

Flaherty & Crumrine PREFERRED SECURITIES INCOME FUND INC

Form N-30B-2

April 28, 2015

FLAHERTY & CRUMRINE PREFERRED SECURITIES INCOME FUND

To the Shareholders of Flaherty & Crumrine Preferred Securities Income Fund (FFC):

Your Fund is off to a fine start in fiscal 2015 during the first fiscal quarter; total return on net asset value² was +2.4%, while total return on market price came in at +2.1%. The value of the investment portfolio increased modestly during the quarter, so much of the NAV return was comprised of interest and dividends earned on portfolio holdings.

Economic conditions in the U.S. remain the envy of most developed economies (faint praise indeed!). We expect gross domestic product (adjusted for inflation) to grow between 2.5% and 3.0% in 2015, up a bit from last year's 2.4%. Inflationary expectations are low, reflecting falling energy and commodity prices, along with recent appreciation in the U.S. dollar. The outlook for interest rates in the U.S. has not changed we expect the Federal Reserve to boost short-term interest rates by 0.25% sometime between June and September; subsequent increases, however, should be gradual. Intermediate and long-term interest rates, while likely to edge up over time, should remain substantially lower than what we would normally associate with 2.5-3.0% real GDP growth.

In contrast, many Euro-zone economies are struggling, and growth has slowed in Japan, as well as in China and many other developing countries. Around the globe, elevated geopolitical tensions are hampering economic activity. As evidence, interest rates are actually negative in a number of safe economies. In increasing numbers, foreign investors seeking better returns are making investments in U.S. markets. These moves help explain strength in the U.S. dollar and domestic fixed-income and equity markets.

By most measures, conditions in the preferred securities market remain healthy. Fundamental credit conditions are stable or improving, with loan delinquencies and defaults trending down across almost all loan categories. Income-oriented investors have increasingly turned to the preferred-securities space seeking alternatives to lower-yielding securities. New issue volumes, though less robust than last year, are well above historical norms. We expect preferred securities issuance to remain elevated throughout 2015, as issuers work toward future regulatory capital requirements and take advantage of low interest rates to reduce overall capital expense. We continue to be constructive on the preferred market, as demand shows little sign of abating.

The Fund's investment portfolio did not change materially over the quarter. During 2014, we had reduced the portfolio's exposure to foreign issuers as we saw better opportunities in the U.S. We also had increased holdings in fixed-to-floating preferred securities (coupons are *fixed* for an initial period, typically five or ten years, and then *float* with interest rates). We believe this increase provides some principal protection should intermediate- and long-term interest rates rise, while offering some price upside should credit spreads narrow. Putting it all together, the portfolio's current construction is in-line with our views on the market.

¹ December 1, 2014 - February 28, 2015

² Following the methodology required by the SEC, total return assumes dividend reinvestment and includes income and principal change, plus the impact of the Fund's leverage and expenses.

We encourage you to visit the Fund's website www.preferredincome.com for timely and important information.

Sincerely,

The Flaherty & Crumrine Portfolio Management Team:

R. Eric Chadwick

Donald F. Crumrine

Robert M. Ettinger

Bradford S. Stone

March 31, 2015

Flaherty & Crumrine Preferred Securities Income Fund Incorporated

PORTFOLIO OVERVIEW

February 28, 2015 (Unaudited)

Fund Statistics

Net Asset Value	\$	19.91
Market Price	\$	20.60
Premium		3.47%
Yield on Market Price		7.92%
Common Stock Shares Outstanding		43,587,742

Moody's Ratings*

	% of Net Assets
A	0.8%
BBB	60.3%
BB	29.5%
Below BB	2.1%
Not Rated**	5.6%
Below Investment Grade***	23.4%

* Ratings are from Moody's Investors Service, Inc. Not Rated securities are those with no ratings available from Moody's.

** Does not include net other assets and liabilities of 1.7%.

*** Below investment grade by all of Moody's, S&P, and Fitch.

Industry Categories**% of Net Assets****Top 10 Holdings by Issuer**

	% of Net Assets
Liberty Mutual Group	5.8%
JPMorgan Chase	4.9%
Wells Fargo & Company	4.6%
HSBC PLC	4.6%
MetLife	4.4%
M&T Bank Corporation	3.7%
Fifth Third Bancorp	3.6%
Citigroup	3.3%
PNC Financial Services Group	3.2%
Axis Capital Holdings Ltd.	2.9%

	% of Net Assets****
Holdings Generating Qualified Dividend Income (QDI) for Individuals	58%
Holdings Generating Income Eligible for the Corporate Dividends Received Deduction (DRD)	45%

****This does not reflect year-end results or actual tax categorization of Fund distributions. These percentages can, and do, change, perhaps significantly, depending on market conditions. Investors should consult their tax advisor regarding their personal situation.
Net Assets includes assets attributable to the use of leverage.

Flaherty & Crumrine Preferred Securities Income Fund Incorporated

PORTFOLIO OF INVESTMENTS

February 28, 2015 (Unaudited)

Shares/\$ Par		Value
Preferred Securities 93.2%		
Banking 45.8%		
4,500	Astoria Financial Corp., 6.50%, Series C	\$ 114,671*
\$ 16,310,000	Bank of America Corporation, 8.00%, Series K	17,489,213*
Barclays Bank PLC:		
390,600	7.10%, Series 3	10,233,720**(3)
23,000	7.75%, Series 4	605,590**(3)
522,100	8.125%, Series 5	13,903,523**(1)(3)
48,000	BB&T Corporation, 5.625%, Series E	1,211,640*(1)
Citigroup, Inc.:		
981,500	6.875%, Series K	26,394,989*(1)
572,357	7.125%, Series J	15,735,525*(1)
89,412	City National Corporation, 6.75%, Series D	2,566,124*
CoBank ACB:		
53,520	6.125%, Series G, 144A****	5,089,420*
53,000	6.20%, Series H, 144A****	5,348,034*
60,000	6.25%, Series F, 144A****	6,185,628*(1)
\$ 35,100,000	Colonial BancGroup, 7.114%, 144A****	52,650(4)(5)
38,100	Cullen/Frost Bankers, Inc., 5.375%, Series A	949,166*
1,667,391	Fifth Third Bancorp, 6.625%, Series I	46,340,964*(1)
First Horizon:		
3,730	First Tennessee Bank, Adj. Rate, 3.75%(6), 144A****	2,720,802*
8	FT Real Estate Securities Company, 9.50%, 144A****	10,420,000
642,800	First Niagara Financial Group, Inc., 8.625%, Series B	17,517,907*(1)
First Republic Bank:		
50,000	5.625%, Series C	1,243,625*
99,000	6.70%, Series A	2,628,697*(1)
Goldman Sachs Group:		
\$ 390,000	5.70%, Series L	404,138*
140,000	6.375%, Series K	3,677,800*(1)
HSBC PLC:		
\$ 4,400,000	HSBC Capital Funding LP, 10.176%, 144A****	6,655,000(1)(2)(3)
776,000	HSBC Holdings PLC, 8.00%, Series 2	20,480,580**(1)(3)
\$ 850,000	HSBC USA Capital Trust I, 7.808% 12/15/26, 144A****	857,210
\$ 580,000	HSBC USA Capital Trust II, 8.38% 05/15/27, 144A****	587,771(1)(2)
860,000	HSBC USA, Inc., 6.50%, Series H	22,112,750*(1)

Flaherty & Crumrine Preferred Securities Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

February 28, 2015 (Unaudited)

Shares/\$ Par		Value
Preferred Securities (Continued)		
Banking (Continued)		
ING Groep NV:		
355,000	6.375%	\$ 9,024,100***(3)
125,000	7.05%	3,209,062***(3)
116,054	7.20%	2,991,002***(3)
230,000	7.375%	5,975,400***(1)(3)
JPMorgan Chase & Company:		
56,600	5.50%, Series O	1,373,116*
\$ 5,450,000	6.00%, Series R	5,582,844*(1)
198,000	6.70%, Series T	5,276,700*(1)
\$ 15,155,000	6.75%, Series S	16,438,325*(1)
\$ 32,000,000	7.90%, Series I	34,600,000*(1)
\$ 17,800,000	Lloyds Banking Group PLC, 6.657%, 144A****	20,069,500***(1)(2)(3)
M&T Bank Corporation:		
\$ 16,750,000	6.450%, Series E	18,173,750*(1)
\$ 29,323,000	6.875%, Series D, 144A****	30,202,690*(1)
Morgan Stanley:		
308,400	6.875%, Series F	8,363,808*(1)
298,300	7.125%, Series E	8,421,755*(1)
1,465,360	PNC Financial Services Group, 6.125%, Series P	41,634,541*(1)
\$ 7,885,000	Rabobank Nederland, 11.00%, 144A****	10,223,391*(1)(3)
27,213	Regions Financial Corporation, 6.375%, Series B	692,639*
Royal Bank of Scotland Group PLC:		
12,500	6.40%, Series M	313,125***(3)
25,000	6.60%, Series S	633,750***(3)
309,500	7.25%, Series T	7,932,485***(1)(3)
Sovereign Bancorp:		
\$ 1,000,000	Sovereign Capital Trust VI, 7.908% 06/13/36	1,057,112
8,641	Sovereign REIT, 12.00%, Series A, 144A****	11,565,546
505,500	State Street Corporation, 5.90%, Series D	13,528,444*(1)
107,166	SunTrust Banks, Inc., 5.875%, Series E	2,660,128*
216,000	US Bancorp, 6.50%, Series F	6,474,060*(1)
Wells Fargo & Company:		
339,095	5.85%, Series Q	8,790,190*(1)
\$ 3,000,000	5.875%, Series U	3,165,000*
402,925	6.625%, Series R	11,229,520*(1)
\$ 16,314,000	7.98%, Series K	17,904,615*
646,500	8.00%, Series J	18,724,256*(1)

Flaherty & Crumrine Preferred Securities Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

February 28, 2015 (Unaudited)

Shares/\$ Par		Value
Preferred Securities (Continued)		
	Banking (Continued)	
	Zions Bancorporation:	
	20,000 6.30%, Series G	\$ 518,450*
\$	9,000,000 7.20%, Series J	9,585,000*(1)
	519,842 7.90%, Series F	14,477,600*(1)
		592,339,041
	Financial Services 1.4%	
\$	7,900,000 General Electric Capital Corp., 7.125%, Series A	9,331,875*(1)
	358,895 HSBC PLC:	
	HSBC Finance Corporation, 6.36%, Series B	9,084,530*(1)
		18,416,405
	Insurance 25.9%	
	Ace Ltd.:	
\$	Opt" align="justify">	
	•whether the subordination provisions summarized below or different subordination provisions will apply to the debt securities;	
	•the terms, if any, upon which the holders may convert or exchange the debt securities into or for our common stock, preferred stock or other securities or property;	
	•whether any of the debt securities will be	

issued in global form and, if so, the terms and conditions upon which global debt securities may be exchanged for certificated debt securities;

- any change in the right of the trustee or the requisite holders of debt securities to declare the principal amount thereof due and payable because of an Event of Default;
- the depositary for global or certificated debt securities;
- any special tax implications of the debt securities;
- any trustees, authenticating or paying agents, transfer agents or registrars or other agents with respect to the debt securities; and
- any other terms of the debt securities.

Unless otherwise specified in the applicable prospectus supplement, the debt securities will not be listed on any securities exchange and will be issued in fully-registered form without coupons.

Debt securities may be sold at a substantial discount below their stated principal amount, bearing no interest or interest at a rate which at the time of issuance is below market rates. The applicable prospectus supplement will describe the federal income tax consequences and special considerations applicable to any such debt securities. The debt securities may also be issued as indexed securities or securities denominated in foreign currencies, currency units or composite currencies, as described in more detail in the prospectus supplement relating to any of the particular debt securities. The prospectus supplement relating to specific debt securities will also describe any special considerations and certain additional tax considerations applicable to such debt securities.

Subordination

The prospectus supplement relating to any offering of subordinated debt securities will describe the specific subordination provisions, including the extent of subordination of payments by us of the

principal of, premium, if any, and interest on such subordinated debt securities.

The Subordinated Indenture does not limit the issuance of additional Senior Indebtedness.

Limitation on Liens

We will not, and will not permit any of our Subsidiaries to, create, assume, incur or suffer to exist any mortgage, p l e d g e , l i e n , encumbrance, charge or security interest of any kind, other than a Purchase Money Lien,

upon any stock or indebtedness, now owned or hereafter acquired, of any Principal Subsidiary, to secure any Obligation (other than the debt securities) of the company, any Subsidiary or any other person, without in any such case making effective provision whereby all of the outstanding debt securities are secured on an equal and ratable basis with the obligations so secured.

Such limitation will not apply to any mortgage, pledge, lien, encumbrance, charge or security interest on any stock or indebtedness of a corporation existing at the time such corporation becomes a Subsidiary. Such limitation will not restrict any of our other property or other property of our Subsidiaries or restrict the sale by us or any Subsidiary of any stock or indebtedness of any Subsidiary.

Limitation on Funded Debt

The Indenture provides that we will not permit any Restricted Subsidiary to incur, issue, guarantee or create any Funded Debt

unless, after giving effect thereto, the sum of the aggregate amount of all outstanding Funded Debt of the Restricted Subsidiaries would not exceed an amount equal to 15% of Consolidated Net Tangible Assets.

The limitation on Funded Debt will not apply to, and there will be excluded from Funded Debt in any computation under such restriction, Funded Debt secured by:

- Liens on real or physical property of any corporation existing at the time such corporation becomes a Subsidiary;
- Liens on real or physical property existing at the time of acquisition thereof incurred within 180 days of the time of acquisition thereof (including, without limitation, acquisition through merger or consolidation) by us or any Restricted Subsidiary;
- Liens on real or physical property thereafter acquired (or constructed) by us or any Restricted Subsidiary and created prior to, at the time of, or within 270 days after such

a c q u i s i t i o n
(including, without
limitation, acquisition
through merger or
consolidation) (or the
completion of such
c o n s t r u c t i o n o r
commencement of
commercial operation
of such property,
whichever is later) to
secure or provide for
the payment of all or
any part of the
purchase price (or the
construction price)
thereof;

- Liens in favor of the
company or any
R e s t r i c t e d
Subsidiary;
- Liens in favor of the
United States of
America, any State
thereof or the District
of Columbia, or any
agency, department
o r o t h e r
instrumentality
thereof, to secure
partial, progress,
advance or other
payments pursuant to
any contract or
provisions of any
statute;
- Liens incurred or
a s s u m e d i n
connection with the
issuance of revenue
bonds the interest on
which is exempt from
federal income
taxation pursuant to
Section 103(b) of the
Internal Revenue
Code of 1986, as
amended;

- Liens securing the performance of any c o n t r a c t o r undertaking not directly or indirectly in connection with the borrowing of money, the obtaining of advances or credit or the securing of Funded Debt, if made and continuing in the ordinary course of business;
- Liens incurred (no matter when created) in connection with Norfolk Southern or a R e s t r i c t e d Subsidiary engaging in a leveraged or single-investor lease transaction; provided, however, that the instrument creating or evidencing any borrowings secured by such Lien will provide that such borrowings are payable solely out of the income and proceeds of the property subject to such Lien and are not a general obligation of Norfolk Southern or such Restricted Subsidiary;
- Liens under workers' compensation laws, u n e m p l o y m e n t insurance laws or similar legislation, or good faith deposits in connection with bids, tenders, contracts or deposits to secure

public or statutory

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obligations of Norfolk Southern or any Restricted Subsidiary, or deposits of cash or obligations of the United States of America to secure surety, repletion and appeal bonds to which we or any Restricted Subsidiary is a party or in lieu of such bonds, or pledges or deposits for similar purposes in the ordinary course of business, or Liens imposed by law, such as laborers' or other employees', carriers', warehousemen's, mechanics', materialmen's and vendors' Liens and Liens arising out of judgments or awards against us or any Restricted Subsidiary with respect to which we or such Restricted Subsidiary at the time shall be prosecuting an appeal or proceedings for review and with respect to which it shall have secured a stay of execution pending such appeal or proceedings for review, or Liens for taxes not yet subject to penalties for nonpayment or the amount or validity of which is being in good faith contested by appropriate proceedings by the company or any Restricted Subsidiary, as the case may be, or

minor survey exceptions, minor encumbrances, easement or reservations of, or rights of others for, rights of way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions or Liens on the use of real properties, which Liens, exceptions, encumbrances, easements, reservations, rights and restrictions do not, in our opinion, in the aggregate materially detract from the value of such properties or materially impair their use in the operation of the business of Norfolk Southern and its Restricted Subsidiaries;

- Liens incurred to finance construction, alteration or repair of any real or physical property and improvements thereto prior to or within 270 days after completion of such construction, alteration or repair;
- Liens incurred (no matter when created) in connection with a Securitization Transaction;
- Liens on property (or any Receivable arising in connection with the lease thereof) acquired by

us or a Restricted Subsidiary through repossession, foreclosure or like proceeding and existing at the time of the repossession, foreclosure, or like proceeding;

- Liens on deposits of Norfolk Southern or a Restricted Subsidiary with banks (in the aggregate, not exceeding \$50 million), in accordance with customary banking practice, in connection with the providing by us or a Restricted Subsidiary of financial accommodations to any person in the ordinary course of business; or
- any extension, renewal, refunding or replacement of the foregoing.

Definition of Certain Terms

“Consolidated Net Tangible Assets” means, at any date, the total assets appearing on the most recent consolidated balance sheet of Norfolk Southern and Restricted Subsidiaries as at the end of our fiscal quarter ending not more than 135 days prior to such date, prepared in

accordance with generally accepted accounting principles in the United States, less (1) all current liabilities (due within one year) as shown on such balance sheet, (2) applicable reserves, (3) investments in and advances to Securitization Subsidiaries and Subsidiaries of Securitization Subsidiaries that are consolidated on the consolidated balance sheet of Norfolk Southern and its Subsidiaries, and (4) Intangible Assets and liabilities relating thereto.

“Funded Debt” means (1) any indebtedness of a Restricted Subsidiary (excluding indebtedness in favor of another Restricted Subsidiary or Norfolk Southern) maturing more than 12 months after the time of computation thereof, (2) guarantees by a Restricted Subsidiary of Funded Debt or of dividends of others (except guarantees in connection with the sale or discount of accounts receivable, trade acceptances and other paper arising in the ordinary course of business), (3) all preferred stock of such Restricted Subsidiary and (4) all Capital

Lease Obligations (as defined in the Indenture) of a Restricted Subsidiary.

“Indebtedness” means, at any date, without duplication, (1) all obligations for borrowed money of a Restricted Subsidiary or any other indebtedness of a Restricted Subsidiary, evidenced by bonds, debentures, notes or other similar instruments and (2) Funded Debt, except such obligations and other indebtedness of a Restricted Subsidiary and Funded Debt, if any, incurred as part of a Securitization Transaction.

“Intangible Assets”

means at any date, the value (net of any applicable reserves) as shown on or reflected in the most recent consolidated balance sheet of Norfolk Southern and the Restricted Subsidiaries as at the end of our fiscal quarter ending not more than 135 days prior to such date, prepared in accordance with generally accepted accounting principles in the United States, of: (1) all trade names, trademarks, licenses, patents, copyrights, service marks, goodwill and other like intangibles; (2) organizational and development costs; (3) deferred charges (other than prepaid items, such as insurance, taxes, interest, commissions, rents, deferred interest waiver, compensation and similar items and tangible assets being amortized); and (4) unamortized debt discount and expense, less unamortized premium.

“Liens” means such pledges, mortgages, security interests and other liens, including purchase money liens, on property of the company or any

Restricted Subsidiary which secure Funded Debt.

“Obligation” means any indebtedness for money borrowed or indebtedness evidenced by a bond, note, debenture or other evidence of indebtedness.

“Principal Subsidiary” means Norfolk Southern Railway Company.

“Purchase Money Lien” means any mortgage, pledge, lien, encumbrance, charge or security interest of any kind upon any indebtedness of any Principal Subsidiary acquired after the date any debt securities are first issued if such Purchase Money Lien is for the purpose of financing, and does not exceed, the cost to us or any Subsidiary of acquiring the indebtedness of such Principal Subsidiary and such financing is effected concurrently with, or within 180 days after, the date of such acquisition.

“Receivables” mean any right of payment from or on behalf of any obligor, whether constituting an account, chattel paper, instrument, general intangible or otherwise,

arising, either directly or indirectly, from the financing by us or any Subsidiary of ours of property or services, monies due thereunder, security interests in the property and services financed thereby and any and all other related rights.

“Restricted Subsidiary” means each Subsidiary of Norfolk Southern o t h e r t h a n Securitization Subsidiaries and Subsidiaries of Securitization Subsidiaries.

“Securitization Subsidiary” means a Subsidiary of Norfolk Southern (1) which is formed for the purpose of effecting one or more Securitization Transactions and engaging in other activities reasonably related thereto and (2) as to which no portion of the Indebtedness (as defined in the Indenture) or any other obligations (a) is guaranteed by any Restricted Subsidiary, or (b) subjects any property or assets of any Restricted Subsidiary, directly or indirectly, contingently or otherwise, to any lien, other than pursuant to representations, warranties and covenants (including

those related to servicing) entered into in the ordinary course of business in connection with a Securitization Transaction and inter-company notes and other forms of capital or credit support relating to the transfer or sale of Receivables or asset-backed securities to such Securitization Subsidiary and customarily necessary or desirable in connection with such transactions.

“Securitization Transaction” means any transaction or series of transactions that have been or may be entered into by us or any of our Subsidiaries in connection with or reasonably related to a transaction or series of transactions in which we or any of our Subsidiaries may sell, convey or otherwise transfer to (1) a Securitization Subsidiary or (2) any other Person, or may grant a security interest in, any Receivables or asset-backed securities or interest therein (whether such Receivables or securities are then existing or arising in the future) of Norfolk Southern or any of our Subsidiaries, and any assets related thereto,

including, without limitation, all security interests in the property or services financed thereby, the proceeds of such Receivables or asset-backed securities and any other assets which are sold in respect of which security interests are granted in connection with securitization transactions involving such assets.

“Subsidiary” means an entity a majority of the outstanding voting stock of which is owned, directly or indirectly, by us or one or more Subsidiaries.

Consolidation, Merger and Sale of Assets

We cannot consolidate with, merge into, or sell, transfer or lease substantially all of our assets to, another corporation unless:

- the successor corporation is organized and existing under the laws of the United States, any state thereof or the District of Columbia and expressly assumes our obligations under the respective Indenture;
- immediately after giving effect to the transaction, no event of default (and no event which, after notice or lapse of time or both, would become an event of default) will have occurred and be continuing; and
- the successor corporation executes a supplemental indenture that expressly assumes obligations of the related Indenture, satisfies the trustee, and provides the necessary opinions and certificates.

Since we are a holding company, if one of our

Subsidiaries distributes its assets as a result of a liquidation or recapitalization of that subsidiary, our rights, the rights of our creditors and of the holders of debt securities to participate in such subsidiary's distribution of assets will be subject to the prior claims of such subsidiary's creditors, except to the extent that we may be a creditor with prior claims enforceable against such subsidiary.

Events of Default

Under the Indentures, the following are "Events of Default":

- failure to pay any principal of or premium, if any, on the debt securities when due;
- failure to pay any interest on the debt securities when due, and this failure continues for 30 days and the time for payment has not been extended or deferred;
- failure to perform any other covenant in the Indenture, and the failure continues for 90 days after there has been given a notice of default from either the trustee or holders of at least 25% in principal

amount of the outstanding debt securities of a particular series;

- acceleration of any of our indebtedness (or any “significant subsidiary” of Norfolk Southern, as defined in the federal securities laws) in an aggregate principal amount that exceeds \$100,000,000 within 10 days after there has been given a notice of default from either the trustee or holders of at least 25% in principal amount of outstanding debt securities of a particular series;
- certain events of bankruptcy, insolvency or reorganization; and
- any other Event of Default that may be set forth in the supplemental indenture or board resolution with respect to a particular series of debt securities.

If an event of default occurs and is continuing, either the trustee or the holders of at least 25%, in aggregate principal amount, of the outstanding debt securities of a particular series, may notify

Norfolk Southern (and the trustee, if notice is given by the holders) and declare that the unpaid principal of, premium, and accrued interest, if any, on the debt securities of such series is due and payable immediately. However, under certain circumstances, the holders of a majority in aggregate principal amount of outstanding debt securities of such series may be able to rescind and annul this declaration for accelerated payment. Norfolk Southern will furnish the trustee with an annual statement that describes how Norfolk Southern has performed its obligations under the Indenture, and that specifies any defaults that may have occurred.

Discharge, Defeasance
and Covenant
Defeasance

We may discharge certain obligations to holders of any debt securities issued under the Indenture of a particular series when all debt securities of such series theretofore authenticated and delivered have been delivered to the trustee for cancellation; or we have irrevocably deposited or caused to be deposited with the trustee as trust funds in trust (i) money (either in Dollars or such other currency in which the debt securities may be payable) in an amount or, (ii) U.S. Government Obligations or, in the case of securities denominated in a currency other than Dollars, Foreign Government Securities which through the payment of principal and interest thereof in accordance with their terms will provide, not later than one day before the due date of any payment of principal (including any premium) and interest, if any, under the securities, money in an amount or (iii) a combination of (i) and (ii) sufficient in the opinion of our

independent certified public accountants expressed in a written certification thereof delivered to the trustee, without consideration of any reinvestment of such interest, to pay and discharge the entire indebtedness on all debt securities not theretofore delivered to the trustee for cancellation, for principal (and premium, if any) and interest to the date of such deposit (in the case of securities which have become due and payable) or to the stated maturity or redemption date. We may discharge certain obligations when we have paid or caused to be paid all other sums payable hereunder by us with respect to the securities and when we have delivered to the trustee an opinion of counsel to effect that, based on federal income tax laws then in effect, the holders of the securities of such series will not recognize additional income, gain or loss on the debt securities for federal income tax purposes as a result of our exercise of its option and such funds shall be subject to federal income tax in the same amounts and at the same times as would have been the case if such option had

not been exercised.

Modification and Waiver

Modification and amendments of the Indentures may be made by us and the trustee with the consent of the holders of not less than a majority in aggregate principal amount of the outstanding debt securities of each series affected thereby; provided, however, that no such modification or amendment may, without the consent of the holder of each outstanding debt security of a particular series affected thereby:

- change the stated maturity of the principal of, or any installment of principal of or interest on, any debt security of such series,
- reduce the principal amount thereof or any premium payable upon the redemption thereof or the rate of interest thereon, or reduce the amount of principal of an OID Security that would be due and payable upon a declaration of acceleration of the maturity,
- change any place of payment where, or

the coin or currency in which, any debt security (or premium, if any, thereon) or the interest thereon is payable,

- impair the right to institute suit for the enforcement of any such payment on or after the stated maturity thereof (or, in the case of redemption, on or after the redemption date) change the stated maturity of the principal of, or any p r e m i u m o r installment of interest on, or any additional amounts with respect to, debt securities of any series,
- reduce the percentage in principal amount of an outstanding series of debt securities, the consent of whose holders is required in order to take certain actions,
- modify any of the provisions in the Indentures regarding the waiver of past defaults and the waiver of certain covenants by the holders of a particular series of debt securities except to increase any percentage vote required or to provide that certain other provisions of the

Indentures cannot be modified or waived without the consent of the holder of each debt security of such series affected thereby,

- change the conversion provisions of any convertible debt security,

- c h a n g e t h e s u b o r d i n a t i o n provisions, or
- modify any of the above provisions.

The holders of not less than a majority in principal amount of the debt securities of a series affected thereby, on behalf of all of the holders of the debt securities of such series, are permitted to waive any past default under the Indenture with respect to the debt securities of such series, and its consequences, except a default in the payment of the principal of, or premium, if any, or interest on any debt security or a default in respect of a covenant or provision of the Indenture which cannot be modified or amended without the consent of the holder of each debt security affected. Any such consent or waiver by the registered holder of a security (unless revoked as provided in the Indenture) shall be conclusive and binding upon such holder and upon all future holders and owners of such security and of any security issued in exchange therefor or in place thereof (whether by registration of

transfer or otherwise), irrespective of whether or not any notation of such consent or waiver is made upon such debt security.

Payment and Paying Agents

The Indenture provides that payment of interest on a debt security on any interest payment date will be made to the person in whose name a debt security is registered at the close of business on the record date for the interest.

Holders must surrender debt securities to a paying agent to collect p r i n c i p a l payments. We will pay principal and interest in m o n e y o f t h e United States of America that at the time of payment is legal tender for payment of public and private debts. Payments in respect of the securities represented by a global security (including principal and interest) will be made by wire transfer of immediately available funds to the accounts specified by the depository, which shall be The Depository Trust Company, its nominees and their respective successors.

The Indentures provide that initially, U.S. Bank

Trust National Association, a national banking association, will act as paying agent and registrar. We may appoint and change any paying agent, registrar or co-registrar without notice. We or any of our domestically incorporated wholly owned subsidiaries may act as paying agent, registrar or co-registrar.

We will maintain an office or agency in the City of New York where debt securities may be presented for registration of transfer or for exchange and an office or agency in the City of New York where debt securities may be presented for payment. The registrar shall keep a register of the debt securities and of their transfer and exchange. We may have one or more co-registrars and one or more additional paying agents.

If money for the payment of principal or interest remains unclaimed for two years, the trustee or paying agent shall pay the money back to us at our written request unless an abandoned property law designates another person. After any such payment, holders entitled to the money must look only to us and not to the

trustee for payment.

Denominations, Registrations and Transfer

Unless an accompanying prospectus supplement states otherwise, debt securities will be represented by one or more global certificates registered in the name of a nominee for The Depository Trust Company, or DTC. In such case, each holder's beneficial interest in the global securities will be shown on the records of DTC and transfers of beneficial interests will only be effected through DTC's records.

A holder of debt securities may only exchange a beneficial interest in a global security for certificated securities registered in the holder's name if:

- DTC notifies us that it is unwilling or unable to continue serving as the depository for the relevant global securities or DTC ceases to maintain certain qualifications under the Exchange Act and no successor depository has been appointed for 90 days; or

- We determine, in our sole discretion, that the global security s h a l l b e exchangeable.

If debt securities are issued in certificated form, they will only be issued in the minimum denomination specified in the accompanying prospectus supplement and integral multiples of such denomination. T r a n s f e r s a n d exchanges of such debt securities will only be permitted in such m i n i m u m d e n o m i n a t i o n . Transfers of debt securities in certificated form may be registered at the trustee's corporate office or at the offices of any paying agent or trustee appointed by us under the Indentures. Exchanges of debt securities for an equal aggregate principal amount of debt securities in different denominations may also be made at such locations.

Governing Law

The Indentures are and the debt securities will be governed by, and construed in accordance with, the internal laws of the State of New York.

Regarding the Trustee

The Indenture trustee is U.S. Bank Trust National Association. The trustee in its individual or any other capacity may become the owner or pledgee of debt securities and may otherwise deal with us or our affiliates with the same rights it would have if it were not trustee.

DESCRIPTION OF CAPITAL STOCK

General

The following summary of our common stock and preferred stock is not meant to be a complete description. For more information, you also should refer to our Restated Articles of Incorporation (the “Articles of Incorporation”), our Bylaws (the “Bylaws”) and the Virginia Stock Corporation Act (the “Virginia Act”). Under the Articles of Incorporation, our authorized capital stock consists of 1,350,000,000 shares of common stock, par value \$1.00 per share, and 25,000,000 shares of preferred stock, without par value. We will describe the specific terms of any common stock or preferred stock we may offer in a prospectus supplement. The specific terms we describe in a prospectus supplement may differ from the terms we describe below.

Common Stock

As of January 31, 2012, Norfolk Southern had 350,462,083 shares of common stock issued

and outstanding, 20,320,777 of which were held by our wholly owned subsidiaries. For all matters submitted to a vote of stockholders, each holder of common stock is entitled to one vote for each share registered in his or her name on our books. Our common stock does not have cumulative voting rights. As a result, subject to the voting rights of any outstanding preferred stock (of which there currently is none), the persons who hold 50% or more of the outstanding common stock entitled to elect members of the board of directors (the "Board") can elect all of the directors of the company who are up for election in a particular year. Beginning in 2013, all directors of the company will be up for election at every annual meeting of shareholders.

If the Board declares a dividend, common stockholders will receive payments from the funds of Norfolk Southern that are legally available to pay dividends. However, this dividend right is subject to any preferential dividend rights we may grant to

the persons who hold preferred stock, if any is issued. If Norfolk Southern is dissolved, the holders of common stock will be entitled to share ratably in all the assets that remain after we pay (i) our liabilities and (ii) any amounts we may owe to the persons who hold our preferred stock, if any is issued. Common stockholders do not have preemptive rights, and they have no right to convert their common stock into any other securities. All outstanding shares of common stock are duly authorized, validly issued, fully paid and nonassessable.

The transfer agent and registrar for our common stock is American Stock Transfer and Trust Company.

Preferred Stock

No shares of preferred stock are issued or outstanding. However, 600,000 shares of preferred stock designated as "Series A Junior Participating Preferred Stock" are authorized by our Articles of Incorporation, which further authorize the Board to issue preferred stock in one or more series and to determine the liquidation

preferences, voting rights, dividend rights, conversion rights and redemption rights of each such series. The ability of the Board to issue and set the terms of preferred stock could make it more difficult for a third person to acquire control of Norfolk Southern. The Board has the authority to fix the following terms of any series of preferred stock, each of which will be set forth in the related prospectus supplement:

- the designation of the series;
- the number of shares offered;
- the initial offering price;
- the dividend rate, the dividend periods, the dates payable and whether dividends will be cumulative or noncumulative;
- the voting rights;

- any redemption or sinking fund provisions;
- any conversion or exchange provisions;
- whether the shares will be listed on a securities exchange;
- the liquidation preference, and other rights that arise upon the liquidation, dissolution or winding-up of Norfolk Southern; and
- any other rights, preferences and limitations that pertain to the series.

Norfolk Southern will designate the transfer agent and registrar for each series of preferred stock in a prospectus supplement.

Certain Provisions of the Virginia Stock Corporation Act

The Virginia Act contains certain anti-takeover provisions regarding, among other things, affiliated transactions and control share acquisitions. In general, the Virginia Act's affiliated transactions provisions prevent a Virginia corporation from

engaging in an “affiliated transaction” (as defined in the Virginia Act) with an “interested shareholder” (generally defined as a person owning more than 10% of any class of voting securities of the corporation) unless approved by a majority of the “disinterested directors” (as defined in the Virginia Act) and the holders of at least two thirds of the outstanding voting stock not owned by the interested shareholder, subject to certain exceptions.

Under the control share acquisitions provisions of the Virginia Act, shares acquired in a “control share acquisition,” generally defined as transactions that increase the voting strength of the person acquiring such shares above certain thresholds in elections of directors generally, have no voting rights unless they are granted by a majority of the outstanding voting stock not owned by such acquiring person or by an employee-director of Norfolk Southern. If such voting rights are granted and the acquiring person controls 50% or more of the voting power, all shareholders, other than the acquiring person,

are entitled to receive “fair value” (as defined in the Virginia Act) for their shares. If such voting rights are not granted, the corporation may, if authorized by its articles of incorporation or bylaws, purchase the acquiring person’s shares at their cost to the acquiring person. A Virginia corporation has the right to “opt out” of the control share acquisition statute, and effective January 27, 2009, the Board amended our bylaws to “opt out” of the statute.

DESCRIPTION OF WARRANTS

This section describes the general terms and provisions of our warrants to acquire our securities that we may issue from time to time. The applicable prospectus supplement will describe the terms of any warrant agreements and the warrants issuable thereunder. If any particular terms of the warrants described in the prospectus supplement differ from any of the terms described herein, then the terms described herein will be deemed superseded by that prospectus supplement.

We may issue warrants for the purchase of our debt securities, common stock, preferred stock, depositary shares or securities of third parties or other rights, including rights to receive payment in cash or securities based on the value, rate or price of one or more specified commodities, currencies, securities or indices, or any combination of the foregoing. We may issue warrants independently or together with other securities, and they may

be attached to or separate from the other securities. Each series of warrants will be issued under a separate warrant agreement that we will enter into with a bank or trust company, as warrant agent, as detailed in the applicable prospectus supplement. The warrant agent will act solely as our agent in connection with the warrants and will not assume any obligation, or agency or trust relationship, with you. We will file a copy of the warrant and warrant agreement with the SEC each time we issue a series of warrants, and these warrants and warrant agreements will be incorporated by reference into the registration statement of which this prospectus is a part. A holder of our warrants should refer to the provisions of the applicable warrant agreement and prospectus supplement for more specific information.

The prospectus supplement relating to a particular issue of warrants will describe the terms of those warrants, including, when applicable:

- the offering price;
-

the currency or currencies, including composite currencies, in which the price of the warrants may be payable;

- the number of warrants offered;
- the securities underlying the warrants, including the securities of third parties or other rights, if any, to receive payment in cash or securities based on the value, rate or price of one or more specified commodities, currencies, securities or indices, or any combination of the foregoing, purchasable upon exercise of the warrants;
- the exercise price and the amount of securities you will receive upon exercise;
- the procedure for exercise of the warrants and the circumstances, if any, that will cause the warrants to be automatically exercised;
- the rights, if any, we have to redeem the warrants;
- the date on which the right to exercise the

warrants will commence and the date on which the warrants will expire;

- the designation and terms of the securities with which the warrants are issued and the number of warrants issued with each such security;
- the date on and after which the warrants and the related securities will be separately transferable;
- U.S. federal income tax consequences;
- the name of the warrant agent; and

- any other material terms of the warrants.

After your warrants expire they will become void. All warrants will be