fidelity Institutional Retirement Services Company as the recordkeeper for the Plan. The trustee is responsible for the management and control of the Plan s assets and has appointed, as agent and custodian of the Plan s assets, Fidelity Management Trust Company.

Contributions

Each year, participants are allowed to contribute up to 10 percent of their earnings, in whole percentage increments. Under the Puerto Rico Internal Revenue Code, the maximum allowable pre-tax contribution for participants during 2004 was $8,000. However, the Puerto Rico Internal Revenue Code limits contributions by highly compensated participants. Participants may contribute to the Plan any portion of lump-sum distributions received from other qualified plans when the contributions qualify as a tax-free rollover.

Participants may elect to have their contributions invested in one or more investment options. Participants may change their investment elections and transfer their investment amounts between funds on a daily basis, except for transfers from the Alliance Capital Security Plus Fund to the Fidelity BrokerageLink account. Such transfers must be invested into another investment election for a 90-day waiting period. Initial transfers from other investment options to the Fidelity BrokerageLink account must be at least $1,000.

In 2004 and 2003, the Plan did not allow for employer matching contributions.

PEPSICO PUERTO RICO 1165(e) PLAN

Notes to Financial Statements

December 31, 2004 and 2003

Investment Options

AIM Mid-Cap Core Stock Fund

This fund invests in stock of U.S. companies with market value between $300 million and $5 billion that is potentially undervalued or has strong growth prospects. The fund seeks long-term growth greater than the market average with lower volatility.

Alliance Capital Security Plus Fund

This fund consists of investments in insurance companies (guaranteed investment contracts with insurance companies), cash equivalents, U.S. Treasury bonds, corporate bonds, mortgage-backed securities and other fixed income investments. The guaranteed investment contracts preserve the value of the fund s investments and are issued by highly rated banks, insurance companies and other financial institutions. The fund maintains an average credit rating from Standard & Poors or Moody s of AA or better. The insurance contracts are stated at contract value (representing contributions made, plus earnings, less withdrawals and administrative expenses) which approximates fair value. There are no reserves against contract value for credit risk of the contract issuer. The yield for the total of all contracts averaged 4.86% for the year ended December 31, 2004 and 5.16% for the year ended December 31, 2003. The yields are based on returns agreed upon with the issuers.

Dodge & Cox Fixed Income Fund

This fund invests in high quality bonds and other fixed income securities, which include U.S. government obligations, corporate bonds, mortgage and asset-backed securities, and collateralized mortgage obligations. The fund seeks to provide fixed income and preservation of capital.

Fidelity Asset Allocation Funds

There are five Fidelity Freedom Funds that are actively managed based on a participant s anticipated retirement date. Each fund invests in a combination of underlying Fidelity stock, bond and money market funds.

Fidelity Freedom Income Fund,

Fidelity Freedom 2010,

Fidelity Freedom 2020,

Fidelity Freedom 2030, and

Fidelity Freedom 2040.

The Fidelity Freedom Income Fund is designed for participants who are close to retirement or retired and seeks to provide fixed income and preservation of capital. The Fidelity Freedom 2010, 2020, 2030 and 2040 funds asset allocation becomes more conservative as the target retirement date approaches.

Fidelity BrokerageLink

Fidelity BrokerageLink allows a participant to open a Fidelity brokerage account. Through this account, participants have access to global capital markets, such as publicly-traded stocks, corporate debt obligations, U.S. government agency bonds, U.S. Treasury bills, foreign debt securities, mortgage securities, certificates of deposit, commingled trust funds, partnership investments and mutual funds. A monthly investment service fee is charged to the account. This investment allows participants to directly

PEPSICO PUERTO RICO 1165(e) PLAN

Notes to Financial Statements

December 31, 2004 and 2003

manage their investments.

Fidelity Diversified International Index Fund

This fund invests at least 65% of total assets in foreign equity securities. This fund carries a short-term trading fee, which discourages short-term buying and selling and seeks long-term capital appreciation.

PepsiCo Common Stock Fund

This fund pools participants contributions to buy shares of PepsiCo common stock. The fund also holds short-term investments to provide the fund with liquidity to make distributions. The fund is an employee stock ownership plan and participants are paid quarterly cash dividends. The quarterly dividends are used to purchase additional shares of PepsiCo common stock or, if elected, are paid to the participants.

Royce Low-Priced Stock Fund

This fund invests primarily in stock of U.S. companies with a share price at or below $20. The fund seeks capital appreciation over a three-year horizon.

Vanguard Large Cap Equity Index Fund

This fund invests in stocks of companies included in the S&P 500 Index representing the performance of U.S. companies each with market value of approximately $25 billion. The fund also holds short-term investments to provide liquidity and seeks to achieve a total return similar to the S&P 500 Index.

Vanguard Total Stock Market Index Fund

This fund invests in stocks of companies included in the Wilshire 5000 Index representing the performance of small, medium and large companies across all U.S. industries. The fund seeks to approximate the composition and total return of the Wilshire 5000 Index.

Participant Accounts

Each participant account is credited with participant contributions and an allocation of fund earnings or losses. As noted, certain participant accounts are charged with short-term trading and/or monthly investment service fees.

Vesting

Participants are immediately vested in their contributions and fund earnings or losses.

Participant Loans

Participants who have $2,000 or more in the Plan may borrow from the total of their fund accounts a minimum of $1,000 up to a maximum equal to the lesser of $50,000 (subject to certain offsets for prior loans) or 50 percent of their vested balance. Participants are not allowed to have more than one loan outstanding. The loans are funded from the participant s account, reducing the account balance by the loan amount. Loan terms range from one year to five years. The loans are secured by the balance in the participant s account and bear a fixed rate of interest at the prime lending rate plus one percent. Loan repayments are made directly through payroll deductions and are applied to interest and then to principal according to a payment schedule. In addition, a one-time loan origination fee of $35 and a $3.75 quarterly maintenance fee is charged. There were 25 loans outstanding at December 31, 2004 with an average interest rate of 3.2% and

PEPSICO PUERTO RICO 1165(e) PLAN

Notes to Financial Statements

December 31, 2004 and 2003

with maturities through 2009.

Distributions

Participants may elect to receive a distribution upon hardship, termination, retirement, disability or after the age of 59 ½. Hardship distributions are allowed for purchasing a primary residence, financing the higher education of the participant or the participant s family member, paying unreimbursed medical bills or alleviating other financial hardships. Upon termination or retirement, participants may elect to start receiving benefits or rollover their account balances into another qualified plan. If a participant dies, the total account balance will be paid to the designated beneficiary or to his or her estate.

If only a portion of the account is distributed, the remaining balance will continue to be adjusted for any contributions, fund earnings and losses as of each valuation date. Distributions are in the form of a lump sum, except for distributions to disabled or retired participants, which may be made in installments for up to 10 years.

Termination

Although it has not expressed any intent to do so, the Company may terminate the Plan in accordance with ERISA and the Puerto Rico Internal Revenue Code. In the event that the Plan is terminated, the PepsiCo Administration Committee can direct that all accounts be distributed to the participant or continued in trust for his or her benefit.

Note 2 Summary of Significant Accounting Policies

Basis of Presentation

The financial statements are prepared under the accrual basis of accounting. The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires the Plan s management to make estimates and assumptions that affect the reported amounts of assets, additions to net assets, deductions from net assets and disclosure of contingent assets and liabilities. Actual results could differ from those estimates and assumptions.

Tabular dollars are in thousands.

Investment Valuation and Income Recognition

The Plan retains an interest in the PepsiCo Long Term Savings Master Trust (PepsiCo Master Trust) which holds investments in the funds described in Note 1.

With the exception of the Alliance Capital Security Plus Fund, cash and cash equivalents and loan funds, the investment in each fund is valued in units by the fund manager based on quoted market values of net assets held by the fund. Investment contracts in the Alliance Capital Security Plus Fund are valued in units and stated at contract value, which approximates fair value. Short-term investments in the Alliance Capital

PEPSICO PUERTO RICO 1165(e) PLAN

Notes to Financial Statements

December 31, 2004 and 2003

Security Plus Fund and cash and cash equivalents are recorded at cost, which approximates fair value. Participant loans are valued at cost, which approximates fair value.

Purchases and sales of securities are recognized on the transaction date. Interest income is recorded as earned and dividend income is recorded as of the record date.

Payment of Benefits

In accordance with guidance issued by the American Institute of Certified Public Accountants, the Plan accounts for participant distributions when paid. For purposes of reporting on Form 5500, Annual Return/Report of Employee Benefit Plan, distributions are recorded in the period such amounts are authorized to be paid to participants. Such treatment may result in a difference between the Plan s Form 5500 and the accompanying financial statements. For the years ended December 31, 2004 and 2003, there were no such differences.

Note 3 Plan Interest in Master Trust

The Plan s investments are combined with other PepsiCo sponsored 401(k) savings plans investments in the PepsiCo Master Trust to maximize administrative efficiencies. Each participating savings plan has an undivided interest in the PepsiCo Master Trust. Investment income, investment management fees and other direct expenses relating to the PepsiCo Master Trust are allocated to the individual savings plans based upon the average daily balances. A separate account is maintained reflecting the equitable share of each plan s participation in each investment fund within the PepsiCo Master Trust. The Plan s interest in the PepsiCo Master Trust was less than 1% at December 31, 2004 and 2003.

PepsiCo Master Trust

	December 31, 2004	December 31, 2003
Investments, at fair value:		
Cash and cash equivalents	$ 27,685	$ 32,430
PepsiCo common and preferred stock	1,068,527	1,102,409
Common and preferred stock	59,448	57,080
Mutual funds	625,278	768,354
Government securities	520	29,542
Corporate bonds	176	170,886
Investments in insurance companies	369,537	
Commingled trust funds (indexed funds)	485,702	103,098
Partnership investments	79	
Mortgages		122,440
	$2,636,952	$2,386,239

PEPSICO PUERTO RICO 1165(e) PLAN

Notes to Financial Statements

December 31, 2004 and 2003

	Year ended December 31, 2004
Investment income:	
Net appreciation (depreciation) in fair value of investments:	
PepsiCo common and preferred stock	$126,806
Common and preferred stock	1,530
Mutual funds	39,005
Government securities	9
Corporate bonds	(2)
Investments in insurance companies	17,441
Commingled trust funds (indexed funds)	43,569
Partnership investments	29
	228,387
Interest and dividends	38,628
Net investment income	$267,015

Note 4 Administrative Expenses

The Company pays most of the usual and reasonable expenses of the Plan and the Plan administrator. Any expenses not borne by the Company are paid by the trustee out of the PepsiCo Master Trust. Expenses related to short-term trading fees, monthly investment service fees and loan fees are charged to participants investment balances.

Note 5 Risks and Uncertainties

The Plan provides for investment options in various funds, which invest in equity and debt securities and other investments. Such investments are exposed to risks and uncertainties, such as interest rate risk, credit risk, economic changes, political unrest, regulatory changes and foreign currency risk. The Plan s exposure to a concentration of credit risk is dependent upon funds selected by participants. These risks and uncertainties could impact participants account balances and the amounts reported in the financial statements.

Note 6 Tax Status

The Plan s latest determination letter, in which the Bureau of Income Tax of the Department of Treasury of the Commonwealth of Puerto Rico stated that the Plan was in compliance, is dated April 8, 2003. The PepsiCo Administration Committee believes the Plan is designed and currently being operated in compliance with the applicable requirements of the Puerto Rico Internal Revenue Code 1165(e).

PEPSICO PUERTO RICO 1165(e) PLAN

Notes to Financial Statements

December 31, 2004 and 2003

Note 7 Related Party Transactions

Certain Plan investments in the PepsiCo Master Trust are shares of mutual funds managed by Fidelity Management Trust Company, the agent of the trustee. Additionally, the PepsiCo Master Trust holds an investment in shares of the Company s common stock in the PepsiCo Common Stock Fund. The Plan had 617 shares of the Company s common stock valued at $32,186 at December 31, 2004 and 401 shares of the Company s common stock valued at $18,690 at December 31, 2003 in the PepsiCo Master Trust. These transactions qualify as exempt party-in-interest transactions. There have been no known prohibited transactions with a party-in-interest.

PEPSICO PUERTO RICO 1165(e) PLAN

Schedule H, line 4i Schedule of Assets (Held at End of Year)

As of December 31, 2004

(dollars in thousands)

Identity of issuer, borrower, lessor, or similar party	Description of investment including maturity date, rate of interest, collateral, par, or maturity value	Cost	Current value
Participant Loans*	Participant loan fund (25 loans with an average rate of interest of 3.2%)	$	$ 45

* Party-in-interest as defined by ERISA.

See accompanying report of independent registered public accounting firm.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: May 26, 2005

PEPSICO PUERTO RICO 1165(e) PLAN

/s/ Lionel L. Nowell, III
Lionel L. Nowell, III,

Senior Vice President and Treasurer &

Executive Pension Officer

PEPSICO PUERTO RICO 1165(e) PLAN

December 31, 2004 and 2003

Index to Exhibit

EXHIBIT NUMBER	
23.1	KPMG Consent of Independent Registered Public Accounting Firm

ALIGN="bottom"> $9,062,000

Barclays Bank PLC, 6.278%

9,607,976**(1)(2) 60,000

Barclays Bank PLC, 7.10% Pfd.

1,533,000**(2) $8,972,000

Barclays Bank PLC, 7.434%, 144A****

10,362,660**(1)(2) 27,807

Barclays Bank PLC, 8.125% Pfd., Series 5

716,586**(1)(2) 44,933

BB&T Corporation, 5.625% Pfd., Series E

1,056,038*

Citigroup:

1,144,007

Citigroup, Inc., 6.875% Pfd., Series K

30,719,448*(1) 86,912

Citigroup, Inc., 7.125% Pfd., Series J

2,403,986* 3,450

CoBank ACB, 6.25% Pfd., 144A****

357,830* 548,300

Fifth Third Bancorp, 6.625% Pfd., Series I

14,668,396*(1) 33,550

First Niagara Financial Group, Inc., 8.625% Pfd.

960,620*(1) 25,000

First Republic Bank, 6.20% Pfd.

630,470*

Goldman Sachs Group:

$1,170,000

Goldman Sachs, 5.70% 12/29/49, Series L

1,234,580* 85,979

Goldman Sachs, 5.95% Pfd., Series I

2,050,814*(1) $11,892,000

Goldman Sachs Capital I, 6.345% 02/15/34

13,560,067(1) 181,519

Goldman Sachs, 6.375% Pfd., Series K

4,704,972*

HSBC PLC:

$4,458,000

HSBC Capital Funding LP, 10.176%, 144A****

6,597,840(1)(2) 70,800

HSBC Holdings PLC, 8.00% Pfd., Series 2

1,920,981**(2) $3,910,000

HSBC USA Capital Trust I, 7.808% 12/15/26, 144A****

3,973,537 $1,100,000

HSBC USA Capital Trust II, 8.38% 05/15/27, 144A****

1,114,082 343,800

HSBC USA, Inc., 6.50% Pfd., Series H

8,756,173*

ING Groep NV:

160,000

ING Groep NV, 6.375% Pfd.

4,051,200**[(1)(2)] 38,082

ING Groep NV, 7.05% Pfd.

975,851**[(2)] 3,201

ING Groep NV, 7.20% Pfd.

82,426**[(1)(2)] 235,000

ING Groep NV, 7.375% Pfd.

6,086,500**[(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)

May 31, 2014 (Unaudited)

Shares/$ Par		Value
Preferred Securities (Continued)		
	Banking (Continued)	
	JPMorgan Chase:	
$ 10,700,000	JPMorgan Chase & Company, 6.00%, Series R	$ 10,873,875*(1)
$ 18,500,000	JPMorgan Chase & Company, 7.90%, Series I	20,951,250*(1)
$ 14,022,000	Lloyds Banking Group PLC, 6.657%, 144A****	15,389,145**(1)(2)
	M&T Bank Corporation:	
$ 1,500,000	M&T Bank Corporation, 6.450%, Series E	1,593,750*
$ 6,789,000	M&T Bank Corporation, 6.875%, Series D, 144A****	6,872,444*
	Morgan Stanley:	
39,002	Morgan Stanley Capital Trust IV, 6.25% Pfd.	994,551(1)
$ 1,500,000	Morgan Stanley, 5.45%, Series H	1,554,375*
510,480	Morgan Stanley, 6.875%, Pfd., Series F	13,961,628*(1)
91,200	Morgan Stanley, 7.125%, Pfd., Series E	2,558,388*
	PNC Financial Services:	
451,824	PNC Financial Services Group, Inc., 6.125% Pfd., Series P	12,259,115*(1)
$ 11,748,000	PNC Financial Services Group, Inc., 6.75%	13,011,450*(1)
$ 8,625,000	RaboBank Nederland, 11.00%, 144A****	11,590,275(1)(2)
175,000	Regions Financial Corporation, 6.375%, Pfd., Series B	4,462,500*
	Royal Bank of Scotland:	
$ 4,825,000	RBS Capital Trust II, 6.425%	5,066,250**(1)(2)
13,000	Royal Bank of Scotland Group PLC, 6.60% Pfd., Series S	318,500**(2)
647,500	Royal Bank of Scotland Group PLC, 7.25% Pfd., Series T	16,511,250**(1)(2)
288,008	SunTrust Banks, Inc., 5.875% Pfd.	6,886,991*
110,000	US Bancorp, 6.50% Pfd., Series F	3,184,764*(1)
$ 18,000,000	Wells Fargo & Company, 7.98%, Series K	20,587,500*(1)
$ 10,000,000	Zions Bancorporation, 7.20%, Series J	10,550,000*
		347,167,429
	Financial Services 1.7%	
$ 5,600,000	Charles Schwab Corporation, 7.00%	6,580,000*(1)
	Deutsche Bank:	
89,000	Deutsche Bank Contingent Capital Trust III, 7.60% Pfd.	2,463,743**(1)(2)
8,103	Deutsche Bank Contingent Capital Trust V, 8.05% Pfd.	231,746**(1)(2)
$ 2,000,000	General Electric Capital Corp., 7.125%, Series A	2,363,706*(1)
	HSBC PLC:	
8,500	HSBC Finance Corporation, 6.36% Pfd., Series B	213,286*
		11,852,481

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

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

May 31, 2014 (Unaudited)

Shares/$ Par		Value
Preferred Securities (Continued)		
	Insurance 31.3%	
	American International Group:	
$ 4,000,000	AIG Life Holdings, Inc., 7.57%, 144A****	$ 5,160,000(1)
$ 7,100,000	AIG Life Holdings, Inc., 8.125%, 144A****	9,496,250(1)
$ 5,000,000	American International Group, Inc., 8.175% 05/15/58	6,787,500(1)
$ 1,010,000	Aon Corporation, 8.205% 01/01/27	1,304,428
322,480	Arch Capital Group, Ltd., 6.75% Pfd., Series C	8,433,658**(1)(2)
	AXA SA:	
$ 6,550,000	AXA SA, 6.379%, 144A****	7,131,312**(1)(2)
$ 8,950,000	AXA SA, 8.60% 12/15/30	12,018,651(1)(2)
	Axis Capital Holdings:	
4,300	Axis Capital Holdings Ltd., 5.50% Pfd., Series D	96,116**(2)
606,952	Axis Capital Holdings Ltd., 6.875% Pfd., Series C	15,879,382**(1)(2)
6,000	Delphi Financial Group, 7.376% Pfd. 05/15/37	147,000
41,000	Endurance Specialty Holdings, 7.50% Pfd., Series B	1,091,933**(2)
$ 988,000	Everest Re Holdings, 6.60% 05/15/37	1,038,635(1)
	Liberty Mutual Group:	
$ 17,950,000	Liberty Mutual Group, 7.80% 03/15/37, 144A****	21,270,750(1)
$ 5,520,000	Liberty Mutual Group, 10.75% 06/15/58, 144A****	8,528,400(1)
$ 12,500,000	Lincoln National Corporation, 7.00% 05/17/66	13,062,500(1)
	MetLife:	
$ 3,759,000	MetLife, Inc., 10.75% 08/01/39	5,882,835(1)
$ 17,200,000	MetLife Capital Trust X, 9.25% 04/08/38, 144A****	23,650,000(1)
	PartnerRe:	
20,486	PartnerRe Ltd., 5.875%, Pfd., Series F	494,122**(2)
37,556	PartnerRe Ltd., 6.50% Pfd., Series D	948,289**(2)
71,237	PartnerRe Ltd., 7.25% Pfd., Series E	1,944,058**(2)
631,500	Principal Financial Group, 6.518% Pfd., Series B	16,359,828*
	Prudential Financial:	
$ 5,574,000	Prudential Financial, Inc., 5.625% 06/15/43	5,894,505(1)
$ 6,375,000	Prudential Financial, Inc., 5.875% 09/15/42	6,837,188(1)
$ 9,070,000	Prudential Financial, Inc., 8.875% 06/15/38	11,156,100(1)
	QBE Insurance:	
$ 8,000,000	QBE Capital Funding III Ltd., 7.25% 05/24/41, 144A****	8,621,832(1)(2)
288,323	W.R. Berkley Corporation, 5.625% Pfd.	6,568,373
	XL Group PLC:	
$ 17,080,000	XL Capital Ltd., 6.50%, Series E	17,015,950(1)(2)
		216,819,595

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

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

May 31, 2014 (Unaudited)

Shares/$ Par		Value
Preferred Securities (Continued)		
	Utilities 5.0%	
	Commonwealth Edison:	
$ 2,000,000	COMED Financing III, 6.35% 03/15/33	$ 2,010,000
25,000	Entergy Louisiana, Inc., 6.95% Pfd.	2,503,908*
116,000	Integrys Energy Group, Inc., 6.00% Pfd.	3,034,850
	PPL Corp:	
$ 19,500,000	PPL Capital Funding, Inc., 6.70% 03/30/67, Series A	19,634,336(1)
$ 5,500,000	Puget Sound Energy, Inc., 6.974% 06/01/67	5,752,758
$ 2,000,000	Southern California Edison Co., 6.25%, Series E	2,164,662*
		35,100,514
	Energy 2.6%	
$ 9,780,000	DCP Midstream LLC, 5.85% 05/21/43, 144A****	9,291,000(1)
$ 4,000,000	Enbridge Energy Partners LP, 8.05% 10/01/37	4,551,000(1)
$ 3,675,000	Enterprise Products Partners, 7.034% 01/15/68, Series B	4,169,898(1)
		18,011,898
	Real Estate Investment Trust (REIT) 6.8%	
425,148	Alexandria Real Estate, 6.45% Pfd., Series E	10,766,873
99,100	CommonWealth REIT, 7.25% Pfd., Series E	2,548,109
	Duke Realty Corp.:	
100,000	Duke Realty Corp, 6.50% Pfd., Series K	2,504,250
234,877	Duke Realty Corp, 6.60% Pfd., Series L	5,886,605
	Kimco Realty Corporation:	
18,500	Kimco Realty Corporation, 5.50% Pfd., Series J	424,945
5,000	Kimco Realty Corporation, 5.625% Pfd., Series K	116,719
47,308	Kimco Realty Corporation, 6.00% Pfd., Series I	1,184,238
116,006	Kimco Realty Corporation, 6.90% Pfd., Series H	3,027,757(1)
	National Retail Properties:	
45,300	National Retail Properties, Inc., 5.70% Pfd., Series E	1,055,150
27,879	National Retail Properties, Inc., 6.625% Pfd., Series D	710,045
	PS Business Parks:	
23,808	PS Business Parks, Inc., 5.70% Pfd., Series V	560,024
20,867	PS Business Parks, Inc., 5.75%, Pfd., Series U	488,914
487,476	PS Business Parks, Inc., 6.00% Pfd., Series T	11,879,790(1)
97,606	PS Business Parks, Inc., 6.45% Pfd., Series S	2,491,149(1)
12,180	PS Business Parks, Inc., 6.875% Pfd., Series R	313,879(1)

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

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

May 31, 2014 (Unaudited)

Shares/$ Par		Value
Preferred Securities (Continued)		
	Real Estate Investment Trust (REIT) (Continued)	
112,614	Public Storage, 6.35% Pfd., Series R	$ 2,922,615
7,035	Regency Centers Corp, 6.625% Pfd., Series 6	181,239
8,313	Weingarten Realty Investors, 6.50% Pfd., Series F	211,337[1]
		47,273,638
	Total Preferred Securities	
	(Cost $656,705,192)	676,225,555
Corporate Debt Securities 1.3%		
	Banking 0.9%	
$ 700,000	Regions Financial Corporation, 7.375% 12/10/37, Sub Notes	891,953
112,876	Texas Capital Bancshares Inc., 6.50% 09/21/42, Sub Notes	2,776,050[1]
100,000	Zions Bancorporation, 6.95% 09/15/28, Sub Notes	2,691,250
		6,359,253
	Financial Services 0.2%	
39,267	Affiliated Managers Group, Inc., 6.375% 08/15/42	1,005,333[1]
		1,005,333
	Communication 0.2%	
63,200	Qwest Corporation, 7.375% 06/01/51	1,660,978
		1,660,978
	Total Corporate Debt Securities	
	(Cost $8,626,680)	9,025,564

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

May 31, 2014 (Unaudited)

Shares/$ Par			Value
Money Market Fund 0.3%			
	BlackRock Liquidity Funds:		
1,895,917	T-Fund, Institutional Class		$ 1,895,917
	Total Money Market Fund (Cost $1,895,917)		1,895,917
Total Investments (Cost $667,227,789***)		99.1%	687,147,036
Other Assets And Liabilities (Net)		0.9%	6,259,554
Total Managed Assets		100.0%	$ 693,406,590
Loan Principal Balance			(221,000,000)
Total Net Assets Available To Common Stock			$ 472,406,590

* 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 May 31, 2014, these securities amounted to $161,376,935 or 23.3% 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 $397,906,638 at May 31, 2014.
(2) Foreign Issuer.
The percentage shown for each investment category is the total value of that category as a percentage of total managed assets.

ABBREVIATIONS:

Pfd.	Preferred Securities
REIT	Real Estate Investment Trust

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

STATEMENT OF ASSETS AND LIABILITIES

May 31, 2014 (Unaudited)

ASSETS:		
Investments at value (Cost $667,227,789)		$ 687,147,036
Receivable for investments sold		703,247
Dividends and interest receivable		7,257,215
Prepaid expenses		97,499
Total Assets		695,204,997
LIABILITIES:		
Loan Payable	$ 221,000,000	
Payable for investments purchased	1,256,633	
Dividends payable to Common Stock Shareholders	48,568	
Investment advisory fees payable	305,348	
Administration, Transfer Agent and Custodian fees payable	57,925	
Servicing Agent fees payable	47,185	
Professional fees payable	37,386	
Directors fees payable	113	
Accrued expenses and other payables	45,249	
Total Liabilities		222,798,407
NET ASSETS AVAILABLE TO COMMON STOCK		$ 472,406,590
NET ASSETS AVAILABLE TO COMMON STOCK consist of:		
Distributions in excess of net investment income		$ (2,306,945)
Accumulated net realized loss on investments sold		(1,648,927)
Unrealized appreciation of investments		19,919,247
Par value of Common Stock		191,568
Paid-in capital in excess of par value of Common Stock		456,251,647
Total Net Assets Available to Common Stock		$ 472,406,590
NET ASSET VALUE PER SHARE OF COMMON STOCK:		
Common Stock (19,156,782 shares outstanding)		$ 24.66

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

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

STATEMENT OF OPERATIONS

For the Six Months Ended May 31, 2014 (Unaudited)

INVESTMENT INCOME:		
Dividends		$ 8,186,358
Interest		11,980,292
Total Investment Income		20,166,650
EXPENSES:		
Investment advisory fees	$ 1,744,639	
Servicing Agent fees	268,008	
Administrator s fees	193,534	
Professional fees	57,694	
Insurance expenses	53,790	
Transfer Agent fees	13,550	
Directors fees	35,490	
Custodian fees	30,659	
Compliance fees	18,200	
Interest expenses	1,299,551	
Other	56,050	
Total Expenses		3,771,165
NET INVESTMENT INCOME		16,395,485
REALIZED AND UNREALIZED GAIN/(LOSS) ON INVESTMENTS		
Net realized gain on investments sold during the period		1,006,404
Change in net unrealized appreciation/(depreciation) of investments		38,642,347
NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS		39,648,751
NET INCREASE IN NET ASSETS TO COMMON STOCK RESULTING FROM OPERATIONS		$ 56,044,236

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.

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK

	Six Months Ended May 31, 2014 (Unaudited)	For the Period from May 29, 2013* through November 30, 2013
OPERATIONS:		
Net investment income	$ 16,395,485	$ 13,832,261
Net realized gain/(loss) on investments sold during the period	1,006,404	(828,185)
Change in net unrealized appreciation/(depreciation) of investments	38,642,347	(18,723,100)
Net increase/(decrease) in net assets resulting from operations	**56,044,236**	**(5,719,024)**
DISTRIBUTIONS:		
Dividends paid from net investment income to Common Stock Shareholders[1]	(19,386,663)	(14,942,290)
Total Distributions to Common Stock Shareholders	**(19,386,663)**	**(14,942,290)**
FUND SHARE TRANSACTIONS:		
Increase from Common Stock transaction		457,267,943
Decrease due to Cost of Common Stock Offering		(957,629)
Net increase in net assets available to Common Stock resulting from Fund share transactions		**456,310,314**
NET INCREASE IN NET ASSETS AVAILABLE TO COMMON STOCK FOR THE PERIOD	**$ 36,657,573**	**$ 435,649,000**

NET ASSETS AVAILABLE TO COMMON STOCK:		
Beginning of period	$ 435,749,017	$ 100,017
Net increase in net assets during the period	36,657,573	435,649,000
End of period (including undistributed (distributions in excess of) net investment income of $(2,306,945) and $684,233, respectively)	$ 472,406,590	$ 435,749,017

* Commencement of operations.

(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 Incorporated

STATEMENT OF CASH FLOWS

For the Six Months Ended May 31, 2014 (Unaudited)

INCREASE/(DECREASE) IN CASH	
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net increase in net assets resulting from operations	$ 56,044,236
ADJUSTMENTS TO RECONCILE NET INCREASE IN NET ASSETS RESULTING	
FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Purchase of investment securities	(83,946,249)
Proceeds from disposition of investment securities	79,702,986
Net sales of short-term investment securities	3,465,907
Decrease in dividends and interest receivable	1,193,228
Increase in receivable for investments sold	(703,247)
Increase in prepaid expenses	(48,733)
Net amortization/(accretion) of premium/(discount)	2,179,310
Increase in payable for investments purchased	1,107,233
Increase in payables to related parties	69,785
Decrease in accrued expenses and other liabilities	(74,976)
Change in net unrealized (appreciation)/depreciation on securities	(38,642,347)
Net realized gain from investments sold	(1,006,404)
Net cash provided by operating activities	19,340,729
CASH FLOWS FROM FINANCING ACTIVITIES:	
Dividends paid (net of change in dividends payable) to common stock shareholders from net investment income	(19,340,729)
Net cash used in financing activities	(19,340,729)
Net increase/(decrease) in cash	
CASH:	
Beginning of the period	
End of the period	$
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Interest paid during the period	$ 1,302,275
Increase in dividends payable to common stock shareholders	45,934

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.

	Six Months Ended May 31, 2014 (Unaudited)	For the period from May 29, 2013[1] through November 30, 2013
PER SHARE OPERATING PERFORMANCE:		
Net asset value, beginning of period	$ 22.75	$ 23.83[2]
INVESTMENT OPERATIONS:		
Net investment income	0.86	0.72
Net realized and unrealized gain/(loss) on investments	2.06	(1.02)
Total from investment operations	2.92	(0.30)
DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:		
From net investment income	(1.01)	(0.78)
Total distributions to Common Stock Shareholders	(1.01)	(0.78)
Net asset value, end of period	$ 24.66	$ 22.75
Market value, end of period	$ 22.90	$ 19.89
Total investment return based on net asset value*	13.50%***	(0.93%)[3]***
Total investment return based on market value*	20.56%***	(17.44%)[3]***
RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK SHAREHOLDERS:		
Total net assets, end of period (in 000 s)	$ 472,407	$ 435,749
Operating expenses including interest expense[4]	1.69%**	1.47%**
Operating expenses excluding interest expense	1.11%**	1.06%**
Net investment income	7.33%**	6.29%**
SUPPLEMENTAL DATA:		
Portfolio turnover rate	12%***	10%***
Total managed assets, end of period (in 000 s)	$ 693,407	$ 656,749
Ratio of operating expenses including interest expense[4]	1.13%**	1.07%**
Ratio of operating expenses excluding interest expense	0.74%**	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 (Unaudited) (Continued)

Per Share of Common Stock

	Total Dividends Paid	Net Asset Value	NYSE Closing Price	Dividend Reinvestment Price[1]
December 31, 2013	$ 0.2120	$ 22.46	$ 20.53	$ 20.49
January 31, 2014	0.1600	22.95	20.90	20.86
February 28, 2014	0.1600	23.47	21.91	21.92
March 31, 2014	0.1600	23.72	21.72	21.75
April 30, 2014	0.1600	24.23	22.76	22.84
May 30, 2014	0.1600	24.66	22.90	22.93

(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

	05/31/14*	11/30/2013
Total Debt Outstanding, End of Period (000s)[1]	$ 221,000	$ 221,000
Asset Coverage per $1,000 of Debt[2]	$ 3,138	$ 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.
* Unaudited.

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

NOTES TO FINANCIAL STATEMENTS (Unaudited)

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 (Unaudited) (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 performed an analysis of all existing investments and derivative instruments 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 May 31, 2014 is as follows:

	Total Value at May 31, 2014	Level 1 Quoted Price	Level 2 Significant Observable Inputs	Level 3 Significant Unobservable Inputs
Preferred Securities				
Banking	$ 347,167,429	$ 269,104,957	$ 78,062,472	$
Financial Services	11,852,481	11,852,481		
Insurance	216,819,595	160,745,387	56,074,208	
Utilities	35,100,514	22,669,186	12,431,328	
Energy	18,011,898	4,551,000	13,460,898	
Real Estate Investment Trust (REIT)	47,273,638	47,273,638		
Corporate Debt Securities				
Banking	6,359,253	5,467,300	891,953	
Financial Services	1,005,333	1,005,333		
Communication	1,660,978	1,660,978		
Money Market Fund	1,895,917	1,895,917		
Total Investments	$ 687,147,036	$ 526,226,177	$ 160,920,859	$

During the reporting period, securities with an aggregate market value of $28,058,250 were transferred into Level 1 from Level 2. During the reporting period, there were no transfers into Level 2 from Level 1. During the reporting period, there were no transfers into or out of Level 3.

NOTES TO FINANCIAL STATEMENTS (Unaudited) (Continued)

The fair values of the Fund s investments are generally based on market information and quotes received from brokers or independent pricing services approved by the Board and 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 participant in the markets.

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 is 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 (Unaudited) (Continued)

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 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 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 shareholders 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 2014 and 2013 were as follows:

	Distributions paid in fiscal year 2014		**Distributions paid in fiscal year 2013**	
	Ordinary Income	**Long-Term Capital Gains**	**Ordinary Income**	**Long-Term Capital Gains**
Common Stock	N/A	N/A	$14,942,290	$0

As of November 30, 2013, 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)**
$(1,122,554)	$1,276,248	$0	$(20,455,496)

NOTES TO FINANCIAL STATEMENTS (Unaudited) (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.

No Expiration	No Expiration	
Short Term	**Long Term**	**Total**
$1,122,554	$0	$1,122,554

Excise tax: The Internal Revenue Code of 1986, as amended, 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 paid $909 of federal excise taxes attributable to calendar year 2013 in March 2014.

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.

The Fund did not use any derivatives during the six months ended May 31, 2014 and the fiscal year ended November 30, 2013.

Options on Financial Futures Contracts: When the 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.

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

NOTES TO FINANCIAL STATEMENTS (Unaudited) (Continued)

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 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).

BNY Mellon 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.

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

NOTES TO FINANCIAL STATEMENTS (Unaudited) (Continued)

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 six months ended May 31, 2014, the cost of purchases and proceeds from sales of securities, excluding short-term investments, aggregated $83,946,249 and $79,702,986, respectively.

At May 31, 2014, the aggregate cost of securities for federal income tax purposes was $668,960,185, the aggregate gross unrealized appreciation for all securities in which there is an excess of value over tax cost was $22,175,200 and the aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value was $3,988,349.

6. Common Stock

At May 31, 2014, 240,000,000 shares of $0.01 par value Common Stock were authorized. At May 31, 2014, there were 19,156,782 shares of Common Stock issued and outstanding.

Organization Expenses and Costs of the Common Stock Offering: Organization expenses relating to organizing the Fund of $86,350 have been paid by the Adviser. Costs of the Common Stock offering were estimated to be approximately $957,629. The Adviser has also agreed to pay offering costs (excluding sales charges) that exceed $0.05 per share. Costs of the Common Stock offering up to $0.05 per share and sales charges will be borne by the Fund and its shareholders and are accounted for as a reduction to paid-in capital. Based on the initial offering of 18,000,000 shares, and the subsequent offering of 1,152,584 shares through exercise of the underwriter s over-allotment option in connection with the initial offering, $957,629 of the offering costs will be borne by the Fund.

Common Stock transactions were as follows:

	Six Months Ended 05/31/14	
	Shares	Amount
Shares issued under the Dividend Reinvestment and Cash Purchase Plan		$

	Year Ended 11/30/13 (Fund Inception to Date)			
	Shares	Gross Amount	Sales Load	Net Amount
Beginning Capitalization	4,198	$ 100,017	$	$ 100,017
Initial Public Offering on 05/29/13	18,000,000	450,000,000	20,250,000	429,750,000
Shares offered through exercise of Underwriters over-allotment option on 07/08/13	1,152,584	28,814,600	1,296,657	27,517,943

Total	19,156,782	$ 478,914,617	$ 21,546,657	$ 457,367,960

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

NOTES TO FINANCIAL STATEMENTS (Unaudited) (Continued)

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 May 31, 2014, the committed amount, and amount borrowed, under the Financing Agreement was $221 million.

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 six months ended May 31, 2014, the daily weighted average annualized interest rate on the drawn balance was 1.162% and the average daily loan balance was $221,000,000. 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

NOTES TO FINANCIAL STATEMENTS (Unaudited) (Continued)

Securities. Rehypothecated Securities are identified in the Portfolio of Investments listing 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 & mortgage finance, diversified financial services, finance, consumer finance, capital markets, asset management & custody, investment banking & brokerage, insurance, insurance brokers, 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.

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 nominee for details regarding reinvestment.

The number of shares of Common Stock distributed to participants in the Plan in lieu of a cash dividend is determined in the following manner. Whenever the market price per share of the Fund s Common Stock is equal to or exceeds the net asset value per share on the valuation date, participants in the Plan will be issued new shares valued at the higher of net asset value or 95% of the then current market value. Otherwise, BNY Mellon will buy shares of the Fund s Common Stock in the open market, on the New York Stock Exchange (NYSE) or elsewhere, on or shortly after the payment date of the dividend or distribution and continuing until the ex-dividend date of the Fund s next distribution to holders of the Common Stock or until it has expended for such purchases all of the cash that would otherwise be payable to the participants. The number of purchased shares that will then be credited to the participants accounts will be based on the average per share purchase price of the shares so purchased, including brokerage commissions. If BNY Mellon commences purchases in the open market and the then current market price of the shares (plus any estimated brokerage commissions) subsequently exceeds their net asset value most recently determined before the completion of the purchases, BNY Mellon will attempt to terminate purchases in the open market and cause the Fund to issue the remaining dividend or distribution in shares. In this case, the number of shares received by the participant will be based on the weighted average of prices paid for shares purchased in the open market and the price at which the Fund issues the remaining shares. These remaining shares will be issued by the Fund at the higher of net asset value or 95% of the then current market value.

Plan participants are not subject to any charge for reinvesting dividends or capital gains distributions. Each Plan participant will, however, bear a proportionate share of brokerage commissions incurred with respect to BNY Mellon s open market purchases in connection with the reinvestment of dividends or capital gains distributions. For the six months ended May 31, 2014, $116 in brokerage commissions were incurred.

The automatic reinvestment of dividends and capital gains distributions will not relieve Plan participants of any income tax that may be payable on the dividends or capital gains distributions. A participant in the Plan will be treated for Federal income tax purposes as having received, on the dividend payment date, a dividend or distribution in an amount equal to the cash that the participant could have received instead of shares.

ADDITIONAL INFORMATION (Unaudited) (Continued)

In addition to acquiring shares of Common Stock through the reinvestment of cash dividends and distributions, a shareholder may invest any further amounts from $100 to $3,000 semi-annually at the then current market price in shares purchased through the Plan. Such semi-annual investments are subject to any brokerage commission charges incurred by BNY Mellon under the Plan.

A shareholder whose Common Stock is registered in his or her own name may terminate participation in the Plan at any time by notifying BNY Mellon in writing, by completing the form on the back of the Plan account statement and forwarding it to BNY Mellon, or by calling BNY Mellon, directly. A termination will be effective immediately if notice is received by BNY Mellon not less than 10 days before any dividend or distribution record date. Otherwise, the termination will be effective, and only with respect to any subsequent dividends or distributions, on the first day after the dividend or distribution has been credited to the participant s account in additional shares of the Fund. Upon termination and according to a participant s instructions, BNY Mellon will either (a) issue certificates for the whole shares credited to the shareholder s Plan account and a check representing any fractional shares or (b) sell the shares in the market. Shareholders who hold Common Stock registered in the name of a broker or other nominee should consult their broker or nominee to terminate participation.

The Plan is described in more detail in the Fund s Plan brochure. Information concerning the Plan may be obtained from BNY Mellon at 1-866-351-7446.

Proxy Voting Policies and Proxy Voting Record on Form N-PX

The Fund files Form N-PX with its complete proxy voting record for the 12 months ended June 30th no later than August 31st of each year. The Fund filed its latest Form N-PX with the Securities and Exchange Commission (SEC) on August 13, 2013. This filing, as well as the Fund s proxy voting policies and procedures, are available (i) without charge, upon request, by calling the Fund s transfer agent at 1-866-351-7446 and (ii) on the SEC s website at www.sec.gov. In addition, the Fund s proxy voting policies and procedures are available on the Fund s website at www.preferredincome.com.

Portfolio Schedule on Form N-Q

The Fund files a complete schedule of portfolio holdings with the SEC for the first and third fiscal quarters on Form N-Q, the latest of which was filed for the quarter ended February 28, 2014. The Fund s Form N-Q is available on the SEC s website at www.sec.gov or may be viewed and obtained from the SEC s Public Reference Room in Washington D.C. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

Portfolio Management Team

In managing the day-to-day operations of the Fund, the Adviser relies on the expertise of its team of money management professionals, consisting of Messrs. Crumrine, Ettinger, Stone and Chadwick. The professional backgrounds of each member of the management team are included in the Information about Fund Directors and Officers section of this report.

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

ADDITIONAL INFORMATION (Unaudited) (Continued)

Meeting of Shareholders

On April 17, 2014, the Fund held its Annual Meeting of Shareholders for the purpose of electing Directors of the Fund. The proposal was approved by the shareholders and the results of the voting are as follows:

Name	For	Withheld
Donald F. Crumrine	14,446,977	4,280
Robert F. Wulf	14,447,477	3,780

David Gale, Morgan Gust and Karen H. Hogan continue to serve in their capacities as Directors of the Fund.

ADDITIONAL INFORMATION (Unaudited) (Continued)

Information about Fund Directors and Officers

The business and affairs of the Fund are managed under the direction of the Fund s Board of Directors. Information pertaining to the Directors and officers of the Fund is set forth below.

Name, Address, and Age	Current Position(s) Held with Fund	Term of Office and Length of Time Served*	Principal Occupation(s) During Past Five Years	Number of Funds In Fund Complex Overseen by Director**	Other Public Company Board Memberships During Past Five Years
NON-INTERESTED DIRECTORS:					
David Gale 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 65	Director	Class II Director since April 2013	President of Delta Dividend Group, Inc. (investments)	5	Emmis Communications
Morgan Gust 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 67	Director and Nominating and Governance Committee Chairman	Class III Director since April 2013	Owner and operator of various entities engaged in agriculture and real estate.	5	CoBiz, Financial, Inc. (financial services)
Karen H. Hogan 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 53	Director	Class II Director since April 2013	Board Co-Chair and Member, IKAR, a non-profit organization; Active Member and Volunteer to several non-profit organizations.	5	None

* The Fund s Board of Directors is divided into three classes of Directors serving staggered three-year terms. The initial term for each class expires as follows:
Class I Directors Initial term expires at the Fund s 2017 Annual Meeting of Shareholders; directors may continue in office until their successors are duly elected and qualified.

Class II Directors Initial term expires at the Fund s 2015 Annual Meeting of Shareholders; directors may continue in office until their successors are duly elected and qualified.

Class III Director Initial term expires at the Fund s 2016 Annual Meeting of Shareholders; director may continue in office until his successor is duly elected and qualified.

** Each Director also serves as a Director for Flaherty & Crumrine Preferred Income Fund, Flaherty & Crumrine Preferred Income Opportunity Fund, Flaherty & Crumrine Preferred Securities Income Fund and Flaherty & Crumrine Total Return Fund.

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

ADDITIONAL INFORMATION (Unaudited) (Continued)

Name, Address, and Age	**Current Position(s) Held with Fund**	**Term of Office and Length of Time Served***	**Principal Occupation(s) During Past Five Years**	**Number of Funds In Fund Complex Overseen By Director****	**Other Public Company Board Memberships During Past Five Years**
NON-INTERESTED DIRECTORS:					
Robert F. Wulf 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 77	Director and Audit Committee Chairman	Class I Director since April 2013	Financial Consultant; Former Trustee, University of Oregon Foundation; Trustee, San Francisco Theological Seminary	5	None
INTERESTED DIRECTOR:					
Donald F. Crumrine 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 66	Director, Chairman of the Board and Chief Executive Officer	Class I Director since April 2013	Chairman of the Board and Director of Flaherty & Crumrine Incorporated	5	None

* The Fund s Board of Directors is divided into three classes of Directors serving staggered three-year terms. The initial term for each class expires as follows:
Class I Directors Initial term expires at the Fund s 2017 Annual Meeting of Shareholders; directors may continue in office until their successors are duly elected and qualified.

Class II Directors Initial term expires at the Fund s 2015 Annual Meeting of Shareholders; directors may continue in office until their successors are duly elected and qualified.

Class III Director Initial term expires at the Fund s 2016 Annual Meeting of Shareholders; director may continue in office until his successor is duly elected and qualified.

**

Each Director also serves as a Director for Flaherty & Crumrine Preferred Income Fund, Flaherty & Crumrine Preferred Income Opportunity Fund, Flaherty & Crumrine Preferred Securities Income Fund, and Flaherty & Crumrine Total Return Fund.

Interested person of the Fund as defined in the 1940 Act. Mr. Crumrine is considered an interested person because of his affiliation with Flaherty & Crumrine Incorporated, which acts as the Fund s investment adviser.

ADDITIONAL INFORMATION (Unaudited) (Continued)

Name, Address, and Age	Current Position(s) Held with Fund	Term of Office and Length of Time Served*	Principal Occupation(s) During Past Five Years
OFFICERS:			
Robert M. Ettinger 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 55	President	Since April 2013	President and Director of Flaherty & Crumrine Incorporated
R. Eric Chadwick 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 39	Chief Financial Officer, Vice President and Treasurer	Since April 2013	Vice President and Director of Flaherty & Crumrine Incorporated
Chad C. Conwell 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 41	Chief Compliance Officer, Vice President and Secretary	Since April 2013	Chief Compliance Officer & Vice President of Flaherty & Crumrine Incorporated; Director of Flaherty & Crumrine Incorporated since January 2011
Bradford S. Stone 47 Maple Street Suite 403 Summit, NJ 07901 Age: 54	Vice President and Assistant Treasurer	Since April 2013	Vice President and Director of Flaherty & Crumrine Incorporated
Roger Ko 301 E. Colorado Boulevard	Assistant Treasurer	Since April 2014	Trader of Flaherty & Crumrine Incorporated since September 2013; Director of Deutsche Bank Securities from 2009 to July 2013

Suite 720 Pasadena, CA 91101 Age: 39			
Laurie C. Lodolo 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 50	Assistant Compliance Officer, Assistant Treasurer and Assistant Secretary	Since April 2013	Assistant Compliance Officer and Secretary of Flaherty & Crumrine Incorporated
Linda M. Puchalski 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 57	Assistant Treasurer	Since April 2013	Administrator of Flaherty & Crumrine Incorporated

* Each officer serves until his or her successor is elected and qualified or until his or her earlier resignation or removal.

37

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Directors

Donald F. Crumrine, CFA

Chairman of the Board

David Gale Morgan Gust Karen H. Hogan Robert F. Wulf, CFA

Officers

Donald F. Crumrine, CFA

Chief Executive Officer

Robert M. Ettinger, CFA

President

R. Eric Chadwick, CFA

Chief Financial Officer,

Vice President and Treasurer

Chad C. Conwell

Chief Compliance Officer,

Vice President and Secretary

Bradford S. Stone

Vice President and

Assistant Treasurer

Roger Ko

Assistant Treasurer

Laurie C. Lodolo

Assistant Compliance Officer,

Assistant Treasurer and

Assistant Secretary

Linda M. Puchalski

Assistant Treasurer

Investment Adviser

Flaherty & Crumrine Incorporated e-mail: flaherty@pfdincome.com

Servicing Agent

Destra Capital Investments LLC

1-877-855-3434

Questions concerning your shares of Flaherty & Crumrine Dynamic Preferred and Income Fund?

If your shares are held in a Brokerage Account, contact your Broker.
If you have physical possession of your shares in certificate form, contact the Fund s Transfer Agent
BNY Mellon c/o Computershare

P.O. Box 30170

College Station, TX 77842-3170

1-866-351-7446

This report is sent to shareholders of Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated for their information. It is not a Prospectus, circular or representation intended for use in the purchase or sale of shares of the Fund or of any securities mentioned in this report.

Semi-Annual Report

May 31, 2014

www.preferredincome.com

Item 2. Code of Ethics.

Not applicable.

Item 3. Audit Committee Financial Expert.

Not applicable.

Item 4. Principal Accountant Fees and Services.

Not applicable.

Item 5. Audit Committee of Listed registrants.

Not applicable.

Item 6. Investments.

(a) Schedule of Investments in securities of unaffiliated issuers as of the close of the reporting period is included as part of the report to shareholders filed under Item 1 of this form.

(b) Not applicable.

Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.

Not applicable.

Item 8. Portfolio Managers of Closed-End Management Investment Companies.

There has been no change, as of the date of this filing, in any of the portfolio managers identified in response to paragraph (a)(1) of this Item in the registrant s most recently filed annual report on Form N-CSR.

Item 9. Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers.

Not applicable.

Item 10. Submission of Matters to a Vote of Security Holders.

There have been no material changes to the procedures by which the shareholders may recommend nominees to the registrant s board of directors, where those changes were implemented after the registrant last provided disclosure in response to the requirements of Item 407(c)(2)(iv) of Regulation S-K (17 CFR 229.407) (as required by Item 22(b)(15) of Schedule 14A (17 CFR 240.14a-101)), or this Item.

Item 11. Controls and Procedures.

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

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

Item 12. Exhibits.

(a)(1) Not applicable.

(a)(2) Certifications pursuant to Rule 30a-2(a) under the 1940 Act and Section 302 of the Sarbanes-Oxley Act of 2002 are attached hereto.

(a)(3) Not applicable.

(b) Certifications pursuant to Rule 30a-2(b) under the 1940 Act and Section 906 of the Sarbanes- Oxley Act of 2002 are attached hereto.

SIGNATURES

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

(Registrant) Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

By (Signature and Title)* /s/ Donald F. Crumrine
Donald F. Crumrine, Director, Chairman of the Board and Chief Executive Officer
(principal executive officer)

Date 07/28/2014

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

By (Signature and Title)* /s/ Donald F. Crumrine
Donald F. Crumrine, Director, Chairman of the Board and Chief Executive Officer
(principal executive officer)

Date 07/28/2014

By (Signature and Title)* /s/ R. Eric Chadwick
R. Eric Chadwick, Chief Financial Officer, Treasurer and Vice President
(principal financial officer)

Date 07/28/2014

* Print the name and title of each signing officer under his or her signature.