TRANSCANADA CORP
Form 6-K
June 21, 2010

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For the month of June 2010

Commission File No. 1-31690

TransCanada Corporation
(Translation of Registrant's Name into English)

450 – 1 Street S.W., Calgary, Alberta, T2P 5H1, Canada
(Address of Principal Executive Offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F ¨	Form 40-F þ

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ¨

Exhibit 99.1 to this report, furnished on Form 6-K, is furnished, not filed, and will not be incorporated by reference into any registration statement filed by the registrant under the Securities Act of 1933, as amended.

SIGNATURES

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

Date: June 21, 2010

TRANSCANADA CORPORATION

By: /s/ Donald J. DeGrandis
Donald J. DeGrandis
Corporate Secretary

EXHIBIT INDEX

99.1	A copy of the registrant’s News Release dated June 21, 2010.

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0.1

Residential-first liens

4.4

4.4

With an allowance recorded:

Commercial-brick and mortar	
	4.4
	4.4
	0.1
Residential-home equity	
	18.6
	0.1
	18.9
	0.3
Residential-first liens	
	8.2
	0.1

8.4

0.1

Total:

Commercial

$

5.3

$

0.1

$

15.6

$

0.2

Residential		
$		**31.2**
$		**0.2**
$		**31.7**
$		**0.4**

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June 30, 2014
(Unaudited)

	For the three months ended June 30, 2013		For the six months ended June 30, 2013	
	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
		(in millions)		
With no related allowance recorded:				
Commercial-brick and mortar	$ 27.5	$	$ 13.1	$ 0.1
Residential-first liens	5.8		8.1	
With an allowance recorded:				
Commercial-brick and mortar	17.3	0.1	15.3	0.1
Residential-home equity	20.5	0.2	20.7	0.4
Residential-first liens	9.6	0.1	9.4	0.1
Total:				
Commercial	$ 44.8	$ 0.1	$ 28.4	$ 0.2
Residential	$ 35.9	$ 0.3	$ 38.2	$ 0.5

Mortgage Loan Modifications

Our commercial and residential mortgage loan portfolios include loans that have been modified. We assess loan modifications on a case-by-case basis to evaluate whether a TDR has occurred. The commercial mortgage loan TDRs were modified to delay or reduce principal payments and to increase, reduce or delay interest payments. For these TDR assessments, we have determined the loan rates are now considered below market based on current circumstances. The commercial mortgage loan modifications resulted in delayed cash receipts and a decrease in interest income. The residential mortgage loan TDRs include modifications of interest-only payment periods, delays in principal balloon payments, and interest rate reductions. Residential mortgage loan modifications resulted in delayed or decreased cash receipts and a decrease in interest income.

The following table includes information about outstanding loans that were modified and met the criteria of a TDR during the periods indicated. In addition, the table includes information for loans that were modified and met the criteria of a TDR within the past twelve months that were in payment default during the periods indicated:

	For the three months ended June 30, 2014			
	TDRs		TDRs in payment default	
	Number of contracts	Recorded investment (in millions)	Number of contracts	Recorded investment (in millions)
Commercial-brick and mortar	**1**	**$ 0.7**		**$**
Residential-home equity	**26**	**1.0**	**2**	
Residential-first liens	**1**	**0.1**		
Total	**28**	**$ 1.8**	**2**	**$**

	For the three months ended June 30, 2013					
	TDRs			TDRs in payment default		
	Number of contracts		Recorded investment (in millions)	Number of contracts		Recorded investment (in millions)
Commercial-brick and mortar	1	$	0.2		$	
Residential-home equity	21		0.8	1		
Residential-first liens	1		0.2	2		0.7
Total	23	$	1.2	3	$	0.7

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	For the six months ended June 30, 2014					
	TDRs			TDRs in payment default		
	Number of contracts		Recorded investment (in millions)	Number of contracts		Recorded investment (in millions)
Commercial-brick and mortar	**2**	**$**	**5.1**		**$**	
Residential-home equity	**39**		**1.4**	**2**		
Residential-first liens	**1**		**0.1**			
Total	**42**	**$**	**6.6**	**2**	**$**	

	For the six months ended June 30, 2013					
	TDRs			TDRs in payment default		
	Number of contracts		Recorded investment (in millions)	Number of contracts		Recorded investment (in millions)
Commercial-brick and mortar	2	$	0.9		$	
Residential-home equity	53		2.8	13		
Residential-first liens	3		0.6	2		0.7
Total	58	$	4.3	15	$	0.7

Commercial mortgage loans that have been designated as a TDR have been previously reserved in the mortgage loan valuation allowance to the estimated fair value of the underlying collateral reduced by the cost to sell.

Residential mortgage loans that have been designated as a TDR are specifically reserved for in the mortgage loan valuation allowance if losses result from the modification. Residential mortgage loans that have defaulted or have been discharged through bankruptcy are reduced to the expected collectible amount.

Securities Posted as Collateral

We posted $1,305.2 million in fixed maturities, available-for-sale securities at June 30, 2014, to satisfy collateral requirements primarily associated with a reinsurance arrangement, our derivative credit support annex (collateral) agreements, Futures Commission Merchant (FCM) agreements, a lending arrangement and our obligation under funding agreements with the Federal Home Loan Bank of Des Moines (FHLB Des Moines). In addition, we posted $2,210.9 million in commercial mortgage loans and home equity mortgages as of June 30, 2014, to satisfy collateral requirements associated with our obligation under funding agreements with the FHLB Des Moines. Since we did not relinquish ownership rights on these instruments, they are reported as fixed maturities, available-for-sale and mortgage loans, respectively, on our consolidated statements of financial position.

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Balance Sheet Offsetting

We have financial instruments that are subject to master netting agreements or similar agreements. Financial assets subject to master netting agreements or similar agreements were as follows:

	Gross amount of recognized assets (1)	Gross amounts not offset in the Statement of Financial Position		
		Financial instruments (2)	Collateral received	Net amount
	(in millions)			
June 30, 2014				
Derivative assets	**$ 604.0**	**$ (487.9)**	**$ (100.0)**	**$ 16.1**
Reverse repurchase agreements	**48.0**		**(48.0)**	
Total	**$ 652.0**	**$ (487.9)**	**$ (148.0)**	**$ 16.1**
December 31, 2013				
Derivative assets	$ 664.9	$ (581.5)	$ (82.1)	$ 1.3
Reverse repurchase agreements	51.8		(51.8)	
Total	$ 716.7	$ (581.5)	$ (133.9)	$ 1.3

(1) The gross amount of recognized derivative and reverse repurchase agreement assets are reported with other investments and cash and cash equivalents on the consolidated statements of financial position. The above excludes $0.2 million and $0.2 million of derivative assets as of June 30, 2014 and December 31, 2013, respectively, that are not subject to master netting agreements or similar agreements. The gross amounts of derivative and reverse repurchase agreement assets are not netted against offsetting liabilities for presentation on the consolidated statements of financial position.

(2) Represents amount of offsetting derivative liabilities that are subject to an enforceable master netting agreement or similar agreement that are not netted against the gross derivative assets for presentation on the consolidated statements of financial position.

Financial liabilities subject to master netting agreements or similar agreements were as follows:

	Gross amount of recognized liabilities (1)	Statement of Financial Position		
		Financial instruments (2)	Collateral pledged	Net amount
	(in millions)			
June 30, 2014				
Derivative liabilities	**$ 860.7**	**$ (487.9)**	**$ (305.8)**	**$ 67.0**
December 31, 2013				
Derivative liabilities	$ 1,022.0	$ (581.5)	$ (362.1)	$ 78.4

(1) The gross amount of recognized derivative liabilities are reported with other liabilities on the consolidated statements of financial position. The above excludes $284.7 million and $226.7 million of derivative liabilities as of June 30, 2014 and December 31, 2013, respectively, which are primarily embedded derivatives that are not subject to master netting agreements or similar agreements. The gross amounts of derivative liabilities are not netted against offsetting assets for presentation on the consolidated statements of financial position.

(2) Represents amount of offsetting derivative assets that are subject to an enforceable master netting agreement or similar agreement that are not netted against the gross derivative liabilities for presentation on the consolidated statements of financial position.

The financial instruments that are subject to master netting agreements or similar agreements include right of setoff provisions. Derivative instruments include provisions to setoff positions covered under the agreements with the same counterparties and provisions to setoff positions outside of the agreements with the same counterparties in the event of default by one of the parties. Derivative instruments also include collateral provisions. Collateral received and pledged is generally settled daily with each counterparty. See Note 4, Derivative Financial Instruments, for further details.

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Repurchase and reverse repurchase agreements include provisions to setoff other repurchase and reverse repurchase balances with the same counterparty. Repurchase and reverse repurchase agreements also include collateral provisions with the counterparties. For reverse repurchase agreements we require the counterparties to pledge collateral with a value greater than the amount of cash transferred. We have the right but do not sell or repledge collateral received in reverse repurchase agreements. Repurchase agreements are structured as secured borrowings for all counterparties. We pledge fixed maturities available-for-sale, which the counterparties have the right to sell or repledge. Interest incurred on repurchase agreements is reported as part of operating expense on the consolidated statements of operations. Net proceeds related to repurchase agreements are reported as a component of financing activities on the consolidated statements of cash flows. We did not have any outstanding repurchase agreements as of June 30, 2014 and December 31, 2013.

4. Derivative Financial Instruments

Derivatives are generally used to hedge or reduce exposure to market risks associated with assets held or expected to be purchased or sold and liabilities incurred or expected to be incurred. Derivatives are used to change the characteristics of our asset/liability mix consistent with our risk management activities. Derivatives are also used in asset replication strategies.

Types of Derivative Instruments

Interest Rate Contracts

Interest rate risk is the risk we will incur economic losses due to adverse changes in interest rates. Sources of interest rate risk include the difference between the maturity and interest rate changes of assets with the liabilities they support, timing differences between the pricing of liabilities and the purchase or procurement of assets and changing cash flow profiles from original projections due to prepayment options embedded within asset and liability contracts. We use various derivatives to manage our exposure to fluctuations in interest rates.

Interest rate swaps are contracts in which we agree with other parties to exchange, at specified intervals, the difference between fixed rate and floating rate interest amounts based upon designated market rates or rate indices and an agreed upon notional principal amount. Generally, no cash is exchanged at the outset of the contract and no principal payments are made by any party. Cash is paid or received based on the terms of the swap. We use interest rate swaps primarily to more closely match the interest rate characteristics of assets and liabilities and to mitigate the risks arising from timing mismatches between assets and liabilities (including duration mismatches). We also use interest rate swaps to hedge against changes in the value of assets we anticipate acquiring and other anticipated transactions and commitments. Interest rate swaps are used to hedge against changes in the value of the guaranteed minimum withdrawal benefit (GMWB) liability. The GMWB rider on our variable annuity products provides for guaranteed minimum withdrawal benefits regardless of the actual performance of various equity and/or fixed income funds available with the product.

Interest rate options, including interest rate caps and interest rate floors, which can be combined to form interest rate collars, are contracts that entitle the purchaser to pay or receive the amounts, if any, by which a specified market rate exceeds a cap strike interest rate, or falls below a floor strike interest rate, respectively, at specified dates. We use interest rate collars to manage interest rate risk related to guaranteed minimum interest rate liabilities in our individual annuities contracts and lapse risk associated with higher interest rates.

A swaption is an option to enter into an interest rate swap at a future date. We purchase swaptions to offset or modify existing exposures. Swaptions provide us the benefit of the agreed-upon strike rate if the market rates for liabilities are higher, with the flexibility to enter into the current market rate swap if the market rates for liabilities are lower. Swaptions not only hedge against the downside risk, but also allow us to take advantage of any upside benefits.

In exchange-traded futures transactions, we agree to purchase or sell a specified number of contracts, the values of which are determined by the values of designated classes of securities, and to post variation margin on a daily basis in an amount equal to the difference in the daily market values of those contracts. We enter into exchange-traded futures with regulated futures commissions merchants who are members of a trading exchange. We have used exchange-traded futures to reduce market risks from changes in interest rates and to alter mismatches between the assets in a portfolio and the liabilities supported by those assets.

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Foreign Exchange Contracts

Foreign currency risk is the risk we will incur economic losses due to adverse fluctuations in foreign currency exchange rates. This risk arises from foreign currency-denominated funding agreements we issue, foreign currency-denominated fixed maturities we invest in and the financial results of our international operations, including acquisition and divestiture activity. We use various derivatives to manage our exposure to fluctuations in foreign currency exchange rates.

Currency swaps are contracts in which we agree with other parties to exchange, at specified intervals, a series of principal and interest payments in one currency for that of another currency. Generally, the principal amount of each currency is exchanged at the beginning and termination of the currency swap by each party. The interest payments are primarily fixed-to-fixed rate; however, they may also be fixed-to-floating rate or floating-to-fixed rate. These transactions are entered into pursuant to master agreements that provide for a single net payment to be made by one counterparty for payments made in the same currency at each due date. We use currency swaps to reduce market risks from changes in currency exchange rates with respect to investments or liabilities denominated in foreign currencies that we either hold or intend to acquire or sell.

Currency forwards are contracts in which we agree with other parties to deliver or receive a specified amount of an identified currency at a specified future date. Typically, the price is agreed upon at the time of the contract and payment for such a contract is made at the specified future date. We use currency forwards to reduce market risks from changes in currency exchange rates with respect to investments or liabilities denominated in foreign currencies that we either hold or intend to acquire or sell and to hedge the currency risk associated with a business combination. We have also used currency forwards to hedge the currency risk associated with net investments in foreign operations. We did not use any currency forwards during 2014 or 2013 to hedge our net investment in foreign operations.

Equity Contracts

Equity risk is the risk that we will incur economic losses due to adverse fluctuations in common stock. We use various derivatives to manage our exposure to equity risk, which arises from products in which the interest we credit is tied to an external equity index as well as products subject to minimum contractual guarantees.

We purchase equity call spreads to hedge the equity participation rates promised to contractholders in conjunction with our fixed deferred annuity and universal life products that credit interest based on changes in an external equity index. We use exchange-traded futures and equity put options to hedge against changes in the value of the GMWB liability related to the GMWB rider on our variable annuity product, as previously explained. The premium associated with certain options is paid quarterly over the life of the option contract.

Credit Contracts

Credit risk relates to the uncertainty associated with the continued ability of a given obligor to make timely payments of principal and interest. We use credit default swaps to enhance the return on our investment portfolio by providing comparable exposure to fixed income securities that might not be available in the primary market. They are also used to hedge credit exposures in our investment portfolio. Credit derivatives are used to sell or buy credit protection on an identified name or names on an unfunded or synthetic basis in return for receiving or paying a quarterly premium. The premium generally corresponds to a referenced name s credit spread at the time the agreement is executed. In cases where we sell protection, we also buy a quality cash bond to match against the credit default swap, thereby entering into a synthetic transaction replicating a cash security. When selling protection, if there is an event of default by the referenced name, as defined by the agreement, we are obligated to pay the counterparty the referenced amount of the contract and receive in return the referenced security in a principal amount equal to the notional value of the credit default swap.

Total return swaps are contracts in which we agree with other parties to exchange, at specified intervals, an amount determined by the difference between the previous price and the current price of a reference asset based upon an agreed upon notional principal amount plus an additional amount determined by the financing spread. We currently use futures traded on an exchange (exchange-traded) and total return swaps referencing equity indices to hedge our portfolio from potential credit losses related to systemic events.

Other Contracts

Embedded Derivatives. We purchase or issue certain financial instruments or products that contain a derivative instrument that is embedded in the financial instrument or product. When it is determined that the embedded derivative possesses economic

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characteristics that are not clearly or closely related to the economic characteristics of the host contract and a separate instrument with the same terms would qualify as a derivative instrument, the embedded derivative is bifurcated from the host instrument for measurement purposes. The embedded derivative, which is reported with the host instrument in the consolidated statements of financial position, is carried at fair value.

We have investment-type insurance contracts in which the return is tied to a leveraged inflation index. In addition, we had an investment-type insurance contract in which the return was tied to an external equity index. We economically hedge the risk associated with these investment-type insurance contracts.

We offer group annuity contracts that have guaranteed separate accounts as an investment option. We also offer funds with embedded fixed-rate guarantees as investment options in our defined contribution plans in Hong Kong.

We have structured investment relationships with trusts we have determined to be VIEs, which are consolidated in our financial statements. The notes issued by these trusts include obligations to deliver an underlying security to residual interest holders and the obligations contain an embedded derivative of the forecasted transaction to deliver the underlying security.

We have fixed deferred annuities and universal life contracts that credit interest based on changes in an external equity index. We also have certain variable annuity products with a GMWB rider, which allows the customer to make withdrawals of a specified annual amount, either for a fixed number of years or for the lifetime of the customer, even if the account value is fully exhausted. Declines in the equity markets may increase our exposure to benefits under contracts with the GMWB. We economically hedge the exposure in these contracts, as previously explained.

Exposure

Our risk of loss is typically limited to the fair value of our derivative instruments and not to the notional or contractual amounts of these derivatives. We are also exposed to credit losses in the event of nonperformance of the counterparties. Our current credit exposure is limited to the value of derivatives that have become favorable to us. This credit risk is minimized by purchasing such agreements from financial institutions with high credit ratings and by establishing and monitoring exposure limits. We also utilize various credit enhancements, including collateral and credit triggers to reduce the credit exposure to our derivative instruments.

Derivatives may be exchange-traded or they may be privately negotiated contracts, which are usually referred to as over-the-counter (OTC) derivatives. Certain of our OTC derivatives are cleared and settled through central clearing counterparties (OTC cleared), while others are bilateral contracts between two counterparties (bilateral OTC). Our derivative transactions are generally documented under International Swaps

and Derivatives Association, Inc. (ISDA) Master Agreements. Management believes that such agreements provide for legally enforceable set-off and close-out netting of exposures to specific counterparties. Under such agreements, in connection with an early termination of a transaction, we are permitted to set off our receivable from a counterparty against our payables to the same counterparty arising out of all included transactions. For reporting purposes, we do not offset fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral against fair value amounts recognized for derivative instruments executed with the same counterparties under master netting agreements.

We posted $342.7 million and $393.1 million in cash and securities under collateral arrangements as of June 30, 2014 and December 31, 2013, respectively, to satisfy collateral requirements associated with our derivative credit support agreements and FCM agreements. These amounts include initial margin requirements.

Certain of our derivative instruments contain provisions that require us to maintain an investment grade rating from each of the major credit rating agencies on our debt. If the ratings on our debt were to fall below investment grade, it would be in violation of these provisions and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. The aggregate fair value, inclusive of accrued interest, of all derivative instruments with credit-risk-related contingent features that were in a liability position without regard to netting under derivative credit support annex agreements as of June 30, 2014 and December 31, 2013, was $791.4 million and $1,042.9 million, respectively. Cleared derivatives have contingent features that require us to post excess margin as required by the FCM. The terms surrounding excess margin vary by FCM agreement. With respect to derivatives containing collateral triggers, we posted collateral and initial margin of $342.7 million and $393.1 million as of June 30, 2014 and December 31, 2013, respectively, in the normal course of business, which reflects netting under derivative agreements. If the credit-risk-related contingent features underlying these agreements were triggered on June 30, 2014, we would be required to post an additional $69.8 million of collateral to our counterparties.

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As of June 30, 2014 and December 31, 2013, we had received $51.5 million and $32.5 million, respectively, of cash collateral associated with our derivative credit support annex agreements and FCM agreements, for which we recorded a corresponding liability reflecting our obligation to return the collateral.

Notional amounts are used to express the extent of our involvement in derivative transactions and represent a standard measurement of the volume of our derivative activity. Notional amounts represent those amounts used to calculate contractual flows to be exchanged and are not paid or received, except for contracts such as currency swaps. Credit exposure represents the gross amount owed to us under derivative contracts as of the valuation date. The notional amounts and credit exposure of our derivative financial instruments by type were as follows:

	June 30, 2014	December 31, 2013
	(in millions)	
Notional amounts of derivative instruments		
Interest rate contracts:		
Interest rate swaps	**$ 19,204.2**	$ 20,570.8
Interest rate options	**4,100.0**	4,100.0
Swaptions	**260.0**	325.0
Interest rate futures	**105.0**	92.5
Foreign exchange contracts:		
Currency swaps	**2,048.0**	2,367.5
Currency forwards	**261.6**	247.4
Equity contracts:		
Equity options	**2,740.4**	2,010.4
Equity futures	**371.6**	273.3
Credit contracts:		
Credit default swaps	**1,150.6**	1,153.2
Total return swaps	**90.0**	90.0
Futures	**9.5**	9.1
Other contracts:		
Embedded derivative financial instruments	**8,796.0**	7,601.1
Total notional amounts at end of period	**$ 39,136.9**	$ 38,840.3
Credit exposure of derivative instruments		
Interest rate contracts:		
Interest rate swaps	**$ 431.1**	$ 435.5
Interest rate options	**31.7**	42.5
Swaptions	**0.2**	1.0
Foreign exchange contracts:		
Currency swaps	**137.7**	200.9
Currency forwards	**0.2**	0.6
Equity contracts:		
Equity options	**17.1**	30.0
Credit contracts:		
Credit default swaps	**11.5**	9.5
Total return swaps		0.1

Total gross credit exposure		**629.5**		720.1
Less: collateral received		**100.0**		115.9
Net credit exposure	**$**	**529.5**	$	604.2

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The fair value of our derivative instruments classified as assets and liabilities was as follows:

	Derivative assets (1)		Derivative liabilities (2)	
	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
	(in millions)			
Derivatives designated as hedging instruments				
Interest rate contracts	**$ 2.7**	$ 0.1	**$ 229.0**	$ 285.4
Foreign exchange contracts	**96.5**	121.6	**44.0**	51.2
Total derivatives designated as hedging instruments	**$ 99.2**	$ 121.7	**$ 273.0**	$ 336.6
Derivatives not designated as hedging instruments				
Interest rate contracts	**$ 429.5**	$ 452.2	**$ 358.3**	$ 489.6
Foreign exchange contracts	**46.9**	51.6	**22.3**	17.9
Equity contracts	**17.1**	30.0	**187.7**	145.0
Credit contracts	**11.5**	9.6	**22.5**	35.5
Other contracts			**281.6**	224.1
Total derivatives not designated as hedging instruments	**505.0**	543.4	**872.4**	912.1
Total derivative instruments	**$ 604.2**	$ 665.1	**$ 1,145.4**	$ 1,248.7

(1) The fair value of derivative assets is reported with other investments on the consolidated statements of financial position.

(2) The fair value of derivative liabilities is reported with other liabilities on the consolidated statements of financial position, with the exception of certain embedded derivative liabilities. Embedded derivative liabilities with a fair value of $37.6 million and $6.9 million as of June 30, 2014 and December 31, 2013, respectively, are reported with contractholder funds on the consolidated statements of financial position.

Credit Derivatives Sold

When we sell credit protection, we are exposed to the underlying credit risk similar to purchasing a fixed maturity security instrument. The majority of our credit derivative contracts sold reference a single name or reference security (referred to as single name credit default swaps). The remainder of our credit derivatives reference either a basket or index of securities. These instruments are either referenced in an over-the-counter credit derivative transaction, or embedded within an investment structure that has been fully consolidated into our financial statements.

These credit derivative transactions are subject to events of default defined within the terms of the contract, which normally consist of bankruptcy, failure to pay, or modified restructuring of the reference entity and/or issue. If a default event occurs for a reference name or security, we are obligated to pay the counterparty an amount equal to the notional amount of the credit derivative transaction. As a result, our maximum future payment is equal to the notional amount of the credit derivative. In certain cases, we also have purchased credit protection with identical underlyings to certain of our sold protection transactions. The effect of this purchased protection would reduce our total maximum future payments by $44.9 million as of June 30, 2014 and $44.9 million as of December 31, 2013. These purchased credit derivative transactions had a net asset (liability) fair value of $(0.5) million as of June 30, 2014 and $(0.5) million as of December 31, 2013. In certain circumstances, our potential loss could also be reduced by any amount recovered in the default proceedings of the underlying credit name.

We purchased an investment structure with embedded credit features that is fully consolidated into our financial statements. This consolidation results in recognition of the underlying credit derivatives and collateral within the structure, typically high quality fixed maturities that are owned by a special purpose vehicle. These credit derivatives reference several names in a basket structure. In the event of default, the collateral within the structure would typically be liquidated to pay the claims of the credit derivative counterparty.

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The following tables show our credit default swap protection sold by types of contract, types of referenced/underlying asset class and external agency rating for the underlying reference security. The maximum future payments are undiscounted and have not been reduced by the effect of any offsetting transactions, collateral or recourse features described above.

	June 30, 2014			
	Notional amount	Fair value	Maximum future payments	Weighted average expected life (in years)
	(in millions)			
Single name credit default swaps				
Corporate debt				
AAA	**$ 20.0**	**$ 0.6**	**$ 20.0**	**4.5**
AA	**79.0**	**1.5**	**79.0**	**3.6**
A	**269.5**	**4.7**	**269.5**	**3.6**
BBB	**290.0**	**3.2**	**290.0**	**3.9**
BB	**15.0**	**(0.3)**	**15.0**	**8.0**
Total single name credit default swaps	**673.5**	**9.7**	**673.5**	**3.9**
Basket and index credit default swaps				
Corporate debt				
Near default (1)	**110.4**	**(12.3)**	**110.4**	**2.7**
Government/municipalities				
AA	**30.0**	**(2.4)**	**30.0**	**3.2**
Structured finance				
BBB	**25.0**	**(0.2)**	**25.0**	**3.0**
Total basket and index credit default swaps	**165.4**	**(14.9)**	**165.4**	**2.9**
Total credit default swap protection sold	**$ 838.9**	**$ (5.2)**	**$ 838.9**	**3.7**

	December 31, 2013			
	Notional amount	Fair value	Maximum future payments	Weighted average expected life (in years)
	(in millions)			
Single name credit default swaps				
Corporate debt				
AAA	$ 10.0	$ 0.3	$ 10.0	4.7
AA	84.0	1.8	84.0	4.0
A	294.5	4.2	294.5	4.0
BBB	265.0	(1.2)	265.0	3.9
Total single name credit default swaps	653.5	5.1	653.5	4.0
Basket and index credit default swaps				
Corporate debt				
Near default (1)	110.4	(19.9)	110.4	3.2

Government/municipalities							
AA		30.0		(3.5)		30.0	3.7
Structured finance							
BBB		25.0		(0.9)		25.0	3.5
Total basket and index credit default swaps		165.4		(24.3)		165.4	3.4
Total credit default swap protection sold	$	818.9	$	(19.2)	$	818.9	3.9

(1) Includes $88.0 million notional of derivatives in consolidated collateralized private investment vehicle VIEs where the credit risk is borne by third-party investors.

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We also have invested in fixed maturities classified as available-for-sale that contain credit default swaps that do not require bifurcation and fixed maturities classified as trading that contain credit default swaps. These securities are subject to the credit risk of the issuer, normally a special purpose vehicle, which consists of the underlying credit default swaps and high quality fixed maturities that serve as collateral. A default event occurs if the cumulative losses exceed a specified attachment point, which is typically not the first loss of the portfolio. If a default event occurs that exceeds the specified attachment point, our investment may not be fully returned. We would have no future potential payments under these investments. The following tables show, by the types of referenced/underlying asset class and external rating, our fixed maturities with embedded credit derivatives.

	June 30, 2014		
	Amortized cost	Carrying value	Weighted average expected life (in years)
	(in millions)		
Corporate debt			
A	$ **23.8**	$ **23.8**	**2.5**
Total corporate debt	**23.8**	**23.8**	**2.5**
Structured finance			
A	**6.3**	**6.3**	**16.1**
BB	**5.8**	**5.8**	**3.0**
B	**4.3**	**4.3**	**2.8**
CCC	**9.1**	**9.1**	**5.4**
Total structured finance	**25.5**	**25.5**	**7.1**
Total fixed maturities with credit derivatives	$ **49.3**	$ **49.3**	**4.9**

	December 31, 2013		
	Amortized cost	Carrying value	Weighted average expected life (in years)
	(in millions)		
Corporate debt			
BBB	$ 23.4	$ 23.4	3.0
Total corporate debt	23.4	23.4	3.0
Structured finance			
A	18.1	16.7	4.8
BB	5.5	5.5	3.3
B	4.1	4.1	3.1
CCC	23.5	23.5	4.8
Total structured finance	51.2	49.8	4.5
Total fixed maturities with credit derivatives	$ 74.6	$ 73.2	4.0

Fair Value Hedges

We use fixed-to-floating rate interest rate swaps to more closely align the interest rate characteristics of certain assets and liabilities. In general, these swaps are used in asset and liability management to modify duration, which is a measure of sensitivity to interest rate changes.

We enter into currency exchange swap agreements to convert certain foreign denominated assets and liabilities into U.S. dollar floating-rate denominated instruments to eliminate the exposure to future currency volatility on those items.

The net interest effect of interest rate swap and currency swap transactions for derivatives in fair value hedges is recorded as an adjustment to income or expense of the underlying hedged item in our consolidated statements of operations.

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Hedge effectiveness testing for fair value relationships is performed utilizing a regression analysis approach for both prospective and retrospective evaluations. This regression analysis will consider multiple data points for the assessment that the hedge continues to be highly effective in achieving offsetting changes in fair value. In certain periods, the comparison of the change in value of the derivative and the change in the value of the hedged item may not be offsetting at a specific period in time due to small movements in value. However, any amounts recorded as fair value hedges have shown to be highly effective in achieving offsetting changes in fair value both for present and future periods.

The following table shows the effect of derivatives in fair value hedging relationships and the related hedged items on the consolidated statements of operations. All gains or losses on derivatives were included in the assessment of hedge effectiveness.

Derivatives in fair value hedging relationships	Amount of gain (loss) recognized in net income on derivatives for the three months ended June 30, (1) 2014	2013	Hedged items in fair value hedging relationships	Amount of gain (loss) recognized in net income on related hedged item for the three months ended June 30, (1) 2014	2013
	(in millions)			(in millions)	
Interest rate contracts	**$ 1.8**	$ 65.9	Fixed maturities, available-for-sale	**$ (2.7)**	$ (62.7)
Interest rate contracts	**2.0**		Investment-type insurance contracts	**(1.9)**	
Foreign exchange contracts	**0.5**		Fixed maturities, available-for-sale	**(0.4)**	0.1
Foreign exchange contracts		(10.0)	Investment-type insurance contracts		9.9
Total	**$ 4.3**	$ 55.9	Total	**$ (5.0)**	$ (52.7)

Derivatives in fair value hedging relationships	Amount of gain (loss) recognized in net income on derivatives for the six months ended June 30, (1) 2014	2013	Hedged items in fair value hedging relationships	Amount of gain (loss) recognized in net income on related hedged item for the for the six months ended June 30, (1) 2014	2013
	(in millions)			(in millions)	
Interest rate contracts	**$ 8.7**	$ 96.3	Fixed maturities, available-for-sale	**$ (10.1)**	$ (91.3)
Interest rate contracts	**2.6**		Investment-type insurance contracts	**(2.5)**	
Foreign exchange contracts	**0.8**	1.3	Fixed maturities, available-for-sale	**(0.7)**	(1.2)
Foreign exchange contracts	**0.2**	(74.1)	Investment-type insurance contracts	**(0.2)**	73.6
Total	**$ 12.3**	$ 23.5	Total	**$ (13.5)**	$ (18.9)

(1) The gain (loss) on both derivatives and hedged items in fair value relationships is reported in net realized capital gains (losses) on the consolidated statements of operations. The net amount represents the ineffective portion of our fair value hedges.

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The following table shows the periodic settlements on interest rate contracts and foreign exchange contracts in fair value hedging relationships.

Hedged item	Amount of gain (loss) for the three months ended June 30, 2014	Amount of gain (loss) for the three months ended June 30, 2013	Amount of gain (loss) for the six months ended June 30, 2014	Amount of gain (loss) for the six months ended June 30, 2013
	(in millions)			
Fixed maturities, available-for-sale (1)	**$ (23.1)**	$ (29.7)	**$ (49.3)**	$ (61.2)
Investment-type insurance contracts (2)	**0.9**	10.0	**2.4**	19.3

(1) Reported in net investment income on the consolidated statements of operations.

(2) Reported in benefits, claims and settlement expenses on the consolidated statements of operations.

Cash Flow Hedges

We utilize floating-to-fixed rate interest rate swaps to eliminate the variability in cash flows of recognized financial assets and liabilities and forecasted transactions.

We enter into currency exchange swap agreements to convert both principal and interest payments of certain foreign denominated assets and liabilities into U.S. dollar denominated fixed-rate instruments to eliminate the exposure to future currency volatility on those items.

The net interest effect of interest rate swap and currency swap transactions for derivatives in cash flow hedges is recorded as an adjustment to income or expense of the underlying hedged item in our consolidated statements of operations.

The maximum length of time we are hedging our exposure to the variability in future cash flows for forecasted transactions, excluding those related to the payments of variable interest on existing financial assets and liabilities, is 6.0 years. At June 30, 2014, we had $68.7 million of net gains reported in AOCI on the consolidated statements of financial position related to active hedges of forecasted transactions. If a hedged forecasted transaction is no longer probable of occurring, cash flow hedge accounting is discontinued. If it is probable that the hedged forecasted transaction will not occur, the deferred gain or loss is immediately reclassified from AOCI into net income. We reclassified $0.0 million and $0.2 million from AOCI into net realized capital gains (losses) as a result of the determination that hedged cash flows were probable of not occurring during the six months ended June 30, 2014 and 2013, respectively.

The following table shows the effect of derivatives in cash flow hedging relationships on the consolidated statements of operations and consolidated statements of financial position. All gains or losses on derivatives were included in the assessment of hedge effectiveness.

Derivatives in cash flow hedging relationships	**Related hedged item**	**Amount of gain (loss) recognized in AOCI on derivatives (effective portion) for the three months ended June 30, 2014**	**2013**	**Location of gain (loss) reclassified from AOCI into net income (effective portion)**	**Amount of gain (loss) reclassified from AOCI on derivatives (effective portion) for the three months ended June 30, 2014**	**2013**
		(in millions)			**(in millions)**	
Interest rate contracts	Fixed maturities, available-for-sale	**$ (1.7)**	$ (17.5)	Net investment income	**$ 3.4**	$ 2.9
Interest rate contracts	Investment-type insurance contracts	**1.5**	0.1	Benefits, claims and settlement expenses		
Interest rate contracts	Debt			Operating expense	**(1.8)**	(1.6)
Foreign exchange contracts	Fixed maturities, available-for-sale	**(4.2)**	0.6	Net realized capital losses		(1.5)
Foreign exchange contracts	Investment-type insurance contract	**3.4**	3.0	Benefits, claims and settlement expenses		
Total		**$ (1.0)**	$ (13.8)	Total	**$ 1.6**	$ (0.2)

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Derivatives in cash flow hedging relationships	Related hedged item	Amount of gain (loss) recognized in AOCI on derivatives (effective portion) for the six months ended June 30, 2014	2013	Location of gain (loss) reclassified from AOCI into net income (effective portion)	Amount of gain (loss) reclassified from AOCI on derivatives (effective portion) for the six months ended June 30, 2014	2013
		(in millions)			(in millions)	
Interest rate contracts	Fixed maturities, available-for-sale	**$ 2.0**	$ (41.2)	Net investment income	**$ 6.6**	$ 5.6
Interest rate contracts	Investment-type insurance contracts	**2.4**	1.1	Benefits, claims and settlement expenses		
Interest rate contracts	Debt			Operating expense	**(3.6)**	(3.2)
Foreign exchange contracts	Fixed maturities, available-for-sale	**(0.2)**	41.6	Net realized capital losses	**(11.1)**	(2.1)
Foreign exchange contracts	Investment-type insurance contract	**8.5**	(0.6)	Benefits, claims and settlement expenses		
Total		**$ 12.7**	$ 0.9	Total	**$ (8.1)**	$ 0.3

The following table shows the periodic settlements on interest rate contracts and foreign exchange contracts in cash flow hedging relationships.

Hedged item	Amount of gain (loss) for the three months ended June 30, 2014	2013	Amount of gain (loss) for the six months ended June 30, 2014	2013
	(in millions)			
Fixed maturities, available-for-sale (1)	**$ 1.3**	$ 1.9	**$ 2.8**	$ 4.3
Investment-type insurance contracts (2)	**(2.9)**	(2.6)	**(5.8)**	(5.5)

(1) Reported in net investment income on the consolidated statements of operations.

(2) Reported in benefits, claims and settlement expenses on the consolidated statements of operations.

The ineffective portion of our cash flow hedges is reported in net realized capital gains (losses) on the consolidated statements of operations. The net gain (loss) resulting from the ineffective portion of foreign currency contracts in cash flow hedging relationships was $(0.1) million and $0.1 million for the three months ended June 30, 2014 and 2013, respectively. The net gain (loss) resulting from the ineffective portion of foreign currency contracts in cash flow hedging relationships was $(0.1) million and $0.4 million for the six months ended June 30, 2014 and 2013, respectively.

We expect to reclassify net gains of $1.8 million from AOCI into net income in the next 12 months, which includes both net deferred gains on discontinued hedges and net losses on periodic settlements of active hedges. Actual amounts may vary from this amount as a result of market

conditions.

Derivatives Not Designated as Hedging Instruments

Our use of futures, certain swaptions and swaps, collars, options and forwards are effective from an economic standpoint, but they have not been designated as hedges for financial reporting purposes. As such, periodic changes in the market value of these instruments, which includes mark-to-market gains and losses as well as periodic and final settlements, primarily flow directly into net realized capital gains (losses) on the consolidated statements of operations.

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The following table shows the effect of derivatives not designated as hedging instruments, including fair value changes of embedded derivatives that have been bifurcated from the host contract, on the consolidated statements of operations.

Derivatives not designated as hedging instruments	Amount of gain (loss) recognized in net income on derivatives for the three months ended June 30, 2014	2013	Amount of gain (loss) recognized in net income on derivatives for the six months ended June 30, 2014	2013
	(in millions)			
Interest rate contracts	**$ 33.1**	$ (62.5)	**$ 96.4**	$ (92.1)
Foreign exchange contracts	**0.4**	(16.1)	**(12.9)**	(11.8)
Equity contracts	**(12.6)**	(16.9)	**(37.6)**	(71.5)
Credit contracts	**15.8**	7.3	**10.9**	22.4
Other contracts	**(19.8)**	42.3	**(46.5)**	99.5
Total	**$ 16.9**	$ (45.9)	**$ 10.3**	$ (53.5)

5. Income Taxes

The effective income tax rate for the three months ended June 30, 2014, was lower than the U.S. corporate income tax rate of 35% (U.S. statutory rate) primarily due to income tax deductions allowed for corporate dividends received, the presentation of taxes on our share of earnings generated from equity method investments reflected in net investment income and lower tax rates of foreign jurisdictions.

The effective income tax rate for the three months ended June 30, 2013, was lower than the U.S. statutory rate primarily due to income tax deductions allowed for corporate dividends received, a Chilean tax benefit resulting from a foreign currency loss on a U.S. denominated loan and the presentation of taxes on our share of earnings generated from equity method investments reflected in net investment income.

The effective income tax rate for the six months ended June 30, 2014, was lower than the U.S. statutory rate primarily due to income tax deductions allowed for corporate dividends received, the presentation of taxes on our share of earnings generated from equity method investments reflected in net investment income and tax credits.

The effective income tax rate for the six months ended June 30, 2013, was lower than the U.S. statutory rate primarily due to income tax deductions allowed for corporate dividends received, the presentation of taxes on our share of earnings generated from equity method investments reflected in net investment income and a Chilean tax benefit resulting from a foreign currency loss on a U.S. denominated loan.

We are a U.S. shareholder in various foreign entities classified as controlled foreign corporations (CFCs) for U.S. tax purposes. U.S. shareholders of CFCs are generally required to take into account as gross income in the U.S. certain passive income earned by the CFCs (Subpart F income) even if the income is not currently distributed. Temporary exceptions (the active financing and look through exceptions) were applicable for tax years beginning before January 1, 2014 to avoid the current recognition of Subpart F income derived in either the active conduct of a banking, financing, insurance or similar business or for certain payments between related corporations in different foreign jurisdictions. The U.S. Congress and the President have yet to enact extenders legislation as of June 30, 2014. Therefore, current tax expense has increased by an immaterial amount associated with the U.S. recognition of Subpart F income from our foreign operations. We will reverse any tax expense subject to the active financing and look through exceptions during the 2014 quarter extenders legislation is enacted, assuming the legislation is retroactive to January 1, 2014.

The U.S. Court of Federal Claims issued a summary judgment determination in the case of Principal Life Insurance Company and Subsidiaries (Principal Life) v. the United States on May 9, 2014. The court ruled against Principal Life s timing of recognition of gains and losses associated with the purchase and sale of principal-only certificates. The ruling caused a re-evaluation of our uncertain tax positions, which resulted in a $47.5 million reduction in net income in the second quarter of 2014. We do not believe there is a reasonable possibility the total amount of uncertain tax benefits will significantly increase or decrease in the next twelve months.

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Unrecognized Tax Benefits

A summary of the changes in unrecognized tax benefits follows:

	For the six months ended June 30, 2014	For the year ended December 31, 2013
	(in millions)	
Balance at beginning of period	**$ 108.9**	$ 119.5
Additions based on tax positions related to the current year	**1.5**	10.5
Additions for tax positions of prior years	**61.4**	10.9
Reductions for tax positions related to the current year		(3.3)
Reductions for tax positions of prior years		(28.7)
Balance at end of period (1)	**$ 171.8**	$ 108.9

(1) Of this amount, $58.3 million, if recognized, would reduce the 2014 effective income tax rate. We recognize interest and penalties related to uncertain tax positions in operating expenses.

As of June 30, 2014 and December 31, 2013, we had recognized $99.8 million and $37.0 million of accumulated pre-tax interest and penalties related to unrecognized tax benefits, respectively.

6. Employee and Agent Benefits

Components of Net Periodic Benefit Cost

	Pension benefits For the three months ended June 30,		Other postretirement benefits For the three months ended June 30,	
	2014	2013	2014	2013
	(in millions)			
Service cost	**$ 13.5**	$ 14.3	**$ 0.3**	$ 0.3
Interest cost	**29.3**	25.9	**1.6**	1.4
Expected return on plan assets	**(33.0)**	(31.9)	**(8.2)**	(7.2)
Amortization of prior service benefit	**(1.2)**	(2.1)	**(5.1)**	(6.5)

Recognized net actuarial (gain) loss		**12.5**		29.6		**(0.7)**		0.3
Net periodic benefit cost (income)	**$**	**21.1**	$	35.8	**$**	**(12.1)**	$	(11.7)

	Pension benefits For the six months ended June 30,				Other postretirement benefits For the six months ended June 30,			
	2014		**2013**		**2014**		**2013**	
				(in millions)				
Service cost	**$**	**27.0**	$	28.6	**$**	**0.7**	$	0.6
Interest cost		**58.6**		51.8		**3.3**		2.8
Expected return on plan assets		**(66.0)**		(63.8)		**(16.3)**		(14.4)
Amortization of prior service benefit		**(2.4)**		(4.2)		**(10.2)**		(13.0)
Recognized net actuarial (gain) loss		**25.3**		59.1		**(1.7)**		0.6
Net periodic benefit cost (income)	**$**	**42.5**	$	71.5	**$**	**(24.2)**	$	(23.4)

Contributions

Our funding policy for our qualified pension plan is to fund the plan annually in an amount at least equal to the minimum annual contribution required under the Employee Retirement Income Security Act (ERISA) and, generally, not greater than the maximum amount that can be deducted for federal income tax purposes. The minimum annual contribution for 2014 will be zero so we will not be required to fund our qualified pension plan during 2014. However, it is possible that we may fund the qualified and

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nonqualified pension plans in 2014 for a combined total of $125.0 million to $175.0 million. During the three and six months ended June 30, 2014, we contributed $17.2 million and $57.5 million to these plans, respectively.

7. Contingencies, Guarantees and Indemnifications

Litigation and Regulatory Contingencies

We are regularly involved in litigation, both as a defendant and as a plaintiff, but primarily as a defendant. Litigation naming us as a defendant ordinarily arises out of our business operations as a provider of asset management and accumulation products and services; individual life insurance, specialty benefits insurance and our investment activities. Some of the lawsuits may be class actions, or purport to be, and some may include claims for unspecified or substantial punitive and treble damages.

We may discuss such litigation in one of three ways. We accrue a charge to income and disclose legal matters for which the chance of loss is probable and for which the amount of loss can be reasonably estimated. We may disclose contingencies for which the chance of loss is reasonably possible and provide an estimate of the possible loss or range of loss or a statement that such an estimate cannot be made. Finally, we may voluntarily disclose loss contingencies for which the chance of loss is remote in order to provide information concerning matters that potentially expose us to possible losses.

In addition, regulatory bodies such as state insurance departments, the SEC, the Financial Industry Regulatory Authority, the Department of Labor and other regulatory agencies regularly make inquiries and conduct examinations or investigations concerning our compliance with, among other things, insurance laws, securities laws, ERISA and laws governing the activities of broker-dealers. We receive requests from regulators and other governmental authorities relating to industry issues and may receive additional requests, including subpoenas and interrogatories, in the future.

On March 18, 2014, McCaffree Financial Corp. Employee Retirement Program (McCaffree) filed a putative class action lawsuit in the United States District Court for the Southern District of Iowa against Principal Life. The complaint alleged, among other things, breach of duty of loyalty, breach of duty of prudence and prohibited transactions under ERISA. McCaffree seeks a nationwide class action on behalf of all participants and beneficiaries of defined contribution retirement plans that invested in any Principal Separate Account in the last six years. McCaffree seeks disgorgement of all fees it alleges Principal Life improperly retained in addition to other general claims for relief. Principal Life has filed a motion to dismiss the case and is aggressively defending the case.

On August 29, 2013, American Chemicals & Equipment, Inc. 401(k) Retirement Plan (ACE) filed a lawsuit in the United States District Court for the Northern District of Alabama against Principal Management Corporation and Principal Global Investors, LLC (the ACE Defendants). The lawsuit alleges the ACE Defendants breached their fiduciary duty under Section 36(b) of the Investment Company Act by charging excessive fees on certain of the LifeTime series target date funds. On January 24, 2014, the court granted the motion filed by the ACE Defendants to transfer the case to the Southern District of Iowa. The ACE Defendants have filed a motion to dismiss the case and are aggressively defending the lawsuit.

On December 2, 2009 and December 4, 2009, two plaintiffs, Cruise and Mullaney, each filed putative class action lawsuits in the United States District Court for the Southern District of New York against us; Principal Life; Principal Global Investors, LLC; Principal Management Corporation; and Principal Real Estate Investors, LLC (the Cruise/Mullaney Defendants). The lawsuits alleged the Cruise/Mullaney Defendants failed to manage the Principal U.S. Property Separate Account (PUSPSA) in the best interests of investors, improperly imposed a withdrawal freeze on September 26, 2008, and instituted a withdrawal queue to honor withdrawal requests as sufficient liquidity became available. The two lawsuits, as well as two subsequently filed complaints asserting similar claims, have been consolidated and are now known as In re Principal U.S. Property Account Litigation. Plaintiffs request for permission to appeal the denial of class certification was denied by the U.S. Eighth Circuit Court of Appeals on December 31, 2013. The Cruise/Mullaney Defendants are aggressively defending the lawsuit.

In 2008, Principal Life received approximately $440.0 million in connection with the termination of certain structured transactions and the resulting prepayment of Principal Life s investment in those transactions. The transactions involved Lehman Brothers Special Financing Inc. and Lehman Brothers Holdings Inc. (collectively, Lehman) in various capacities. Subsequent to Lehman s 2008 bankruptcy filing, its bankruptcy estate initiated several lawsuits seeking to recover from numerous sources significant amounts to which it claims entitlement under various theories. The estate is attempting to recover from Principal Life an amount, including interest, of approximately $500.0 million. We are one of numerous defendants to this action, which has been stayed by the bankruptcy court. We believe that we have meritorious defenses to Lehman s claims and intend to aggressively defend against them once the stay is lifted and we are allowed to do so.

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While the outcome of any pending or future litigation or regulatory matter cannot be predicted, management does not believe that any such matter will have a material adverse effect on our business or financial position. As of June 30, 2014, there were no estimated losses accrued related to the legal matters discussed above because we believe the loss from these matters is not probable and cannot be reasonably estimated.

We believe all of the litigation contingencies discussed above involve a chance of loss that is either remote or reasonably possible. Unless otherwise noted, all of these matters involve unspecified claim amounts, in which the respective plaintiffs seek an indeterminate amount of damages. To the extent such matters present a reasonably possible chance of loss, we are generally not able to estimate the possible loss or range of loss associated therewith.

The outcome of such matters is always uncertain, and unforeseen results can occur. It is possible that such outcomes could require us to pay damages or make other expenditures or establish accruals in amounts that we could not estimate at June 30, 2014.

Guarantees and Indemnifications

In the normal course of business, we have provided guarantees to third parties primarily related to former subsidiaries and joint ventures. These agreements generally expire through 2019. The maximum exposure under these agreements as of June 30, 2014, was approximately $284.0 million. At inception, the fair value of such guarantees was insignificant. In addition, we believe the likelihood is remote that material payments will be required. Therefore, any liability accrued within our consolidated statements of financial position is insignificant. Should we be required to perform under these guarantees, we generally could recover a portion of the loss from third parties through recourse provisions included in agreements with such parties, the sale of assets held as collateral that can be liquidated in the event that performance is required under the guarantees or other recourse generally available to us; therefore, such guarantees would not result in a material adverse effect on our business or financial position. While the likelihood is remote, such outcomes could materially affect net income in a particular quarter or annual period.

We manage mandatory privatized social security funds in Chile. By regulation, we have a required minimum guarantee on the funds relative return. Because the guarantee has no limitation with respect to duration or amount, the maximum exposure of the guarantee in the future is indeterminable.

We are also subject to various other indemnification obligations issued in conjunction with divestitures, acquisitions and financing transactions whose terms range in duration and often are not explicitly defined. Certain portions of these indemnifications may be capped, while other portions are not subject to such limitations; therefore, the overall maximum amount of the obligation under the indemnifications cannot be reasonably estimated. At inception, the fair value of such indemnifications was insignificant. In addition, we believe the likelihood is remote that material payments will be required. Therefore, any liability accrued within our consolidated statements of financial position is insignificant. While we are unable to estimate with certainty the ultimate legal and financial liability with respect to these indemnifications, we believe that performance under these indemnifications would not result in a material adverse effect on our business or financial position. While the

likelihood is remote, performance under these indemnifications could materially affect net income in a particular quarter or annual period.

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8. Stockholders Equity

Reconciliation of Outstanding Shares

	Series A preferred stock	Series B preferred stock	Common