AGILYSYS INC
Form SC 13D/A
October 02, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 13D
(Rule 13d-101)

INFORMATION TO BE INCLUDED IN STATEMENTS FILED PURSUANT TO § 240.13d-1(a) AND AMENDMENTS THERETO FILED PURSUANT TO § 240.13d-2(a)

(Amendment No. 7)1

Agilysys, Inc.

(Name of Issuer)

Common Stock, no par value
(Title of Class of Securities)

00847J105

(CUSIP Number)

STEVEN WOLOSKY, ESQ.
OLSHAN GRUNDMAN FROME ROSENZWEIG & WOLOSKY LLP
Park Avenue Tower
65 East 55th Street
New York, New York 10022
(212) 451-2300
(Name, Address and Telephone Number of Person
Authorized to Receive Notices and Communications)

October 1, 2009
(Date of Event Which Requires Filing of This Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of §§ 240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box ¨.

Note: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See § 240.13d-7 for other parties to whom copies are to be sent.

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1 The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be “filed” for the purpose of Section 18 of the Securities Exchange Act of 1934 (“Act”) or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP NO. 00847J105

1	NAME OF REPORTING PERSON RAMIUS VALUE AND OPPORTUNITY MASTER FUND, LTD		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP		(a) x (b) o
3	SEC USE ONLY		
4	SOURCE OF FUNDS WC		
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e)		¨
6	CITIZENSHIP OR PLACE OF ORGANIZATION Cayman Islands		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER 1,091,197	
	8	SHARED VOTING POWER - 0 -	
	9	SOLE DISPOSITIVE POWER 1,091,197	
	10	SHARED DISPOSITIVE POWER - 0 -	
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 1,091,197		
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES		o
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 4.7%		
14	TYPE OF REPORTING PERSON CO		

CUSIP NO. 00847J105

1	NAME OF REPORTING PERSON RAMIUS ENTERPRISE MASTER FUND LTD		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP		(a) x (b) o
3	SEC USE ONLY		
4	SOURCE OF FUNDS WC		
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e)		¨
6	CITIZENSHIP OR PLACE OF ORGANIZATION Cayman Islands		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER 275,225	
	8	SHARED VOTING POWER - 0 -	
	9	SOLE DISPOSITIVE POWER 275,225	
	10	SHARED DISPOSITIVE POWER - 0 -	
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 275,225		
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES		o
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 1.2%		
14	TYPE OF REPORTING PERSON OO		

3

CUSIP NO. 00847J105

1	NAME OF REPORTING PERSON RCG PB, LTD		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP		(a) x (b) o
3	SEC USE ONLY		
4	SOURCE OF FUNDS WC		
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e)		¨
6	CITIZENSHIP OR PLACE OF ORGANIZATION Cayman Islands		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER 1,133,374	
	8	SHARED VOTING POWER - 0 -	
	9	SOLE DISPOSITIVE POWER 1,133,374	
	10	SHARED DISPOSITIVE POWER - 0 -	
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 1,133,374		
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES		o
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 4.9%		
14	TYPE OF REPORTING PERSON OO		

4

CUSIP NO. 00847J105

1	NAME OF REPORTING PERSON RAMIUS ADVISORS, LLC		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP		(a) x (b) o
3	SEC USE ONLY		
4	SOURCE OF FUNDS OO		
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e)		¨
6	CITIZENSHIP OR PLACE OF ORGANIZATION Delaware		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER 1,408,599	
	8	SHARED VOTING POWER - 0 -	
	9	SOLE DISPOSITIVE POWER 1,408,599	
	10	SHARED DISPOSITIVE POWER - 0 -	
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 1,408,599		
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES		o
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 6.1%		
14	TYPE OF REPORTING PERSON OO		

CUSIP NO. 00847J105

1	NAME OF REPORTING PERSON RCG STARBOARD ADVISORS, LLC		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP		(a) x (b) o
3	SEC USE ONLY		
4	SOURCE OF FUNDS OO		
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e)		¨
6	CITIZENSHIP OR PLACE OF ORGANIZATION Delaware		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER 1,091,197	
	8	SHARED VOTING POWER - 0 -	
	9	SOLE DISPOSITIVE POWER 1,091,197	
	10	SHARED DISPOSITIVE POWER - 0 -	
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 1,091,197		
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES		o
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 4.7%		
14	TYPE OF REPORTING PERSON OO		

6

CUSIP NO. 00847J105

1	NAME OF REPORTING PERSON RAMIUS LLC		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP		(a) x (b) o
3	SEC USE ONLY		
4	SOURCE OF FUNDS OO		
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e)		¨
6	CITIZENSHIP OR PLACE OF ORGANIZATION Delaware		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER 2,499,796	
	8	SHARED VOTING POWER - 0 -	
	9	SOLE DISPOSITIVE POWER 2,499,796	
	10	SHARED DISPOSITIVE POWER - 0 -	
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 2,499,796		
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES		o
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 10.9%		
14	TYPE OF REPORTING PERSON OO		

7

CUSIP NO. 00847J105

1	NAME OF REPORTING PERSON C4S & CO., L.L.C.		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP		(a) x (b) o
3	SEC USE ONLY		
4	SOURCE OF FUNDS OO		
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e)		¨
6	CITIZENSHIP OR PLACE OF ORGANIZATION Delaware		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER 2,499,796	
	8	SHARED VOTING POWER - 0 -	
	9	SOLE DISPOSITIVE POWER 2,499,796	
	10	SHARED DISPOSITIVE POWER - 0 -	
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 2,499,796		
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES		o
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 10.9%		
14	TYPE OF REPORTING PERSON OO		

8

CUSIP NO. 00847J105

1	NAME OF REPORTING PERSON PETER A. COHEN		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP		(a) x (b) o
3	SEC USE ONLY		
4	SOURCE OF FUNDS OO		
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e)		¨
6	CITIZENSHIP OR PLACE OF ORGANIZATION USA		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER - 0 -	
	8	SHARED VOTING POWER 2,499,796	
	9	SOLE DISPOSITIVE POWER - 0 -	
	10	SHARED DISPOSITIVE POWER 2,499,796	
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 2,499,796		
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES		o
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 10.9%		
14	TYPE OF REPORTING PERSON IN		

CUSIP NO. 00847J105

1	NAME OF REPORTING PERSON MORGAN B. STARK		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP		(a) x (b) o
3	SEC USE ONLY		
4	SOURCE OF FUNDS OO		
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e)		¨
6	CITIZENSHIP OR PLACE OF ORGANIZATION USA		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER - 0 -	
	8	SHARED VOTING POWER 2,499,796	
	9	SOLE DISPOSITIVE POWER - 0 -	
	10	SHARED DISPOSITIVE POWER 2,499,796	
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 2,499,796		
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES		o
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 10.9%		
14	TYPE OF REPORTING PERSON IN		

CUSIP NO. 00847J105

1	NAME OF REPORTING PERSON JEFFREY M. SOLOMON		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP		(a) x (b) o
3	SEC USE ONLY		
4	SOURCE OF FUNDS OO		
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e)		¨
6	CITIZENSHIP OR PLACE OF ORGANIZATION USA		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER - 0 -	
	8	SHARED VOTING POWER 2,499,796	
	9	SOLE DISPOSITIVE POWER - 0 -	
	10	SHARED DISPOSITIVE POWER 2,499,796	
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 2,499,796		
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES		o
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 10.9%		
14	TYPE OF REPORTING PERSON IN		

11

CUSIP NO. 00847J105

1	NAME OF REPORTING PERSON THOMAS W. STRAUSS		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP		(a) x (b) o
3	SEC USE ONLY		
4	SOURCE OF FUNDS OO		
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e)		¨
6	CITIZENSHIP OR PLACE OF ORGANIZATION USA		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER - 0 -	
	8	SHARED VOTING POWER 2,499,796	
	9	SOLE DISPOSITIVE POWER - 0 -	
	10	SHARED DISPOSITIVE POWER 2,499,796	
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 2,499,796		
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES		o
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 10.9%		
14	TYPE OF REPORTING PERSON IN		

CUSIP NO. 00847J105

The following constitutes Amendment No. 7 to the Schedule 13D filed by the undersigned (“Amendment No. 7”). This Amendment No. 7 shall be deemed to amend and restate in their entirety Items 2, 3 and 5, add to Item 6 the existence of a new joint filing agreement among the Reporting Persons and add an additional exhibit to Item 7 of the Schedule 13D. The primary purpose of amending the Schedule 13D is to remove Parche, LLC ("Parche") as a Reporting Person as a result of a restructuring of the Reporting Persons' ownership in the Issuer, through which Parche transferred its holdings in the Issuer to Ramius Enterprise Master Fund Ltd (which owned 100% of the economic interest in Parche).

Item 2 is hereby amended and restated to read as follows:

(a) This statement is filed by:

(i) Ramius Value and Opportunity Master Fund Ltd, a Cayman Islands exempted company (“Value and Opportunity Master Fund”), with respect to the Shares directly and beneficially owned by it;

(ii) Ramius Enterprise Master Fund Ltd, a Cayman Islands exempted company (“Enterprise Master Fund”), with respect to the Shares directly and beneficially owned by it;

(iii) RCG PB, Ltd., a Cayman Islands exempted company (“RCG PB”), with respect to the Shares directly and beneficially owned by it;

(iv) Ramius Advisors, LLC, a Delaware limited liability company (“Ramius Advisors”), who serves as the investment advisor of Enterprise Master Fund and RCG PB;

(v) RCG Starboard Advisors, LLC, a Delaware limited liability company (“RCG Starboard Advisors”), who serves as the investment manager of Value and Opportunity Master Fund;

(vi) Ramius LLC, a Delaware limited liability company (“Ramius”), who serves as the sole member of each of RCG Starboard Advisors and Ramius Advisors;

(vii) C4S & Co., L.L.C., a Delaware limited liability company (“C4S”), who serves as managing member of Ramius;

(viii) Peter A. Cohen, who serves as one of the managing members of C4S;

(ix) Morgan B. Stark, who serves as one of the managing members of C4S;

(x) Thomas W. Strauss, who serves as one of the managing members of C4S; and

(xi) Jeffrey M. Solomon, who serves as one of the managing members of C4S.

Each of the foregoing is referred to as a "Reporting Person" and collectively as the "Reporting Persons." Each of the Reporting Persons is party to that certain Joint Filing Agreement, as further described in Item 6. Accordingly, the Reporting Persons are hereby filing a joint Schedule 13D.

CUSIP NO. 00847J105

(b) The address of the principal office of each of Ramius Advisors, RCG Starboard Advisors, Ramius, C4S, and Messrs. Cohen, Stark, Strauss and Solomon is 599 Lexington Avenue, 20th Floor, New York, New York 10022.

The address of the principal office of each of Value and Opportunity Master Fund, Enterprise Master Fund and RCG PB is c/o Citco Fund Services (Cayman Islands) Limited, Corporate Center, West Bay Road, Grand Cayman, Cayman Islands, British West Indies. The officers and directors of Value and Opportunity Master Fund and their principal occupations and business addresses are set forth on Schedule B and incorporated by reference in this Item 2. The officers and directors of Enterprise Master Fund and their principal occupations and business addresses are set forth on Schedule C and incorporated by reference in this Item 2. The officers and directors of RCG PB and their principal occupations and business addresses are set forth on Schedule D and incorporated by reference in this Item 2.

(c) The principal business of each of Value and Opportunity Master Fund, Enterprise Master Fund and RCG PB is serving as a private investment fund. Value and Opportunity Master Fund has been formed for the purpose of making equity investments and, on occasion, taking an active role in the management of portfolio companies in order to enhance shareholder value. Each of Enterprise Master Fund and RCG PB have been formed for the purpose of making equity and debt investments. The principal business of RCG Starboard Advisors is acting as the investment manager of Value and Opportunity Master Fund. The principal business of Ramius Advisors is acting as the investment advisor of Enterprise Master Fund and RCG PB. Ramius is engaged in money management and investment advisory services for third parties and proprietary accounts and serves as the sole member of each of RCG Starboard Advisors and Ramius Advisors. C4S serves as managing member of Ramius. Messrs. Cohen, Strauss, Stark and Solomon serve as co-managing members of C4S.

(d) No Reporting Person, nor any person listed on Schedule B, Schedule C or Schedule D, each annexed hereto, has, during the last five years, been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors).

(e) No Reporting Person, nor any person listed on Schedule B, Schedule C or Schedule D, each annexed hereto, has, during the last five years, been party to a civil proceeding of a judicial or administrative body of competent jurisdiction and as a result of such proceeding was or is subject to a judgment, decree or final order enjoining future violations of, or prohibiting or mandating activities subject to, federal or state securities laws or finding any violation with respect to such laws.

(f) Messrs. Cohen, Stark, Strauss, and Solomon are citizens of the United States of America.

The first paragraph of Item 3 is hereby amended and restated to read as follows:

The Shares purchased by Value and Opportunity Master Fund, Enterprise Master Fund and RCG PB were purchased with working capital (which may, at any given time, include margin loans made by brokerage firms in the ordinary course of business) in open market purchases, as set forth in Schedule A, which is incorporated by reference herein. The aggregate purchase cost of the 2,499,796 Shares beneficially owned in the aggregate by Value and Opportunity Master Fund, Enterprise Master Fund and RCG PB is approximately $21,888,000, excluding brokerage commissions.

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Item 5 is hereby amended and restated to read as follows:

The aggregate percentage of Shares reported owned by each person named herein is based upon 23,031,117 Shares outstanding, as of July 31, 2009, which is the total number of Shares outstanding as reported in the Issuer's Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on August 5, 2009.

A. Value and Opportunity Master Fund

(a) As of the close of business on October 1, 2009, Value and Opportunity Master Fund beneficially owned 1,091,197 Shares.

Percentage: Approximately 4.7%.

(b) 1. Sole power to vote or direct vote: 1,091,197
2. Shared power to vote or direct vote: 0
3. Sole power to dispose or direct the disposition: 1,091,197
4. Shared power to dispose or direct the disposition: 0

(c) The transactions in the Shares by Value and Opportunity Master Fund since the filing of the Amendment No. 6 to the Schedule 13D are set forth in Schedule A and are incorporated by reference.

B. RCG PB

(a) As of the close of business on October 1, 2009, RCG PB beneficially owned 1,133,374 Shares.

Percentage: Approximately 4.9%.

(b) 1. Sole power to vote or direct vote: 1,133,374
2. Shared power to vote or direct vote: 0
3. Sole power to dispose or direct the disposition: 1,133,374
4. Shared power to dispose or direct the disposition: 0

(c) The transactions in the Shares by RCG PB since the filing of the Amendment No. 6 to the Schedule 13D are set forth in Schedule A and are incorporated by reference.

C. Enterprise Master Fund

(a) As of the close of business on October 1, 2009, Enterprise Master Fund beneficially owned 275,225 Shares.

Percentage: Approximately 1.2%.

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(b) 1. Sole power to vote or direct vote: 275,225
2. Shared power to vote or direct vote: 0
3. Sole power to dispose or direct the disposition: 275,225
4. Shared power to dispose or direct the disposition: 0

(c) The transactions in the Shares by Enterprise Master Fund since the filing of the Amendment No. 6 to the Schedule 13D are set forth in Schedule A and are incorporated by reference.

D. RCG Starboard Advisors

(a) As the investment manager of Value and Opportunity Master Fund, RCG Starboard Advisors is deemed the beneficial owner of the 1,091,197 Shares owned by Value and Opportunity Master Fund.

Percentage: Approximately 4.7%.

(b) 1. Sole power to vote or direct vote: 1,091,197
2. Shared power to vote or direct vote: 0
3. Sole power to dispose or direct the disposition: 1,091,197
4. Shared power to dispose or direct the disposition: 0

(c) RCG Starboard Advisors did not enter into any transactions in the Shares since the filing of the Amendment No. 6 to the Schedule 13D. The transactions in the Shares since the filing of the Amendment No. 6 to the Schedule 13D on behalf of Value and Opportunity Master Fund are set forth in Schedule A and are incorporated by reference.

E. Ramius Advisors

(a) As the investment advisor of Enterprise Master Fund and RCG PB, Ramius Advisors is deemed the beneficial owner of the (i) 275,225 Shares owned by Enterprise Master Fund and (ii) 1,133,374 Shares owned by RCG PB.

Percentage: Approximately 6.1%.

(b) 1. Sole power to vote or direct vote: 1,408,599
2. Shared power to vote or direct vote: 0
3. Sole power to dispose or direct the disposition: 1,408,599
4. Shared power to dispose or direct the disposition: 0

	(c) **Other benefits**				
(in millions of Canadian dollars)		**2010**	**2009**	**2010**	**2009**
Current service cost (benefits earned by employees in the period)	$	43.2	$ 33.7	$ 7.8	$ 7.3
Interest cost on benefit obligation		232.2	241.3	14.0	14.7
Expected return on fund assets		(299.2)	(278.9)	(0.4)	(0.5)
Recognized net actuarial loss		35.6	3.8	2.6	1.9
Amortization of prior service costs		6.6	11.4	(0.8)	(0.8)
Settlement gain (1)					(8.7)
Net periodic benefit cost	$	18.4	$ 11.3	$ 23.2	$ 13.9

(1) Settlement gains resulted from certain post-retirement benefit obligations being assumed by a U.S. national multi-employer benefit plan.

In the three months and six months ended June 30, 2010, the Company made contributions of $159.7 million and $178.4 million, respectively (2009 $21.4 million and $43.7 million, respectively) to its defined benefit pension plans. The contributions made in the second quarter of 2010 included, at the Company s option, amounts equivalent to the estimated current and past service contribution requirements for the Company s main Canadian defined benefit plan for the balance of 2010.

10 Interest paid

Interest paid in the three and six months ended June 30, 2010, included an amount of $71.7 million of accrued interest in relation to a long-term debt that matured in June 2010.

11 Variable interest entities

The Company leases equipment from certain trusts, which have been determined to be variable interest entities financed by a combination of debt and equity provided by unrelated third parties. The lease agreements, which are classified as operating leases, have a fixed price purchase option which create the Company s variable interest and result in the trusts being considered variable interest entities. These fixed price purchase options are set at the estimated fair market value as determined at the inception of the lease and could provide the Company with potential gains. These options are considered variable interests, however, they are not expected to provide a significant benefit to the Company.

CANADIAN PACIFIC RAILWAY LIMITED
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010
(unaudited)

11 Variable interest entities (continued)

The Company is responsible for maintaining and operating the leased assets according to specific contractual obligations outlined in the terms of the lease agreements and industry standards. The rigor of the contractual terms of the lease agreements and industry standards are such that the Company has limited discretion over the maintenance activities associated with these assets. As such the Company concluded these terms do not provide the Company with the power to direct the activities of the variable interest entities in a way that has a significant impact on the entities economic performance.

The Company s financial exposure as a result of its involvement with the variable interest entities is equal to the fixed lease payments due to the trusts. In 2010 lease payments after tax will amount to $9.3 million. Future minimum lease payments, before tax, of $256.2 million will be payable over the next 20 years (Note 12).

The Company does not guarantee the residual value of the assets to the lessor, however, it must deliver to the lessor the assets in good operating condition, subject to normal wear and tear, at the end of the lease term.

As the Company s actions and decisions do not significantly effect the variable interest entities performance, and the Company s fixed purchase price option is not considered to be potentially significant to the variable interest entities, the Company is not considered to be the primary beneficiary, and does not consolidate these variable interest entities. As the leases are considered to be operating leases, the Company does not recognize any balances in the Consolidated Balance Sheet in relation to the variable interest entities.

12 Commitments and contingencies

In the normal course of its operations, the Company becomes involved in various legal actions, including claims relating to injuries and damage to property. The Company maintains provisions it considers to be adequate for such actions. While the final outcome with respect to actions outstanding or pending at June 30, 2010, cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Company s financial position or results of operations.

At June 30, 2010, the Company had committed to total future capital expenditures amounting to $177.7 million and operating expenditures amounting to $1,750.1 million for the years 2010-2028.

Operating lease commitments

At June 30, 2010, minimum payments under operating leases were estimated at $876.8 million in aggregate, with annual payments in each of the next five years of: balance of 2010 $72.7 million; 2011 $131.9 million; 2012 $121.0 million; 2013 $106.4 million; 2014 $79.9 million.

Environmental remediation accruals

Environmental remediation accruals cover site-specific remediation programs. Environmental remediation accruals are measured on an undiscounted basis and are recorded when the costs to remediate are probable and reasonably estimable. The estimate of the probable costs to be incurred in the remediation of properties contaminated by past railway use reflects the nature of contamination at individual sites according to typical activities and scale of operations conducted. CP has developed remediation strategies for each property based on the nature and extent of the contamination, as well as the location of the property and surrounding areas that may be adversely affected by the presence of contaminants, considering available technologies, treatment and disposal facilities and the acceptability of site-specific plans based on the local regulatory environment. Site-specific plans range from containment and risk management of the contaminants through to the removal and treatment of the contaminants and affected soils and ground water. The details of the estimates reflect the environmental liability at each property. Provisions for environmental remediation costs are recorded in Other long-term liabilities , except for the current portion which is recorded in Accounts payable and accrued liabilities . Payments are expected to be made over 10 years to 2020.

CANADIAN PACIFIC RAILWAY LIMITED
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010
(unaudited)
12 Commitments and contingencies (continued)

The accruals for environmental remediation represent CP s best estimate of its probable future obligation and includes both asserted and unasserted claims, without reduction for anticipated recoveries from third parties. Although the recorded accruals include CP s best estimate of all probable costs, CP s total environmental remediation costs cannot be predicted with certainty. Accruals for environmental remediation may change from time to time as new information about previously untested sites becomes known, environmental laws and regulations evolve and advances are made in environmental remediation technology. The accruals may also vary as the courts decide legal proceedings against outside parties responsible for contamination. These potential charges, which cannot be quantified at this time, are not expected to be material to CP s financial position, but may materially affect income in the particular period in which a charge is recognized. Costs related to existing, but as yet unknown, or future contamination will be accrued in the period in which they become probable and reasonably estimable. Changes to costs are reflected as changes to Other long-term liabilities or Accounts payable and accrued liabilities and to Purchased services and other within operating expenses. The amount credited to income in the three months ended June 30, 2010 was $0.1 million and charged to income in the six months ended June 30, 2010 was $1.5 million (three and six months ended June 30, 2009 charges of $0.6 million and $1.6 million, respectively).

Guarantees

At June 30, 2010, the Company had residual value guarantees on operating lease commitments of $169.9 million. The maximum amount that could be payable under these and all of the Company s other guarantees cannot be reasonably estimated due to the nature of certain of the guarantees. All or a portion of amounts paid under certain guarantees could be recoverable from other parties or through insurance. The Company accrues for all guarantees that it expects to pay. At June 30, 2010, these accruals amounted to $9.4 million.

13 Reconciliation of U.S. GAAP to Canadian GAAP

The unaudited consolidated financial statements of the Company have been prepared in accordance with U.S. GAAP. The material differences between U.S. GAAP and Canadian generally accepted accounting principles (Canadian GAAP) as they relate to the Company are explained and quantified below, along with their effect on the Company s Consolidated Statement of Income and Consolidated Balance Sheet.

(a) **Accounting for derivative instruments and hedging:** The measurement and recognition rules for derivative instruments and hedging under Canadian GAAP are largely harmonized with U.S. GAAP. However, under Canadian GAAP, only the ineffective portion of a net investment hedge that represents an over hedge is recognized in income, whereas under U.S. GAAP, any ineffective portion is recognized in income immediately.

(b) **Pensions and post-retirement benefits:** The Company is required to recognize the over or under funded status of defined benefit pension and other post-retirement benefit plans on the balance sheet under U.S. GAAP. The over or under funded status is measured as the difference between the fair value of the plan assets and the benefit obligation, being the projected benefit obligation for pension plans and the accumulated benefit obligation for other post-retirement benefit plans. In addition, any previously unrecognized actuarial gains and losses and prior service costs and credits that arise during the period will be recognized as a component of other comprehensive income (OCI), net of tax. Under Canadian GAAP the over or under funded status of defined benefit pension and post-retirement benefit plans is not recognized in the balance sheet. Canadian GAAP recognizes an asset for contributions made in excess of amounts recognized as expense in the Consolidated Statement of Income and a liability when contributions are less than amounts recognized as expense.

Prior service costs are amortized under Canadian GAAP and U.S. GAAP. However, the period over which costs related to events before 2000 are amortized differs between Canadian GAAP and U.S. GAAP.

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13 Reconciliation of U.S. GAAP to Canadian GAAP (continued)

(c) **Post-employment benefits:** Post-employment benefits are covered by the CICA Section 3461 Employee Future Benefits . Consistent with accounting for post-retirement benefits, the policy permits amortization of actuarial gains and losses if they fall outside of the corridor. Under U.S. GAAP, such gains and losses on post-employment benefits that do not vest or accumulate are included immediately in income.

(d) **Termination and severance benefits:** Termination and severance benefits are covered by the CICA Section 3461 Employee Future Benefits and the CICA Emerging Issues Committee Abstract 134 Accounting for Severance and Termination Benefits (EIC 134). Upon transition to the CICA Section 3461 effective January 1, 2000, a net transitional asset was created and was being amortized to income. During the first quarter of 2009 this transitional asset was fully amortized. Under U.S. GAAP, the expected benefits were not accrued and are expensed when paid.

(e) **Stock-based compensation:** U.S. GAAP requires the use of an option-pricing model to fair value, at the grant date, share-based awards issued to employees, including stock options, TSARs, PSUs, RSUs, and DSUs. TSARs, PSUs, RSUs, and DSUs are subsequently re-measured at fair value each reporting period. Under Canadian GAAP, liability awards that are settled, such as TSARs, PSUs, RSUs and DSUs, are accounted for using the intrinsic method. U.S. GAAP also requires that CP accounts for forfeitures on an estimated basis. Under Canadian GAAP, CP has elected to account for forfeitures on an actual basis as they occur.

(f) **Internal use software:** Under U.S. GAAP certain costs, including preliminary project phase costs, are expensed as incurred. These costs are capitalized and depreciated under Canadian GAAP.

(g) **Capitalization of interest:** U.S. GAAP requires interest costs to be capitalized for all qualifying capital programs. Under Canadian GAAP capitalization of interest is a policy choice and the Company expenses interest related to capital projects undertaken during the year unless specific debt is attributed to a capital program. Differences in GAAP result in additional capitalization of interest under U.S. GAAP and subsequent related depreciation.

(h) **Joint venture:** The CICA Section 3055 Interest in Joint Ventures requires the proportionate consolidation method to be applied to the recognition of interests in joint ventures in consolidated financial statements. Until April 1, 2009, the Company accounted for its joint-venture interest in the DRTP under Canadian GAAP using the proportionate consolidation method. During the second quarter of 2009, the Company completed a sale of a portion of its investment in the DRTP to its existing partner, reducing the Company s ownership from 50% to 16.5%. Effective April 1, 2009, the Company discontinued proportionate consolidation and accounts for its remaining investment in the DRTP under the equity method of accounting. U.S. GAAP requires the equity method of accounting to be applied to interests in joint ventures. This had no effect on net income as it represents a classification difference within the Consolidated Statement of Income and Consolidated Balance Sheet for periods prior to April, 2009.

(i) **Long-term debt:** Under Canadian GAAP, offsetting amounts with the same party and with a legal right to offset are netted against each other. U.S. GAAP does not allow netting of assets and liabilities among three parties. In 2003, the Company and one of its subsidiaries entered into a contracts with a financial institution resulting in a receivable amount and long-term debt payable. In the second quarter of 2010, these contracts were unwound eliminating this difference.

As well, transaction costs have been added to the fair value of the Long-term debt under Canadian GAAP whereas under U.S. GAAP such costs are recorded separately with Other assets .

(j) **Capital leases:** Under U.S. GAAP, certain leases, which are recorded as capital leases under Canadian GAAP, do not meet the criteria for capital leases and are recorded as operating leases. These relate to equipment leases, previously recorded as operating leases under Canadian and U.S. GAAP, which were renewed within the last 25 percent of the equipment s useful life.

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13 Reconciliation of U.S. GAAP to Canadian GAAP (continued)

(k) **Investment tax credits:** Under U.S. GAAP investment tax credits are credited against income tax expense whereas under Canadian GAAP these tax credits are offset against the related operating expense. There is no impact to net income as a result of this GAAP difference.

(l) **Cash flows:** There are no material differences between cash flows under U.S. GAAP and Canadian GAAP.

Comparative income statement

Consolidated net income is reconciled from Canadian to U.S. GAAP below:

	Three months ended June 30					
	2010			2009		
(in millions of Canadian dollars, except per share data)	Canadian GAAP	U.S. GAAP adjustments	U.S. GAAP	Canadian GAAP(1)	U.S. GAAP adjustments	U.S. GAAP
Revenues						
Freight (h)	$ 1,202.2	$	$ 1,202.2	$ 1,000.8	$ 0.6	$ 1,001.4
Other (h)	32.0		32.0	56.3	(26.4)	29.9
	1,234.2		1,234.2	1,057.1	(25.8)	1,031.3
Operating expenses						
Compensation and benefits (b, c, d, e, f)	349.1	0.6	349.7	302.5	22.0	324.5
Fuel	177.9		177.9	117.7		117.7
Materials (f)	48.5	2.5	51.0	52.4	1.1	53.5
Equipment rents (j)	54.6	0.3	54.9	54.7	0.4	55.1
Depreciation and amortization (f, g, h, j, k)	122.7	0.6	123.3	120.8	2.4	123.2
Purchased services and other (c, f, h, k)	207.7	(4.4)	203.3	183.3	(10.9)	172.4
	960.5	(0.4)	960.1	831.4	15.0	846.4
Operating income	273.7	0.4	274.1	225.7	(40.8)	184.9
Gain on sale of partnership interest				81.2		81.2
Less:						
Other (income) and charges (a)	(2.6)	(0.8)	(3.4)	14.0	(4.4)	9.6
Interest expense (g, j)	67.3	(2.5)	64.8	73.4	(0.8)	72.6
	209.0	3.7	212.7	219.5	(35.6)	183.9

Income before income tax expense												
Income tax expense (recovery) (k) [2]		46.0		0.1		46.1		64.3		(15.9)		48.4
Net income	$	163.0	$	3.6	$	166.6	$	155.2	$	(19.7)	$	135.5
Basic earnings per share	$	0.97	$	0.02	$	0.99	$	0.92	$	(0.11)	$	0.81
Diluted earnings per share	$	0.96	$	0.02	$	0.98	$	0.92	$	(0.12)	$	0.80

(1) Restated for the Company s changes in accounting policies in relation to the accounting for rail grinding, discussed in Note 2 to these consolidated financial statements, and for locomotive overhauls and amortization of pension plan amendments for unionized employees, discussed in Note 2 of the Company s 2009 annual consolidated financial statements. In addition, certain revenue and operating expense items have been reclassified in order to be consistent with U.S. GAAP presentation.

(2) Adjustment for income tax expense (recovery) includes the tax effect of other U.S. to

Canadian GAAP differences, in addition to the impact of difference (k) Investment tax credits.

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13 Reconciliation of U.S. GAAP to Canadian GAAP (continued)

Comparative income statement

Consolidated net income is reconciled from Canadian to U.S. GAAP below:

	Six months ended June 30					
	2010			2009		
(in millions of Canadian dollars, except per share data)	Canadian GAAP	U.S. GAAP adjustments	U.S. GAAP	Canadian GAAP [1]	U.S. GAAP adjustments	U.S. GAAP
Revenues						
Freight (h)	$ 2,340.4	$	$ 2,340.4	$ 2,079.9	$ (2.5)	$ 2,077.4
Other (h)	60.6		60.6	86.3	(22.8)	63.5
	2,401.0		2,401.0	2,166.2	(25.3)	2,140.9
Operating expenses						
Compensation and benefits (b, c, d, e, f)	694.4	9.1	703.5	643.8	23.7	667.5
Fuel	359.6		359.6	288.7		288.7
Materials (f)	110.6	4.4	115.0	128.6	1.6	130.2
Equipment rents (j)	103.3	0.6	103.9	120.8	0.7	121.5
Depreciation and amortization (f, g, h, j, k)	243.2	1.3	244.5	238.8	0.6	239.4
Purchased services and other (c, f, h, k)	402.8	(9.0)	393.8	380.3	(6.4)	373.9
	1,913.9	6.4	1,920.3	1,801.0	20.2	1,821.2
Operating income	487.1	(6.4)	480.7	365.2	(45.5)	319.7
Gain on sale of partnership interest				81.2		81.2
Less:						
Other (income) and charges (a)	(5.6)	(2.7)	(8.3)	21.7	(3.6)	18.1
Interest expense (g, j)	136.5	(5.0)	131.5	145.7	(1.5)	144.2
Income before income tax expense	356.2	1.3	357.5	279.0	(40.4)	238.6
Income tax expense (recovery) (k) [2]	88.3	1.6	89.9	62.0	(17.9)	44.1
Net income	$ 267.9	$ (0.3)	$ 267.6	$ 217.0	$ (22.5)	$ 194.5
Basic earnings per share	$ 1.59	$	$ 1.59	$ 1.32	$ (0.14)	$ 1.18
Diluted earnings per share	$ 1.59	$ (0.01)	$ 1.58	$ 1.32	$ (0.14)	$ 1.18

(1) Restated for the Company s changes in accounting policies in relation to the accounting for rail grinding, discussed in Note 2 to these consolidated financial statements, and for locomotive overhauls and amortization of pension plan amendments for unionized employees, discussed in Note 2 of the Company s 2009 annual consolidated financial statements. In addition, certain revenue and operating expense items have been reclassified in order to be consistent with U.S. GAAP presentation.

(2) Adjustment for income tax expense (recovery) includes the tax effect of other U.S. to Canadian GAAP differences, in addition to the impact of difference (k) Investment tax credits.

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13 Reconciliation of U.S. GAAP to Canadian GAAP (continued)

Consolidated balance sheet

The Consolidated Balance Sheet is reconciled from Canadian to U.S. GAAP below:

(in millions of Canadian dollars)	June 30, 2010 Canadian GAAP	June 30, 2010 U.S. GAAP adjustments	June 30, 2010 U.S. GAAP	December 31, 2009 Canadian GAAP[1]	December 31, 2009 U.S. GAAP adjustments	December 31, 2009 U.S. GAAP
Assets						
Current assets						
Cash and cash equivalents	$ 373.6	$	$ 373.6	$ 679.1	$	$ 679.1
Accounts receivable, net (i)	441.2		441.2	441.0	214.1	655.1
Materials and supplies	136.8		136.8	132.7		132.7
Deferred income taxes	137.6		137.6	128.1		128.1
Other current assets	62.2		62.2	46.5		46.5
	1,151.4		1,151.4	1,427.4	214.1	1,641.5
Investments	167.9		167.9	156.7		156.7
Net properties (e, f, g, j)	11,946.0	98.5	12,044.5	11,878.8	99.7	11,978.5
Goodwill and intangible assets	204.0		204.0	202.3		202.3
Other assets (b, i)	2,013.2	(1,842.0)	171.2	1,777.2	(1,601.4)	175.8
Total assets	$ 15,482.5	$ (1,743.5)	$ 13,739.0	$ 15,442.4	$ (1,287.6)	$ 14,154.8
Liabilities and shareholders equity						
Current liabilities						
Accounts payable and accrued liabilities (e)	$ 882.6	$ 15.1	$ 897.7	$ 917.3	$ 9.8	$ 927.1
Income and other taxes payable	36.1		36.1	31.9		31.9
Dividends payable	45.5		45.5	41.7		41.7
Long-term debt maturing within one year (i, j)	41.1	(0.9)	40.2	392.1	213.2	605.3
	1,005.3	14.2	1,019.5	1,383.0	223.0	1,606.0
Pension and other benefit liabilities (b, c)		1,252.2	1,252.2		1,453.9	1,453.9
Other long-term liabilities (b, c, e)	803.9	(317.1)	486.8	790.2	(310.3)	479.9
Long-term debt (i, j)	4,210.5	(50.1)	4,160.4	4,102.7	35.5	4,138.2
	2,628.6	(690.5)	1,938.1	2,523.2	(704.5)	1,818.7

Future / deferred income taxes (b, c, e, f, g, j)						
Total liabilities	8,648.3	208.7	8,857.0	8,799.1	697.6	9,496.7
Shareholders equity						
Share capital (e)	1,755.0	25.8	1,780.8	1,746.4	24.7	1,771.1
Contributed surplus / Additional paid-in capital (e)	33.4	(4.0)	29.4	33.5	(2.7)	30.8
Accumulated other comprehensive income (loss) (a, b)	52.9	(1,762.4)	(1,709.5)	51.1	(1,795.8)	(1,744.7)
Retained income / earnings (a, b, c, e, f, g, j)	4,992.9	(211.6)	4,781.3	4,812.3	(211.4)	4,600.9
	6,834.2	(1,952.2)	4,882.0	6,643.3	(1,985.2)	4,658.1
Total liabilities and shareholders equity	$ 15,482.5	$ (1,743.5)	$ 13,739.0	$ 15,442.4	$ (1,287.6)	$ 14,154.8

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CANADIAN PACIFIC RAILWAY LIMITED
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13 Reconciliation of U.S. GAAP to Canadian GAAP (continued)

(1) Restated for the Company s changes in accounting policies in relation to the accounting for rail grinding, discussed in Note 2 to these consolidated financial statements, and for locomotive overhauls and amortization of pension plan amendments for unionized employees, discussed in Note 2 of the Company s 2009 annual consolidated financial statements. In addition, certain revenue and operating expense items have been reclassified in order to be consistent with U.S. GAAP presentation.

Disclosures required by Canadian GAAP

Future accounting changes

U.S. GAAP / International Financial Reporting Standards (IFRS)

On February 13, 2008, the Canadian Accounting Standards Board (AcSB) confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian GAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011, unless, as permitted by Canadian securities regulations, SEC registrants were to adopt U.S. GAAP on or before this date. Commencing on January 1, 2010, CP adopted U.S. GAAP for its financial reporting, which is consistent with the reporting of other North American Class I railways. As a result, CP will not be adopting IFRS in 2011.

Business combinations, consolidated financial statements and non-controlling interests

In January 2009, the CICA issued three new standards:

Business Combinations, Section 1582

This section which replaces the former Section 1581 Business Combinations and provides the Canadian equivalent to IFRS 3 Business Combinations (January 2008). The new standard requires the acquiring entity in a business combination to recognize most of the assets acquired and liabilities assumed in the transaction at fair value including contingent assets and liabilities; and to recognize and measure the goodwill acquired in the business combination or a gain from a bargain purchase. Acquisition-related costs are also to be expensed.

Consolidated Financial Statements, Section 1601 and Non-controlling Interests, Section 1602

These two sections replace Section 1600 Consolidated Financial Statements . Section 1601 Consolidated Financial Statements carries forward guidance from Section 1600 Consolidated Financial Statements with the exception of non-controlling interests which are addressed in a separate section. Section 1602 Non-controlling Interests , requires the Company to report non-controlling interests within equity, separately from the equity of the owners of the parent, and transactions between an entity and non-controlling interests as equity transactions.

All three standards are effective January 1, 2011 and therefore will not impact the Company as it has adopted U.S. GAAP for financial reporting.

Capital disclosures

The Company s objectives when managing its capital are:

- to maintain a flexible capital structure which optimizes the cost of capital at acceptable risk while providing an appropriate return to its shareholders;
- to manage capital in a manner which balances the interests of equity and debt holders;
- to manage capital in a manner that will maintain compliance with its financial covenants;
- to manage its long-term financing structure to maintain its investment grade rating; and
- to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Company defines its capital as follows:

- shareholders equity;
- long-term debt, including the current portion thereof; and
- short-term borrowing.

CANADIAN PACIFIC RAILWAY LIMITED
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13 Reconciliation of U.S. GAAP to Canadian GAAP (continued)

The Company manages its capital structure and makes adjustments to it in accordance with the aforementioned objectives, as well as in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may, among other things, adjust the amount of dividends paid to shareholders, purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, issue new debt, and/or issue new debt to replace existing debt with different characteristics.

The Company monitors capital using a number of key financial metrics, including:

- debt to total capitalization; and
- interest coverage ratio.

The calculations for the aforementioned key financial metrics are as follows:

Debt to total capitalization

Debt is the sum of long-term debt, long-term debt maturing within one year and short-term borrowing. This sum is divided by debt plus total shareholders equity as presented on our Consolidated Balance Sheet.

Interest coverage ratio

Interest coverage ratio is measured, on a twelve month rolling basis, as adjusted EBIT divided by interest expense. Adjusted EBIT excludes changes in the estimated fair value of the Company s investment in long-term floating rate notes/asset-backed commercial paper (ABCP), the gains on sales of partnership interest and significant properties and the loss on termination of a lease with a shortline railway as these are not in the normal course of business and foreign exchange gains and losses on long-term debt, which can be volatile and short term. The interest coverage ratio and adjusted EBIT are non-GAAP measures and do not have standardized meanings prescribed by GAAP and, therefore, are unlikely to be comparable to similar measures of other companies.

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13 Reconciliation of U.S. GAAP to Canadian GAAP (continued)

The following table illustrates the financial metrics and their corresponding guidelines currently in place:

(in millions of Canadian dollars, U.S. GAAP)	Guidelines	June 30, 2010	June 30, 2009 Restated (See Note 2)
Long-term debt		$ 4,160.4	$ 4,218.1
Long-term debt maturing within one year		40.2	385.7
Short-term borrowing			55.6
Total debt		$ 4,200.6	$ 4,659.4
Shareholders equity		$ 4,882.0	$ 4,887.5
Total debt		4,200.6	4,659.4
Total debt plus equity		$ 9,082.6	$ 9,546.9
Operating income for the twelve months ended June 30		$ 966.5	$ 910.6
Other income and charges		1.2	(30.5)
(Gain) loss in long-term floating rate notes/ABCP		(4.3)	23.4
Foreign exchange (gain) loss on long-term debt		(8.5)	(3.1)
Equity income in DM&E			26.8
Gain on sales of significant properties		(79.1)	
Loss on termination of lease with shortline railway		54.5	
Adjusted EBIT(1)(2) for the twelve months ended June 30		$ 930.3	$ 927.2
Total debt		$ 4,200.6	$ 4,659.4
Total debt plus equity		$ 9,082.6	$ 9,546.9
Total debt to total capitalization(1)	**No more than 50.0%**	**46.2%**	**48.8%**
Adjusted EBIT(1)(2)		$ 930.3	$ 927.2
Interest expense(2)		$ 254.9	$ 272.7
Interest coverage ratio(1)(2)	**No less than 4.0**	**3.6**	**3.4**

(1) These earnings measures have no standardized meanings prescribed by GAAP and, therefore, are unlikely to be comparable to similar measures of other companies.

(2) The amount is calculated on a twelve month rolling basis.

The Company s financial objectives and strategy as described above have remained substantially unchanged over the last two fiscal years. The objectives are reviewed on an annual basis and financial metrics and their management targets are monitored on a quarterly basis. The interest coverage ratio has improved during the twelve-month period ended June 30, 2010 due to an increase in year-over-year adjusting earnings and a reduction in year-over-year interest expense. The interest coverage ratio for the period is below the management target provided in the above table, due to lower volumes as a result of the global recession that occurred during the period.

The Company is subject to a financial covenant of funded debt to total capitalization in the revolver loan agreement. Performance to this financial covenant is well within permitted limits.

Summary of Rail Data
(Reconciliation of GAAP earnings to non-GAAP earnings on pages 2 and 3)

Second Quarter 2010	Second Quarter 2009[(1)]	Fav/(Unfav)	%		Year-to-date 2010	Year-to-date 2009[(1)]	Fav/(Unfav)	%
				Financial (millions, except per share data)				
				Revenues				
$ 1,202.2	$ 1,001.4	$ 200.8	20.1	Freight revenue	$ 2,340.4	$ 2,077.4	$ 263.0	12.7
32.0	29.9	2.1	7.0	Other revenue	60.6	63.5	(2.9)	(4.6)
1,234.2	1,031.3	202.9	19.7		2,401.0	2,140.9	260.1	12.1
				Operating expenses				
349.7	324.5	(25.2)	(7.8)	Compensation and benefits	703.5	667.5	(36.0)	(5.4)
177.9	117.7	(60.2)	(51.1)	Fuel	359.6	288.7	(70.9)	(24.6)
51.0	53.5	2.5	4.7	Materials	115.0	130.2	15.2	11.7
54.9	55.1	0.2	0.4	Equipment rents	103.9	121.5	17.6	14.5
123.3	123.2	(0.1)	(0.1)	Depreciation and amortization	244.5	239.4	(5.1)	(2.1)
203.3	172.4	(30.9)	(17.9)	Purchased services and other	393.8	373.9	(19.9)	(5.3)
960.1	846.4	(113.7)	(13.4)		1,920.3	1,821.2	(99.1)	(5.4)
274.1	184.9	89.2	48.2	Operating income	480.7	319.7	161.0	50.4
	81.2	(81.2)	(100.0)	Gain on sale of partnership interest		81.2	(81.2)	(100.0)
				Less:				
(3.4)	9.6	13.0	135.4	Other (income) and charges	(8.3)	18.1	26.4	145.9
64.8	72.6	7.8	10.7	Interest expense	131.5	144.2	12.7	8.8
212.7	183.9	28.8	15.7	Income before income tax expense	357.5	238.6	118.9	49.8
46.1	48.4	2.3	4.8	Income tax expense	89.9	44.1	(45.8)	(103.9)
$ 166.6	$ 135.5	$ 31.1	23.0	Net income	$ 267.6	$ 194.5	$ 73.1	37.6
$ 0.99	$ 0.81	$ 0.18	22.2	Basic earnings per share	$ 1.59	$ 1.18	$ 0.41	34.7
$ 0.98	$ 0.80	$ 0.18	22.5	Diluted earnings per share	$ 1.58	$ 1.18	$ 0.40	33.9
77.8	82.1	4.3		Operating ratio (%)	80.0	85.1	5.1	

				Shares Outstanding				
168.6	168.0	0.6	0.4	Weighted average (avg) number of shares outstanding (millions)	168.6	164.5	4.1	2.5
169.2	168.4	0.8	0.5	Weighted avg number of diluted shares outstanding (millions)	169.0	164.7	4.3	2.6
				Foreign Exchange				
0.98	0.85	(0.13)	(15.3)	Average foreign exchange rate (US$/Canadian$)	0.97	0.83	(0.14)	(16.9)
1.02	1.18	(0.16)	(13.6)	Average foreign exchange rate (Canadian$/US$)	1.03	1.21	(0.18)	(14.9)

(1) Restated for the Company s change in accounting policy in relation to the accounting for rail grinding.

Summary of Rail Data (Page 2)
Adjusted Earnings Performance Quarter
Non-GAAP Measures

In millions, except per share data	Second Quarter 2010 Reported (GAAP)	Second Quarter 2010 Adjustments Fav/(Unfav)	Second Quarter 2010 Adjusted (Non-GAAP)[2]	Second Quarter 2009[1] Reported (GAAP)	Second Quarter 2009[1] Adjustments Fav/(Unfav)	Second Quarter 2009[1] Adjusted (Non-GAAP)[2]	% Adjusted (Non-GAAP)[2] Fav/(Unfav)
Operating income	$ 274.1	$	$ 274.1	$ 184.9	$	$ 184.9	48.2
Gain on sale of partnership interest				81.2	(81.2)[5]		
Less:							
Other (income) and charges	(3.4)	(1.8)[3]	(1.6)	9.6	(6.4)[6]	16.0	110.0
Interest expense	64.8		64.8	72.6		72.6	10.7
Income before tax	$ 212.7	$ (1.8)	$ 210.9	$ 183.9	$ (87.6)	$ 96.3	119.0
Income tax expense	46.1	(8.6)[4]	54.7	48.4	31.4[7]	17.0	(221.8)
Net income	$ 166.6	$ (10.4)	$ 156.2[8]	$ 135.5	$ (56.2)	$ 79.3[8]	97.0
Basic earnings per share	$ 0.99	$ (0.06)	$ 0.93	$ 0.81	$ (0.34)	$ 0.47	97.9
Diluted earnings per share	$ 0.98	$ (0.06)	$ 0.92	$ 0.80	$ (0.33)	$ 0.47	95.7

2010:

(2) These earnings measures have no standardized meanings prescribed by GAAP and may not be comparable to similar measures of other companies.

(3) To exclude the gain in fair value of long-term floating rate notes of $1.7 million and a gain in foreign exchange on long-term debt (FX on LTD) of

$0.1 million in order to eliminate the impact of volatile short-term exchange rate fluctuations.

(4) A tax adjustment to exclude the tax expense associated with the gain in fair value of long-term floating rate notes of $0.7 million and the tax recovery on FX on LTD of $9.3 million.

(8) These adjusted figures are also referred to as Income, before FX on LTD and other specified items .

2009:

(1) Restated for the Company s change in accounting policy in relation to the accounting for rail grinding.

(2) These earnings measures have no standardized meanings prescribed by GAAP and may not be comparable to similar measures of

other companies.

(5) To exclude the gain of $81.2 million before tax which arose from the partial sale of the investment in the Detroit River Tunnel Partnership.

(6) To exclude the gain in fair value of long-term floating rate notes of $4.7 million and a gain in FX on LTD of $1.7 million in order to eliminate the impact of volatile short-term exchange rate fluctuations.

(7) A tax adjustment to exclude the tax expense of the sale of the partnership interest of $12.5 million, the tax expense associated with the gain in fair value of long-term floating rate notes of $1.5 million and the tax expense on FX on LTD

of $17.4 million.

(8) These adjusted figures are also referred to as Income, before FX on LTD and other specified items .

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Summary of Rail Data (Page 3)
Adjusted Earnings Performance Year-to-date
Non-GAAP Measures

In millions, except per share data	Year-to-date 2010 Reported (GAAP)	Year-to-date 2010 Adjustments Fav/(Unfav)	Year-to-date 2010 Adjusted (Non-GAAP)[2]	Year-to-date 2009[1] Reported (GAAP)	Year-to-date 2009[1] Adjustments Fav/(Unfav)	Year-to-date 2009[1] Adjusted (Non-GAAP)[2]	% Adjusted (Non-GAAP)[2] Fav/(Unfav)
Operating income	$ 480.7	$	$ 480.7	$ 319.7	$	$ 319.7	50.4
Gain on sale of partnership interest				81.2	(81.2)[5]		
Less:							
Other (income) and charges	(8.3)	(6.9)[3]	(1.4)	18.1	(4.0)[6]	22.1	106.3
Interest expense	131.5		131.5	144.2		144.2	8.8
Income before tax	$ 357.5	$ (6.9)	$ 350.6	$ 238.6	$ (85.2)	$ 153.4	128.6
Income tax expense	89.9	(1.3)[4]	91.2	44.1	22.5[7]	21.6	(322.2)
Net income	$ 267.6	$ (8.2)	$ 259.4[8]	$ 194.5	$ (62.7)	$ 131.8[8]	96.8
Basic earnings per share	$ 1.59	$ (0.05)	$ 1.54	$ 1.18	$ (0.38)	$ 0.80	92.5
Diluted earnings per share	$ 1.58	$ (0.05)	$ 1.53	$ 1.18	$ (0.38)	$ 0.80	91.3

2010:

(2) These earnings measures have no standardized meanings prescribed by GAAP and may not be comparable to similar measures of other companies.

(3) To exclude the gain in fair value of long-term floating rate notes of $2.7 million and a gain in foreign exchange on long-term debt (FX on LTD) of

$4.2 million in order to eliminate the impact of volatile short-term exchange rate fluctuations.

(4) A tax adjustment to exclude the tax expense associated with the gain in fair value of long-term floating rate notes of $0.8 million and the tax recovery on FX on LTD of $2.1 million.

(8) These adjusted figures are also referred to as Income, before FX on LTD and other specified items .

2009:

(1) Restated for the Company s change in accounting policy in relation to the accounting for rail grinding.

(2) These earnings measures have no standardized meanings prescribed by GAAP and may not be comparable to similar measures of

other companies.

(5) To exclude the gain of $81.2 million before tax which arose from the partial sale of the investment in the Detroit River Tunnel Partnership.

(6) To exclude the gain in fair value of long-term floating rate notes of $4.7 million and a loss in FX on LTD of $0.7 million in order to eliminate the impact of volatile short-term exchange rate fluctuations.

(7) A tax adjustment to exclude the tax expense of the sale of the partnership interest of $12.5 million, the tax expense associated with the gain in fair value of long-term floating rate notes of $1.5 million and the tax expense on FX on LTD of $8.5 million.

(8) These adjusted figures are also referred to as Income, before FX on LTD and other specified items .

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Summary of Rail Data (Page 4)

Second Quarter 2010	2009	Fav/(Unfav)	%		Year-to-date 2010	2009	Fav/(Unfav)	%
				Commodity Data				
				Freight Revenues (millions)				
$ 264.4	$ 274.6	$ (10.2)	(3.7)	- Grain	$ 535.7	$ 562.3	$ (26.6)	(4.7)
136.7	95.3	41.4	43.4	- Coal	247.2	211.8	35.4	16.7
114.9	66.6	48.3	72.5	- Sulphur and fertilizers	232.7	142.8	89.9	63.0
44.4	42.1	2.3	5.5	- Forest products	87.6	87.5	0.1	0.1
217.0	179.6	37.4	20.8	- Industrial and consumer products	422.5	385.4	37.1	9.6
89.0	49.9	39.1	78.4	- Automotive	166.6	101.8	64.8	63.7
335.8	293.3	42.5	14.5	- Intermodal	648.1	585.8	62.3	10.6
$ 1,202.2	$ 1,001.4	$ 200.8	20.1	Total Freight Revenues	$ 2,340.4	$ 2,077.4	$ 263.0	12.7
				Millions of Revenue Ton-Miles (RTM)				
8,303	8,696	(393)	(4.5)	- Grain	16,939	17,224	(285)	(1.7)
5,268	3,888	1,380	35.5	- Coal	9,576	7,720	1,856	24.0
4,335	1,719	2,616	152.2	- Sulphur and fertilizers	8,727	3,899	4,828	123.8
1,275	1,092	183	16.8	- Forest products	2,653	2,156	497	23.1
5,166	3,971	1,195	30.1	- Industrial and consumer products	10,053	8,321	1,732	20.8
560	347	213	61.4	- Automotive	1,105	710	395	55.6
6,518	5,819	699	12.0	- Intermodal	12,575	11,427	1,148	10.0
31,425	25,532	5,893	23.1	Total RTMs	61,628	51,457	10,171	19.8
				Freight Revenue per RTM (cents)				
3.18	3.16	0.02	0.6	- Grain	3.16	3.26	(0.10)	(3.1)
2.59	2.45	0.14	5.7	- Coal	2.58	2.74	(0.16)	(5.8)
2.65	3.87	(1.22)	(31.5)	- Sulphur and fertilizers	2.67	3.66	(0.99)	(27.0)
3.48	3.86	(0.38)	(9.8)	- Forest products	3.30	4.06	(0.76)	(18.7)
4.20	4.52	(0.32)	(7.1)	- Industrial and consumer products	4.20	4.63	(0.43)	(9.3)
15.89	14.38	1.51	10.5	- Automotive	15.08	14.34	0.74	5.2

5.15	5.04	0.11	2.2	- Intermodal	5.15	5.13	0.02	0.4
3.83	3.92	(0.09)	(2.3)	Total Freight Revenue per RTM	3.80	4.04	(0.24)	(5.9)
				Carloads (thousands)				
115.9	119.3	(3.4)	(2.8)	- Grain	229.1	230.8	(1.7)	(0.7)
94.6	66.2	28.4	42.9	- Coal	170.6	137.0	33.6	24.5
43.2	22.3	20.9	93.7	- Sulphur and fertilizers	87.5	47.2	40.3	85.4
17.2	15.5	1.7	11.0	- Forest products	34.8	33.0	1.8	5.5
96.6	80.1	16.5	20.6	- Industrial and consumer products	188.4	166.7	21.7	13.0
37.5	22.6	14.9	65.9	- Automotive	71.0	43.6	27.4	62.8
271.4	238.2	33.2	13.9	- Intermodal	520.0	482.2	37.8	7.8
676.4	564.2	112.2	19.9	Total Carloads	1,301.4	1,140.5	160.9	14.1
				Freight Revenue per Carload				
$ 2,281	$ 2,302	$ (21)	(0.9)	- Grain	$ 2,338	$ 2,436	$ (98)	(4.0)
1,445	1,440	5	0.3	- Coal	1,449	1,546	(97)	(6.3)
2,660	2,987	(327)	(10.9)	- Sulphur and fertilizers	2,659	3,025	(366)	(12.1)
2,581	2,716	(135)	(5.0)	- Forest products	2,517	2,652	(135)	(5.1)
2,246	2,242	4	0.2	- Industrial and consumer products	2,243	2,312	(69)	(3.0)
2,373	2,208	165	7.5	- Automotive	2,346	2,335	11	0.5
1,237	1,231	6	0.5	- Intermodal	1,246	1,215	31	2.6
$ 1,777	$ 1,775	$ 2	0.1	Total Freight Revenue per Carload	$ 1,798	$ 1,821	$ (23)	(1.3)

Summary of Rail Data (Page 5)

Second Quarter 2010	2009[1]	Fav/(Unfav)	%		Year-to-date 2010	2009[1]	Fav/(Unfav)	%
				Operations Performance				
1.58	1.71	0.13	7.6	Total operating expenses per GTM (cents)[2]	1.61	1.81	0.20	11.0
1.58	1.75	0.17	9.7	Operating expenses exclusive of land sales per GTM (cents)[2][3]	1.61	1.84	0.23	12.5
60,766	49,635	11,131	22.4	Freight gross ton-miles (GTM) (millions)	119,290	100,568	18,722	18.6
9,920	8,391	1,529	18.2	Train miles (000)	19,477	17,298	2,179	12.6
15,726	15,156	(570)	(3.8)	Average number of active employees Total	15,079	15,103	24	0.2
13,813	13,270	(543)	(4.1)	Average number of active employees Expense	13,818	13,827	9	0.1
15,975	15,178	(797)	(5.3)	Number of employees at end of period Total	15,975	15,178	(797)	(5.3)
13,887	13,120	(767)	(5.8)	Number of employees at end of period Expense	13,887	13,120	(767)	(5.8)
1.13	1.14	0.01	0.9	U.S. gallons of locomotive fuel per 1,000 GTMs freight & yard	1.18	1.24	0.06	4.8
68.3	56.1	(12.2)	(21.7)	U.S. gallons of locomotive fuel consumed total (millions)[4]	139.8	123.8	(16.0)	(12.9)
2.55	1.78	(0.77)	(43.3)	Average fuel price (U.S. dollars per U.S. gallon)	2.49	1.93	(0.56)	(29.0)
				Fluidity Data (including DM&E)				
19.9	n/a			Average terminal dwell AAR definition (hours)	21.9	n/a		
23.2	n/a			Average train speed AAR definition (mph)	23.1	n/a		
147.0	n/a			Car miles per car day	139.2	n/a		
55.3	n/a			Average daily active cars on-line (000)	57.8	n/a		
1,013	n/a			Average daily active road locomotives on-line	1,006	n/a		
				Fluidity Data (excluding DM&E)				
19.9	20.4	0.5	2.5	Average terminal dwell AAR definition (hours)	21.9	21.8	(0.1)	(0.5)
24.6	26.4	(1.8)	(6.8)	Average train speed AAR definition (mph)	24.4	25.7	(1.3)	(5.1)
160.6	144.6	16.0	11.1	Car miles per car day	152.1	142.2	9.9	7.0

48.1	42.5	(5.6)	(13.2)	Average daily active cars on-line (000)	50.3	45.6	(4.7)	(10.3)
901	723	(178)	(24.6)	Average daily active road locomotives on-line	886	777	(109)	(14.0)
				Safety				
1.36	1.60	0.24	15.0	FRA personal injuries per 200,000 employee-hours	1.64	1.71	0.07	4.1
1.46	1.92	0.46	24.0	FRA train accidents per million train-miles	1.36	1.94	0.58	29.9

(1) Certain prior period figures have been revised to conform with current presentation or have been updated to reflect new information.

(2) Restated for the Company s change in accounting policy in relation to the accounting for rail grinding.

(3) These earnings measures have no standardized meanings prescribed by GAAP and may not be comparable to similar measures of other companies. Operating expenses exclusive of land sales per GTM is calculated consistently

with total operating expenses per GTM except for the exclusion of net gains on land sales of \$0.8 million and \$22.9 million for the three months ended June 30, 2010 and 2009, and \$3.2 million and \$24.5 million for the six months ended June 30, 2010 and 2009 respectively. Please refer to pages 2 and 3, Adjusted Earnings Performance, Quarter and Year-to-date, Non-GAAP measures.

(4) Includes gallons of fuel consumed from freight, yard and commuter service but excludes fuel used in capital projects and other non-freight activities.

n/a not available