

ACCREDITED HOME LENDERS HOLDING CO

Form 10-Q

May 10, 2005

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2005

or

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

For the transition period from _____ to _____

Commission File Number 0-50179

ACCREDITED HOME LENDERS HOLDING CO.

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(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

04-3669482
(I.R.S. Employer

incorporation or organization)

Identification No.)

15090 Avenue of Science

San Diego, California 92128

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: 858-676-2100

Former name, former address and former fiscal year, if changed since last report: Not applicable.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x or No "

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes x or No "

The number of outstanding shares of the registrant's common stock as of April 30, 2005 was 21,698,889.

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FORWARD-LOOKING STATEMENTS

This report contains certain forward-looking statements. When used in this report, statements which are not historical in nature, including the words anticipate, estimate, should, expect, believe, intend and similar expressions are intended to identify forward-looking statements. This report includes statements containing a projection of revenues, earnings or losses, capital expenditures, dividends, capital structure or other financial terms.

The forward-looking statements in this report are based upon our management's beliefs, assumptions and expectations of our future operations and economic performance, taking into account the information currently available to them. These statements are not statements of historical fact. Forward-looking statements involve risks and uncertainties, some of which are not currently known to us, that may cause our actual results, performance or financial condition to be materially different from the expectations of future results, performance or financial condition we express or imply in any forward-looking statements. Some of the important factors that could cause our actual results, performance or financial condition to differ materially from expectations are:

changes in demand for, or value of, mortgage loans due to the attributes of the loans we originate; the characteristics of our borrowers; and fluctuations in the real estate market, interest rates or the market in which we sell or securitize our loans;

the degree and nature of our competition;

a general deterioration in economic or political conditions;

our ability to protect and hedge our mortgage loan portfolio against adverse interest rate movements;

changes in government regulations that affect our ability to originate and service mortgage loans;

changes in the credit markets, which affect our ability to borrow money to originate mortgage loans;

our ability to employ and retain qualified employees; and

the other factors referenced in this report, including, without limitation, under the section entitled "ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations."

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this report might not occur. We qualify any and all of our forward-looking statements entirely by these cautionary factors.

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In this Form 10-Q, unless the context requires otherwise, Accredited, Company, we, our, and us means Accredited Home Lenders Holding Co. and its subsidiaries.

PART I**ITEM 1. Financial Statements****ACCREDITED HOME LENDERS HOLDING CO. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(Dollars in thousands, except par value and per share amounts)

	March 31, 2005	December 31, 2004
	(Unaudited)	
ASSETS		
Cash and cash equivalents	\$ 62,835	\$ 35,155
Restricted cash	6,054	4,589
Mortgage loans held for sale, net of reserve of \$19,906 and \$17,065, respectively	1,947,326	1,790,134
Mortgage loans held for investment, net of reserve of \$69,298 and \$60,138 respectively	5,277,564	4,690,758
Furniture, fixtures and equipment, net	33,784	34,763
Other receivables	56,674	57,658
Deferred income tax asset	10,749	34,250
Prepaid expenses and other assets	58,263	41,070
	_____	_____
Total assets	\$ 7,453,249	\$ 6,688,377
	_____	_____
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Warehouse credit facilities	\$ 2,391,848	\$ 2,204,860
Securitization bond financing	4,504,863	3,954,115
Income taxes payable	2,146	22,310
Accounts payable and accrued liabilities	46,429	46,615
	_____	_____
Total liabilities	6,945,286	6,227,900
	_____	_____
COMMITMENTS AND CONTINGENCIES (Note 12)		
MINORITY INTEREST IN SUBSIDIARY	97,922	97,922
STOCKHOLDERS' EQUITY:		
Preferred stock, \$.001 par value; authorized 5,000,000 shares; no shares issued or outstanding		
Common stock, \$.001 par value; authorized 40,000,000 shares; issued and outstanding 21,647,140 shares and 21,379,690 shares, respectively (including 750,556 and 585,545, respectively, of restricted stock awarded under the deferred compensation plan)	22	21
Additional paid-in capital	93,119	84,281
Unearned compensation	(17,689)	(12,058)
Accumulated other comprehensive income	15,033	2,042

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Retained earnings	319,556	288,269
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Total stockholders' equity	410,041	362,555
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Total liabilities and stockholders' equity	\$ 7,453,249	\$ 6,688,377
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The accompanying notes are an integral part of these consolidated financial statements.

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ACCREDITED HOME LENDERS HOLDING CO. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	Three Months Ended March 31,	
	2005	2004
	(Unaudited)	
REVENUES:		
Interest income	\$ 124,893	\$ 60,626
Interest expense	(54,327)	(20,930)
Net interest income	70,566	39,696
Provision for losses	(17,937)	(7,449)
Net interest income after provision	52,629	32,247
Gain on sale of loans	66,463	54,730
Loan servicing income	2,115	1,563
Other income	1,831	1,905
Total net revenues	123,038	90,445
OPERATING EXPENSES:		
Salaries, wages and benefits	42,427	35,255
General and administrative expenses	13,093	9,587
Occupancy	5,023	3,853
Advertising and promotion	4,107	2,466
Depreciation and amortization	3,404	1,774
Total operating expenses	68,054	52,935
Income before income taxes and minority interest	54,984	37,510
Income tax provision	21,202	15,004
Minority interest dividends on preferred stock of subsidiary	2,495	
Net income	\$ 31,287	\$ 22,506
Earnings per common share:		
Basic	\$ 1.50	\$ 1.12
Diluted	\$ 1.43	\$ 1.05
Weighted average shares outstanding:		
Basic	20,851	20,119
Diluted	21,847	21,504

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

Table of Contents**ACCREDITED HOME LENDERS HOLDING CO. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS***(In thousands)*

	Three Months Ended	
	March 31,	
	2005	2004
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 31,287	\$ 22,506
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	3,404	1,774
Provision for losses	17,937	7,449
Minority interest dividends paid on preferred stock of subsidiary	2,495	
Deferred income tax provision (benefit)	14,829	(2,236)
Unrealized loss on risk derivatives	10,103	(5,762)
Reclassification adjustment into earnings for realized gain on derivatives	(2,297)	
Other	720	529
Changes in operating assets and liabilities:		
Restricted cash	(1,460)	(5,451)
Gross changes in mortgage loans held for sale:		
Mortgage loans held for sale originated, net of fees	(3,231,355)	(2,388,770)
Cost of loans sold, net of fees	2,088,240	1,582,909
Principal payments received on loans held for sale	24,346	11,274
Other receivables	2,433	(12,238)
Prepaid expenses and other assets	6,801	(8,195)
Income taxes payable	(18,508)	11,611
Accounts payable and accrued liabilities	(482)	6,556
Net cash used in operating activities	(1,051,507)	(778,044)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Principal payments received on loans held for investment	349,191	123,734
Capital expenditures	(2,427)	(7,414)
Net cash provided by investing activities	346,764	116,320
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from warehouse credit facilities	186,988	301,005
Proceeds from issuance of securitization bond financing, net of fees	899,374	503,104
Payments on securitization bond financing	(351,901)	(135,346)
Payments on capital leases		(7)
Proceeds from sale of common stock through employee stock plans	525	391
Payment by consolidated subsidiary of preferred stock dividends	(2,495)	
Net cash provided by financing activities	732,491	669,147

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Effect of exchange rate changes on cash	(68)	
Net increase in cash and cash equivalents	27,680	7,423
Beginning balance, cash and cash equivalents	35,155	27,119
Ending balance, cash and cash equivalents	\$ 62,835	\$ 34,542

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

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ACCREDITED HOME LENDERS HOLDING CO. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of Accredited Home Lenders Holding Co. ("AHLHC"), a Delaware corporation, its wholly owned subsidiaries, Accredited Home Lenders, Inc. ("AHL") and Accredited Home Lenders Canada, Inc., and AHL's subsidiary Accredited Mortgage Loan REIT Trust (the "REIT") (collectively referred to as "Accredited").

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. All intercompany balances and transactions are eliminated in consolidation. The unaudited consolidated financial statements presented herein should be read in conjunction with the audited consolidated financial statements and related notes thereto included in AHLHC's Annual Report on Form 10-K for the year ended December 31, 2004.

Accredited engages in the business of originating, financing, securitizing, selling and servicing non-prime mortgage loans secured by residential real estate. Accredited focuses on borrowers who may not meet conforming underwriting guidelines because of higher loan-to-value ratios, the nature or absence of income documentation, limited credit histories, high levels of consumer debt, or past credit difficulties. Accredited originates loans primarily based upon the borrower's willingness and ability to repay.

over \$100,000

All shares were valued as of January 18, 2013.

(1)

This information has been furnished by each Director/Nominee as of January 18, 2013. Beneficial ownership is determined in accordance with Rule 16a-1(a)(2) under the 1934 Act.

(2)

The Directors, Nominees and executive officers of each Fund, as a group, own less than 1% of each Fund.

(3)

Includes shares of the Fund held by Flaherty & Crumrine, of which Mr. Crumrine is a shareholder and Director.

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Officers of the Funds

The following table provides information concerning each of the officers of the Funds.

Name, Address and Age	Current Position(s) Held with Funds	Term of Office and Length of Time Served*	Principal Occupation During Past Five Years
Robert M. Ettinger 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 54	President	PFD since 2002 PFO since 2002 FFC since inception FLC since inception	President and Director of Flaherty & Crumrine
R. Eric Chadwick 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 37	Chief Financial Officer, Vice President and Treasurer	PFD since 2004 PFO since 2004 FFC since 2004 FLC since 2004	Vice President and Director of Flaherty & Crumrine
Chad C. Conwell 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 40	Chief Compliance Officer, Vice President and Secretary	PFD since 2005 PFO since 2005 FFC since 2005 FLC since 2005	Chief Compliance Officer and Vice President of Flaherty & Crumrine; Director of Flaherty & Crumrine since January 2011
Bradford S. Stone 47 Maple Street Suite 403 Summit, NJ 07901 Age: 53	Vice President and Assistant Treasurer	PFD since 2003 PFO since 2003 FFC since 2003 FLC since inception	Vice President and Director of Flaherty & Crumrine
Laurie C. Lodolo 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 49	Assistant Compliance Officer, Assistant Treasurer and Assistant Secretary	PFD since 2004 PFO since 2004 FFC since 2004 FLC since 2004	Assistant Compliance Officer and Secretary of Flaherty & Crumrine
Linda M. Puchalski 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 56	Assistant Treasurer	PFD since 2010 PFO since 2010 FFC since 2010 FLC since 2010	Administrator of Flaherty & Crumrine

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

Audit Committee Report

The role of each Fund's Audit Committee is to assist the Board of Directors in its oversight of: (i) the integrity of the Fund's financial statements and the independent audit thereof; (ii) the Fund's accounting and financial reporting policies and practices, its internal controls and, as appropriate, the internal controls of certain service providers; (iii) the Fund's compliance with legal and regulatory requirements; and (iv) the independent auditor's qualifications, independence and performance. Each Fund's Audit Committee is also required to prepare an audit committee report pursuant to the rules of the SEC for inclusion in the Fund's annual proxy statement. Each Audit Committee operates pursuant to a charter (the Audit Committee Charter or Charter) that was most recently reviewed and approved by the Board of Directors of each Fund on January 22, 2013 and which is available at www.preferredincome.com. As set forth in the Charter, management is responsible for the (i) preparation, presentation and integrity of each Fund's financial statements, (ii) maintenance of appropriate accounting and financial reporting principles and policies and (iii) maintenance of internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The Funds' independent registered public accounting firm, KPMG LLP (the independent accountants or KPMG), is responsible for planning and carrying out proper audits and reviews of each Fund's financial statements and expressing an opinion as to their conformity with accounting principles generally accepted in the United States of America.

In performing its oversight function, at a meeting held on January 22, 2013, each Audit Committee reviewed and discussed with management of the Fund and the independent accountants, the audited financial statements of the Fund as of and for the fiscal year ended November 30, 2012, and discussed the audit of such financial statements with the independent accountants.

In addition, each Audit Committee discussed with the independent accountants the accounting principles applied by the Fund and such other matters brought to the attention of the Audit Committee by the independent accountants required by Statement of Auditing Standards No. 61, as amended (AICPA, *Professional Standards*, Vol. 1 AU Section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T. Each Audit Committee also received from the independent accountants the written disclosures and statements required by the SEC's independence rules, delineating relationships between the independent accountants and the Fund and discussed the impact that any such relationships might have on the objectivity and independence of the independent accountants.

As set forth above, and as more fully set forth in each Fund's Audit Committee Charter, the Audit Committee has significant duties and powers in its oversight role with respect to the Fund's financial reporting procedures, internal control systems, and the independent audit process.

The members of each Audit Committee are not, and do not represent themselves to be, professionally engaged in the practice of auditing or accounting and are not employed by the Fund for accounting, financial management or internal control. Moreover, the Audit Committee relies on and makes no independent verification of the facts presented to it or representations made by management or the independent accountants. Accordingly, the Audit Committee's oversight does not provide an independent basis to determine that management has maintained appropriate accounting and financial reporting principles and policies, or internal controls and procedures, designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, the Audit Committee's considerations and discussions referred to above do not provide assurance that the audit of each Fund's financial statements has been carried out in accordance with generally accepted accounting standards or that the financial statements are presented in accordance with generally accepted accounting principles.

Based on its consideration of the audited financial statements and the discussions referred to above with management and the independent accountants, and subject to the limitations on the responsibilities and role of the Audit Committee set forth in the Charter and those discussed above, the Audit Committee of each Fund recommended to that Fund's Board that the audited financial statements be included in the Fund's Annual Report for the fiscal year ended November 30, 2012.

This report was submitted by the Audit Committee of each Fund's Board of Directors

David Gale
Morgan Gust
Karen H. Hogan
Robert F. Wulf (Chairman)

January 22, 2013

Each Audit Committee was established in accordance with Section 3(a)(58)(A) of the 1934 Act. Each Audit Committee met four times in connection with its Board of Directors' regularly scheduled meetings during the fiscal year ended November 30, 2012. Each Audit Committee is composed entirely of each Fund's Independent Directors who are also independent (as such term is defined by the NYSE under the listing standards applicable to closed-end funds, as may be modified or supplemented (the "NYSE Listing Standards")), namely Ms. Hogan and Messrs. Gale, Gust and Wulf.

Nominating and Governance Committee

Each Board of Directors has a Nominating and Governance Committee composed entirely of each Fund's Independent Directors who are also independent (as such term is defined by the NYSE Listing Standards), namely Ms. Hogan and Messrs. Gale, Gust and Wulf. The Nominating and Governance Committee of each Fund met twice during the fiscal year ended November 30, 2012. The Nominating and Governance Committee is responsible for identifying individuals believed to be qualified to become Board members; for recommending to the Board such nominees to stand for election as directors at each Fund's annual meeting of shareholders and to fill any vacancies on the Board; and for overseeing the Board's governance practices. Each Fund's Nominating and Governance Committee has a charter which is available on its website, www.preferredincome.com.

Each Fund's Nominating and Governance Committee believes that it is in the best interest of the Fund and its shareholders to obtain highly qualified candidates to serve as members of the Board. The Nominating and Governance Committees have not established a formal process for identifying candidates where a vacancy exists on the Board. In nominating candidates, each Nominating and Governance Committee shall take into consideration such factors as it deems appropriate, including educational background; business, professional training or practice (e.g., accounting or law); public service or academic positions; experience from service as a board member (including the Boards of the Funds) or as an executive of investment funds, public companies or significant private or not-for-profit entities or other organizations; and/or other life experiences. Each Fund's Nominating and Governance Committee may consider whether a potential nominee's professional experience, education, skills, and other individual qualities and attributes, including gender, race or national origin, would provide beneficial diversity of skills, experience or perspective to the Board's membership and collective attributes. Each Fund's Nominating and Governance Committee will consider director candidates recommended by shareholders and submitted in accordance with applicable law and procedures as described in this Joint Proxy Statement. (See "Submission of Shareholder Proposals" below.)

Other Board-Related Matters

Shareholders who wish to send communications to the Board should send them to the address of their Fund(s) and to the attention of the Board. All such communications will be directed to the Board's attention.

The Funds do not have a formal policy regarding Board member attendance at the Annual Meeting of Shareholders. However, all of the Directors of each Fund attended the April 19, 2012 Annual Meetings of Shareholders.

Board Compensation

Each Director of each Fund who is not a director, officer or employee of Flaherty & Crumrine or any of its affiliates receives from each Fund a fee of \$9,000 per annum plus \$750 for each in-person Board of Directors or Audit Committee meeting attended, \$500 for each in-person Nominating and Governance Committee meeting attended, and \$250 for each telephone meeting attended. In addition, the Audit Committee Chairman receives from each Fund an annual fee of \$3,000. Each Director of each Fund is reimbursed for travel and out-of-pocket expenses associated with attending Board and committee meetings. During the fiscal year ended November 30, 2012, the Board of Directors for each Fund held six meetings (two of which were

held by telephone conference call). Each Director of each Fund attended at least 75% of the meetings of Directors and of any Committee of which he or she is a member. The aggregate remuneration paid to the Directors of each Fund for the fiscal year ended November 30, 2012 is set forth below:

	Annual Director Fees	Board Meeting and Committee Meeting Fees	Travel and Out-of-Pocket Expenses*
PFD	\$36,000	\$33,000	\$3,148
PFO	\$36,000	\$33,000	\$3,098
FFC	\$36,000	\$33,000	\$3,098
FLC	\$36,000	\$33,000	\$3,098

* Includes reimbursement for travel and out-of-pocket expenses for both interested and Independent Directors.

The following table sets forth additional information regarding the compensation of each Fund's Directors for the fiscal year ended November 30, 2012. No executive officer or person affiliated with a Fund received compensation from a Fund during the fiscal year ended November 30, 2012 in excess of \$60,000. Directors and executive officers of the Funds do not receive pension or retirement benefits from the Funds.

COMPENSATION TABLE

Name of Person and Position	Aggregate Compensation from each Fund	Total Compensation from the Funds and Fund Complex Paid to Directors*
Donald F. Crumrine Director, Chairman of the Board and Chief Executive Officer	\$0	\$0 (4)
David Gale Director	\$16,500 PFD \$16,500 PFO \$16,500 FFC \$16,500 FLC	\$66,000 (4)
Morgan Gust Director, Nominating and Governance Committee Chairman	\$16,500 PFD \$16,500 PFO \$16,500 FFC \$16,500 FLC	\$66,000 (4)
Karen H. Hogan Director	\$16,500 PFD \$16,500 PFO \$16,500 FFC \$16,500 FLC	\$66,000 (4)
Robert F. Wulf Director, Audit Committee Chairman	\$19,500 PFD \$19,500 PFO \$19,500 FFC \$19,500 FLC	\$78,000 (4)

* Represents the total compensation paid for the fiscal year ended November 30, 2012, to such persons by the Funds, which are considered part of the same fund complex because they have a common adviser. The parenthetical number represents the total number of investment company directorships held by the Director or Nominee in the fund complex as of November 30, 2012.

Required Vote

The election of Mr. Gust as a Director of PFD and the election of Mr. Crumrine and Mr. Wulf as Directors of PFO, FFC and FLC, will require the affirmative vote of a plurality of the vote cast by holders of the Shares of Common Stock of each such Fund at the Meeting in person or by proxy.

SUBMISSION OF SHAREHOLDER PROPOSALS

All proposals by shareholders of each Fund that are intended to be presented at each Fund's next Annual Meeting of Shareholders to be held in 2014 must be received by the relevant Fund for consideration for inclusion in the relevant Fund's proxy statement relating to the meeting no later than November 11, 2013, and must satisfy the requirements of federal securities laws.

Each Fund's Bylaws require shareholders wishing to nominate Directors or make proposals to be voted on at the Fund's Annual Meeting to provide timely advance notice of the proposal in writing. To be considered timely, any such advance notice must be in writing delivered to or mailed and received at the principal executive offices of the Fund at the address set forth on the first page of this proxy statement not earlier than the 150th day nor later than 5:00 p.m., Eastern Time, on the 120th day prior to the first anniversary of the date of the proxy statement for the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is advanced or delayed by more than 30 days from the first anniversary of the date of the preceding year's annual meeting, notice by the shareholder to be timely must be so delivered not earlier than the 150th day prior to the date of such annual meeting and not later than 5:00 p.m., Eastern Time, on the later of the 120th day prior to the date of such annual meeting, as originally convened, or the tenth day following the day on which public announcement of the date of such meeting is first made.

Any such notice by a shareholder shall set forth the information required by the Fund's Bylaws with respect to each matter the shareholder proposes to bring before the annual meeting.

ADDITIONAL INFORMATION**Independent Registered Public Accounting Firm**

KPMG, Two Financial Center, 60 South Street, Boston, Massachusetts 02111, has been selected to serve as each Fund's independent registered public accounting firm for each Fund's fiscal year ending November 30, 2013. KPMG acted as the independent registered public accounting firm for each Fund for the fiscal year ended November 30, 2012. The Funds know of no direct financial or material indirect financial interest of KPMG in the Funds. A representative of KPMG will not be present at the Meetings, but will be available by telephone to respond to appropriate questions and will have an opportunity to make a statement, if asked.

Set forth in the table below are audit fees and non-audit related fees billed to each Fund by KPMG for professional services for the fiscal years ended November 30, 2011 and 2012, respectively.

Fund	Fiscal Year Ended		Audit-Related		
	November 30	Audit Fees	Fees	Tax Fees*	All Other Fees
PFD	2011	\$45,000	\$0	\$8,270	\$0
	2012	\$45,000	\$0	\$8,650	\$0
PFO	2011	\$45,000	\$0	\$8,270	\$0
	2012	\$45,000	\$0	\$8,650	\$0
FFC	2011	\$47,500	\$0	\$8,270	\$0
	2012	\$47,500	\$0	\$8,650	\$0
FLC	2011	\$47,500	\$0	\$8,270	\$0
	2012	\$47,500	\$0	\$8,650	\$0

* Tax Fees are those fees billed to each Fund by KPMG in connection with tax consulting services, including primarily the review of each Fund's income tax returns.

Each Fund's Audit Committee Charter requires that the Audit Committee pre-approve all audit and non-audit services to be provided by the independent accountants to the Fund, and all non-audit services to be provided by the independent accountants to the Fund's investment adviser and any entity controlling, controlled by or under common control with the Funds' investment adviser (affiliates) that provide on-going services to each Fund, if the engagement relates directly to the operations and financial reporting of each Fund, or to establish detailed pre-approval policies and procedures for such services in accordance with applicable laws. All of the audit and non-audit services described above for which KPMG billed each Fund fees for the fiscal years ended November 30, 2011 and November 30, 2012 were pre-approved by the Audit Committee.

For each Fund's fiscal years ended November 30, 2011 and November 30, 2012, KPMG did not provide any non-audit services (or bill any fees for such services) to the Funds' investment adviser or any affiliates.

Investment Adviser, Administrator and Servicing Agent

Flaherty & Crumrine serves as the investment adviser to each Fund, and its business address is 301 E. Colorado Boulevard, Suite 720, Pasadena, California 91101. BNY Mellon acts as the administrator to each Fund and is located at 4400 Computer Drive, Westborough, Massachusetts 01581. Destra Capital Investments LLC acts as the servicing agent to FFC and FLC and is located at 901 Warrenville Road, Suite 15, Lisle, IL 60532.

Compliance with the Securities Exchange Act of 1934

Section 16(a) of the 1934 Act and Section 30(h) of the 1940 Act require each Fund's Directors and executive officers, certain persons affiliated with Flaherty & Crumrine and persons who beneficially own more than 10% of a registered class of each Fund's securities to file reports of ownership and changes of ownership with the SEC, the NYSE and each Fund. Directors, officers and greater-than-10% shareholders are required by SEC regulations to furnish each Fund with copies of such forms they file. Based solely upon its review of the copies of such forms received by it and written representations from certain of such persons, each Fund believes that during 2012, all such filing requirements applicable to such persons were met.

Broker Non-Votes and Abstentions

A proxy which is properly executed and returned accompanied by instructions to withhold authority to vote represents a broker non-vote (i.e., shares held by brokers or nominees as to which (i) instructions have not been received from the beneficial owners or the persons entitled to vote and (ii) the broker or nominee does not have discretionary voting power on a particular matter). Proxies that reflect abstentions or broker non-votes (collectively, abstentions) will be counted as Shares that are present and entitled to vote at the meeting for purposes of determining the presence of a Quorum. With respect to Proposal 1, abstentions do not constitute a vote for or against the proposal and will be disregarded in determining the votes cast on the proposal.

OTHER MATTERS TO COME BEFORE THE MEETING

Each Fund does not intend to present any other business at the relevant Meeting, nor is any Fund aware that any shareholder intends to do so. If, however, any other matters are properly brought before the Meeting, the persons named in the accompanying form of proxy will vote thereon in accordance with their judgment.

VOTING RESULTS

Each Fund will advise its shareholders of the voting results of the matters voted upon at its Meeting in its next Semi-Annual Report to Shareholders.

NOTICE TO BANKS, BROKER/DEALERS AND VOTING TRUSTEES AND THEIR NOMINEES

Please advise the Funds whether other persons are the beneficial owners of Fund Shares for which proxies are being solicited from you, and, if so, the number of copies of the Joint Proxy Statement and other soliciting material you wish to receive in order to supply copies to the beneficial owners of Fund Shares.

IT IS IMPORTANT THAT PROXIES BE RETURNED PROMPTLY. SHAREHOLDERS WHO DO NOT EXPECT TO ATTEND THE MEETINGS ARE THEREFORE URGED TO COMPLETE, SIGN, DATE AND RETURN ALL PROXY CARDS AS SOON AS POSSIBLE IN THE ENCLOSED POSTAGE-PAID ENVELOPE.

**FLAHERTY & CRUMRINE PREFERRED
SECURITIES INCOME FUND
INCORPORATED**

Important Annual Meeting Information

Using a **black ink** pen, mark your votes with an X as shown in this example. Please do not write outside the designated areas.

X

Annual Meeting Proxy Card

PLEASE FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.

A. Proposal - The Board of Directors recommends a vote FOR the nominees listed.

1. Election of Directors: 01 Donald F. Crumrine 02 Robert F. Wulf

Mark here to vote **FOR** all nominees

Mark here to **WITHHOLD** vote from all nominees

For All **EXCEPT**- To withhold authority to vote for a nominee(s), write the name(s) of such nominee(s) below

B. Non-Voting Items

Change of Address - Please print new address below.

Comments - Please print your comments below.

C. Authorized Signatures This Section must be completed for your vote to be counted. Date and Sign Below

NOTE: Please sign this proxy exactly as your name(s) appear(s) on the books of the Fund. Joint owners should each sign personally. Trustees and other fiduciaries should indicate the capacity in which they sign, and where more than one name appears, a majority must sign. If a corporation, the signature should be that of an authorized officer who should state his or her title.

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Date (mm/dd/yyyy)	Please print date below.	Signature 1	Please keep signature within the box.	Signature 2	Please keep signature within the box.
/	/				

The Notice of Annual Meeting of Shareholders, Joint Proxy Statement and proxy card for the Fund are available on the Fund's website at www.preferredincome.com.

PLEASE FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.

Proxy - FLAHERTY & CRUMRINE PREFERRED SECURITIES INCOME FUND INCORPORATED

PROXY IN CONNECTION WITH THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON APRIL 18, 2013

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to be held on April 18, 2013.

The Notice of Annual Meeting of Shareholders, Joint Proxy Statement and proxy card for the Fund are available on the Fund's website at www.preferredincome.com.

PROXY SOLICITED BY BOARD OF DIRECTORS

The undersigned holder of shares of Common Stock of Flaherty & Crumrine Preferred Securities Income Fund Incorporated, a Maryland corporation (the "Fund"), hereby appoints Donald F. Crumrine, Robert M. Ettinger and Chad C. Conwell, proxies for the undersigned, each with full powers of substitution and revocation, to represent the undersigned and to vote on behalf of the undersigned all shares of Common Stock which the undersigned is entitled to vote at the Annual Meeting of Shareholders of the Fund to be held at the offices of Flaherty & Crumrine Incorporated, 301 East Colorado Boulevard, Suite 720, Pasadena, California 91101 at 8:30 a.m. PT, on April 18, 2013, and any adjournments or postponements thereof. The undersigned hereby acknowledges receipt of the Notice of Annual Meeting and Joint Proxy Statement and hereby instructs said proxies to vote said shares as indicated hereon. In their discretion, the proxies are authorized to vote upon such other business as may properly come before the Meeting. A majority of the proxies present and acting at the Meeting in person or by substitute (or, if only one shall be so present, then that one) shall have and may exercise all of the power and authority of said proxies hereunder. The undersigned hereby

revokes any proxy previously given.
