

f2017708

100517(60.

Capital Research Company
(A Wholly Owned Subsidiary of
Capital Research and
Management Company)

Financial Statements for the Years
Ended June 30, 2014 and 2013 and
Independent Auditors' Report

WEDNESDAY



A4CNN1JD

A10

29/07/2015

#250

COMPANIES HOUSE



Deloitte & Touche LLP
350 South Grand Avenue
Suite 200
Los Angeles, CA 90071-3462
USA

Tel +1 213 688 0800
Fax +1 213 688 0100
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

Capital Research Company

We have audited the accompanying financial statements of Capital Research Company (the "Company") (a wholly owned subsidiary of Capital Research and Management Company), which comprise the balance sheets as of June 30, 2014 and 2013, and the related statements of income, comprehensive income, stockholder's equity, and cash flows for the years then ended, and the related notes to the financial statements

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of June 30, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

October 7, 2014

Member of
Deloitte Touche Tohmatsu

CAPITAL RESEARCH COMPANY
(A Wholly Owned Subsidiary of Capital Research and Management Company)

BALANCE SHEETS

JUNE 30, 2014 AND 2013

(Dollars in thousands, except per share amounts)

ASSETS	2014	2013
CURRENT ASSETS		
Cash and cash equivalents	\$ 89,000	\$ 43,998
Investment securities available for sale	65,285	109,739
Receivables	33,970	32,367
Prepaid expenses	1,033	3,120
Deferred income taxes - net	12,120	12,547
Total current assets	201,408	201,771
PROPERTY - at cost		
Land	38,471	38,471
Buildings	229,635	229,324
Furniture, equipment and software	8,603	11,348
Leasehold improvements	43,223	52,692
Total Property	319,932	331,835
Accumulated depreciation and amortization	(119,269)	(118,156)
Property - net	200,663	213,679
OTHER ASSETS		
Restricted cash	14,810	-
Deferred income taxes - net	9,007	9,701
Deposits, deferred charges, and other assets	11,941	12,649
Total other assets	35,758	22,350
TOTAL	\$ 437,829	\$ 437,800

(Continued)

FC017708

CAPITAL RESEARCH COMPANY
(A Wholly Owned Subsidiary of Capital Research and Management Company)

BALANCE SHEETS

JUNE 30, 2014 AND 2013

(Dollars in thousands, except per share amounts)

LIABILITIES AND STOCKHOLDER'S EQUITY	2014	2013
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 19,246	\$ 21,957
Accrued compensation and employee benefits	38,638	34,766
Income tax payable	<u>2,972</u>	<u>588</u>
Total current liabilities	60,856	57,311
NONCURRENT LIABILITIES - Accrued postretirement benefits	<u>2,965</u>	<u>6,814</u>
Total liabilities	<u>63,821</u>	<u>64,125</u>
STOCKHOLDER'S EQUITY		
Capital stock, \$10 par value - authorized, 150,000 shares, issued and outstanding, 100,000	1,000	1,000
Additional paid-in capital	2	2
Retained earnings	372,435	373,608
Accumulated other comprehensive income/(loss), net of taxes	<u>571</u>	<u>(935)</u>
Total stockholder's equity	<u>374,008</u>	<u>373,675</u>
TOTAL	<u>\$ 437,829</u>	<u>\$ 437,800</u>

(Concluded)

See notes to financial statements

FC017708

CAPITAL RESEARCH COMPANY
(A Wholly Owned Subsidiary of Capital Research and Management Company)

STATEMENTS OF INCOME
YEARS ENDED JUNE 30, 2014 AND 2013
(Dollars in thousands)

	2014	2013
OPERATING REVENUES		
Research fees	\$331,164	\$316,569
Other	<u>14,659</u>	<u>15,401</u>
Total operating revenues	<u>345,823</u>	<u>331,970</u>
OPERATING EXPENSES		
Compensation and employee benefits	219,429	211,113
Other expenses - including administrative, information technology, office facilities, human resources and travel expenses	<u>101,051</u>	<u>95,812</u>
Total operating expenses	<u>320,480</u>	<u>306,925</u>
INCOME FROM OPERATIONS	25,343	25,045
OTHER INCOME - net (principally interest)	<u>433</u>	<u>389</u>
INCOME BEFORE INCOME TAXES	25,776	25,434
INCOME TAXES	<u>11,949</u>	<u>10,337</u>
NET INCOME	<u>\$ 13,827</u>	<u>\$ 15,097</u>

See notes to financial statements

CAPITAL RESEARCH COMPANY
(A Wholly Owned Subsidiary of Capital Research and Management Company)

STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED JUNE 30, 2014 AND 2013
(Dollars in thousands)

	2014	2013
NET INCOME	\$ 13,827	\$ 15,097
OTHER COMPREHENSIVE INCOME/(LOSS)		
Foreign exchange translation adjustments, net of taxes	1,236	(3)
Net unrealized gain/(loss) on investments available for sale arising during the year, net of taxes	74	(734)
Transfer of accumulated postretirement and postemployment benefit plan obligations	196	1,214
COMPREHENSIVE INCOME	<u>\$ 15,333</u>	<u>\$ 15,574</u>

See notes to financial statements

CAPITAL RESEARCH COMPANY
(A Wholly Owned Subsidiary of Capital Research and Management Company)

STATEMENTS OF STOCKHOLDER'S EQUITY
YEARS ENDED JUNE 30, 2014 AND 2013
(Dollars in thousands)

	Capital Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Equity
BALANCE, JULY 1, 2012	\$ 1,000	\$ 2	\$ 383,511	\$ (1,412)	\$ 383,101
Cash dividends			(25,000)		(25,000)
Comprehensive income					
Net income			15,097		15,097
Foreign exchange translation adjustments - net of taxes of \$(2)				(3)	(3)
Net unrealized loss on investments available for sale arising during the year - net of taxes of \$(470)				(734)	(734)
Changes in postretirement and postemployment benefits plans - net of taxes of \$(777)				1,214	1,214
BALANCE, JUNE 30, 2013	1,000	2	373,608	(935)	373,675
Cash dividends			(15,000)		(15,000)
Comprehensive income					
Net income			13,827		13,827
Foreign exchange translation adjustments - net of taxes of \$789				1,236	1,236
Net unrealized gain on investments available for sale arising during the year - net of taxes of \$47				74	74
Transfer of accumulated postretirement and postemployment benefit plan obligations - net of taxes \$129				196	196
BALANCE, JUNE 30, 2014	<u>\$ 1,000</u>	<u>\$ 2</u>	<u>\$ 372,435</u>	<u>\$ 571</u>	<u>\$ 374,008</u>

See notes to financial statements

CAPITAL RESEARCH COMPANY
(A Wholly Owned Subsidiary of Capital Research and Management Company)

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2014 AND 2013
(Dollars in thousands)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 13,827	\$ 15,097
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	12,303	12,510
Net loss (gain) on disposition of property	90	(1)
Net realized and unrealized gain on investments recorded in Other Assets	(383)	(336)
Amortization of premiums and accretion of discounts on securities, net	1,453	1,624
Deferred income taxes	156	912
Changes in assets and liabilities		
Receivables	(1,603)	(2,098)
Prepaid expenses	2,087	4,017
Deposits, deferred charges and other assets	1,057	(2,440)
Accounts payable and accrued expenses	(2,711)	487
Accrued compensation and employee benefits	3,872	2,158
Accrued postretirement and postemployment benefits	(3,524)	1,284
Income tax payable	2,384	(1,937)
Total adjustments	15,181	16,180
Net cash provided by operating activities	29,008	31,277
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property	(2,704)	(7,001)
Proceeds from disposition of property	3,327	-
Deposits of restricted cash	(14,810)	-
Purchases of investments recorded in Other Assets	(142)	(60)
Proceeds of investments recorded in Other Assets	176	65
Purchases of investment securities available for sale	(60,303)	(121,234)
Proceeds from maturities of investment securities available for sale	103,425	116,665
Net cash provided by (used in) investing activities	28,969	(11,565)
CASH FLOWS FROM FINANCING ACTIVITIES - Dividends paid	(15,000)	(25,000)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH	2,025	(5)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	45,002	(5,293)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	43,998	49,291
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 89,000	\$ 43,998
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION -		
Cash paid for income taxes	\$ 6,699	\$ 7,102

See notes to financial statements

CAPITAL RESEARCH COMPANY
(A Wholly Owned Subsidiary of Capital Research and Management Company)

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013
(Dollars in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations—Capital Research Company (the "Company") is a wholly owned subsidiary of Capital Research and Management Company (the "Parent") and a subsidiary of The Capital Group Companies, Inc. ("Capital Group"). The Company was organized to provide investment research for affiliates, which represents the Company's principal source of revenue. Other revenue includes rent charged to affiliates.

Basis of Presentation—The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Amounts presented in the statement of cash flows for the fiscal year ended June 30, 2013 have been reclassified to present purchases and proceeds related to investments recorded in Other Assets separately as an investing activity consistent with related amounts shown for the fiscal year ended June 30, 2014. Related amounts were previously included in cash provided by operating activities.

Estimates—The preparation of the financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Cash and Cash Equivalents—Cash includes demand deposit accounts. Cash equivalents consist principally of shares of a money market fund for which the Parent serves as the investment advisor. The carrying amount of cash and cash equivalents approximates fair value due to the short-term maturities of these instruments.

Depreciation and Amortization of Property—Depreciation of buildings, furniture, equipment and software is generally computed using the straight-line method over estimated useful lives of 3 to 39 years. Amortization of leasehold improvements is computed using the straight-line method over the estimated life of the related asset or the term of the lease, whichever is shorter.

Investment Securities—The Company classifies its investments in debt as available for sale, and these investments are recorded at fair value. Unrealized gains and losses on investments are reported, net of tax, in accumulated other comprehensive income within stockholder's equity.

The specific identification method is used to compute realized gains or losses on the sale of these assets. The effective interest method is used to account for the amortization of investment premiums and discounts. Interest and dividends are recorded when earned and are included in other income.

The Company evaluates the carrying value of investment securities for impairment on an annual basis. In its impairment analysis, the Company takes into consideration numerous criteria, including

the duration and extent of a decline in fair value, whether the Company intends to sell its investment, and the probability that the Company may be forced to sell the investment before anticipated recovery in market value. If the decline is determined to be other than temporary, the carrying value of the security is written down to fair value.

Fair Value Measurements—The Company measures the fair value of its assets and liabilities for financial reporting or disclosure purposes using methods and assumptions that are appropriate in the circumstances. Under U.S. GAAP, the objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, an exit price). To meet this objective, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs, which are evaluated using the following hierarchy:

- Level 1—Values are based on quoted prices in active markets for identical securities.
- Level 2—Values are based on significant observable market inputs, such as quoted prices for similar securities and quoted prices in inactive markets.
- Level 3—Values are based on significant unobservable inputs that reflect the Company's determination of assumptions that market participants might reasonably use in valuing the securities.

The Company carries investments held for the purpose of providing benefits under a supplemental retirement plan for certain associates at fair value. Related amounts are included in other assets on the Statement of Financial Condition. The Company also carries investments in money market mutual funds at fair value with related amounts presented in cash and cash equivalents. Receivables and payables, excluding amounts with affiliates, are recorded at carrying amounts that approximate fair value. Receivables and payables from affiliates are carried at cost as it is not practicable to estimate fair values due to the related-party nature of such amounts. See Note 6, Transactions with affiliates.

Restricted Cash—Restricted cash represents cash held in banks located in the United Kingdom (U.K.) to meet capital requirements imposed by the Financial Conduct Authority (FCA), an agency in the U.K. that regulates financial services firms and financial advisers.

Revenue Recognition—Revenue from providing research services is recognized during the period in which services are performed. The revenue is determined under an intercompany compensation arrangement, whereby the Company's Parent reimburses the Company for the costs of performing research services plus an agreed-upon markup.

Postretirement Benefits—Capital Group sponsors two plans to provide postretirement benefits.

The Company records allocated costs related to a postretirement health plan sponsored by Capital Group but not the accumulated benefit plan obligation. The expected costs of providing postretirement health care benefits are recognized during the years that the associates render service to the Company based on actuarial estimates.

In previous years, Capital Group allocated a portion of the plan's net periodic benefit cost, benefit payments, accumulated benefit obligation and plan assets to the Company. At the beginning of fiscal year 2014, the Company transferred the entirety of its allocated accumulated benefit obligation of \$5,343 and plan assets at fair value of \$3,675 through an intercompany settlement with Capital Group.

The Company also has a supplemental retirement plan for certain senior associates. The liability for benefits under the plan is included in accrued postretirement benefits. Other assets include

investments carried at fair value in a rabbi trust held solely for the purpose of providing benefits under the plan. Changes in the fair value of these assets are recorded in other income. Effective October 2002, contributions to the supplemental retirement plan were discontinued.

Postemployment Benefits—The Company records allocated costs related to a postemployment plan providing short-term disability benefits that is sponsored by Capital Group. The expected costs of providing the postemployment benefits are recognized during the years that the associates render service to the Company, based on actuarial estimates.

In previous years, Capital Group allocated a portion of related actuarially-determined liabilities to the Company. At the beginning of fiscal year 2014, the Company transferred the entirety of its allocated portion of Capital Group's postemployment liability of \$1,203 through an intercompany settlement with Capital Group.

Income Taxes—The Company's results are included in consolidated tax returns filed by Capital Group, and the Company is allocated income taxes based on the separate return method. However, if the Company incurs a loss that is utilized by Capital Group, the loss is characterized as realized and the Company is reimbursed. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases using currently enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are subject to a valuation allowance if, in the Company's opinion, it is more likely than not that these benefits will not be realized.

The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, *Income Taxes* provides that a tax benefit from a tax position may be recognized when, based on the technical merits, it is more likely than not that the position will be sustained upon an examination that is presumed to occur, including resolution of any relevant appeals or litigation processes. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized upon examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded. The Company evaluates material tax positions in relevant tax jurisdictions and determines whether or not there are uncertain tax positions that require financial statement recognition. Based on this review, the Company concluded that the ASC 740 guidance did not have a material effect on the financial condition or results of operations of the Company.

The Company recognizes the accrual of interest and penalties on uncertain tax positions in other income. For the years ended June 30, 2014 and 2013, the Company did not recognize any material tax related interest or penalties.

The Company is subject to examination by U.S. federal tax authorities for tax returns filed for the prior three years and by state tax authorities for the prior four years. The time allowed for foreign tax authorities to examine tax returns varies by country.

Foreign Currency Translation—Foreign currency transactions are translated into U.S. dollars (the functional currency) as follows: assets and liabilities at year-end exchange rates and revenues and expenses at average rates during the year. Unrealized translation gains and losses are reported, net of tax, in accumulated other comprehensive income within stockholder's equity.

Recent Accounting Pronouncements—On February 5, 2013, the FASB issued ASU No. 2013-02, *Comprehensive Income (Topic 220) Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. The amendments in this Update supersede and replace the presentation requirements for reclassifications out of accumulated other comprehensive income in ASUs 2011-05.

(issued in June 2011) and 2011-12 (issued in December 2011) for all public and private organizations. The amendments require an entity to provide additional information about reclassifications out of accumulated other comprehensive income. For the Company, the adoption of ASU No. 2013-02 is effective prospectively for fiscal year ended June 30, 2015.

On May 28, 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The guidance in this Update supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Codification. Additionally, this Update supersedes some cost guidance included in Subtopic 605-35, *Revenue Recognition—Construction-Type and Production-Type Contracts*. For the Company, the adoption of ASU No. 2014-09 is effective for fiscal year ended June 30, 2019.

The Company is currently evaluating the impact of the adoption of the above mentioned guidance on its consolidated financial statements.

2. INVESTMENT SECURITIES

Investment securities classified as available for sale and carried at fair value are as follows:

June 30, 2014				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Current Assets				
U.S. Treasury securities				
Due in one year or less	\$ 14,458	\$ 15	\$ -	\$ 14,473
Due after one year through five years	50,736	85	(9)	50,812
	<u>\$ 65,194</u>	<u>\$ 100</u>	<u>\$ (9)</u>	<u>\$ 65,285</u>

June 30, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Current Assets				
U.S. Treasury and agency securities				
Due in one year or less	\$ 43,566	\$ 188	\$ (5)	\$ 43,749
Due after one year through five years	66,202	-	(212)	65,990
	<u>\$109,768</u>	<u>\$ 188</u>	<u>\$ (217)</u>	<u>\$109,739</u>

There were no sales of securities in 2014 or 2013.

The unrealized losses in 2014 and 2013 on the Company's investments in U.S. Treasury were due to changes in interest rates. The Company does not intend to sell these securities and it is not more likely than not that the Company would be forced to sell the securities prior to recovery. These securities are not other-than-temporarily impaired as of June 30, 2014. The Company's unrealized losses and fair value of investment securities with unrealized losses that are not deemed to be other than temporarily impaired are presented below.

	June 30, 2014					
	Less than 12 months		12 months or greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U S Treasuries	\$ 15,348	\$ 9	\$ -	\$ -	\$ 15,348	\$ 9

	June 30, 2013					
	Less than 12 months		12 months or greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasuries	\$ 80,915	\$ 217	\$ -	\$ -	\$ 80,915	\$ 217

3. FAIR VALUE DISCLOSURES

The following assets are measured at fair value on a recurring basis. The following table shows the categorization of fair value measurements within the fair value hierarchy in accordance with the Company's accounting policy.

June 30, 2014				
	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 82,370	\$ -	\$ -	\$ 82,370
Investments available for sale				
U S Treasury securities	-	65,285	-	65,285
Other assets - Equity mutual funds	2,965	-	-	2,965
	<u>\$ 85,335</u>	<u>\$ 65,285</u>	<u>\$ -</u>	<u>\$ 150,620</u>

June 30, 2013				
	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 38,603	\$ -	\$ -	\$ 38,603
Investments available for sale				
U S Treasury and agency securities	-	109,739	-	109,739
Other assets - Equity mutual funds	2,616	-	-	2,616
	<u>\$ 41,219</u>	<u>\$ 109,739</u>	<u>\$ -</u>	<u>\$ 150,958</u>

Transfers in or out are recognized based on the beginning fair value of the year in which they occurred. There were no significant transfers of investments between Level 1 and Level 2 during the years ended June 30, 2014 and 2013.

The Company uses the following methods and inputs to establish the fair value of its assets and liabilities. Use of particular methods and inputs may vary over time based on availability and relevance as market and economic conditions evolve.

Cash equivalents include money market mutual fund instruments, which are short term in nature with readily-determinable values derived from active markets. Shares of money market mutual funds are valued at quoted market prices, which represent the published net asset value of shares that serves as the basis for current transactions.

U.S. Treasury and agency securities are valued using benchmark yields and interest rate volatilities.

Mutual funds are valued at quoted market prices which represent the published net asset value of the shares published that serves as the basis for current transactions. The net asset value of each mutual fund is calculated based on the policies and procedures of the mutual fund.

Financial instruments that are not measured on a recurring basis include restricted cash, which represents demand deposits held in U.K. banks for the purpose of meeting regulatory capital requirements. Carrying value approximates fair value. However, the fair value measurement of this cash, \$14,810 at June 30, 2014, is classified in Level 2 of the fair value hierarchy, because the cash is denominated in pound sterling, or the British pound. The Company translates the foreign denominated cash to U.S. dollars using market-observable exchange rates.

4. INCOME TAXES

The income tax provision consists of the following:

	Year ended June 30, 2014	Year ended June 30, 2013
Federal		
Current	\$ 9,874	\$ 3,079
Deferred	<u>284</u>	<u>533</u>
Federal provision	<u>10,158</u>	<u>3,612</u>
State and foreign		
Current	1,919	6,346
Deferred	<u>(128)</u>	<u>379</u>
State and foreign provision	<u>1,791</u>	<u>6,725</u>
Total income tax provision	<u>\$ 11,949</u>	<u>\$ 10,337</u>

The net deferred tax asset consists of the following

	June 30, 2014	June 30, 2013
Deferred tax assets		
Accrued compensation and benefits	\$ 13,153	\$ 13,146
Accrued expenses and other	2,239	2,709
Depreciation and amortization	6,389	5,583
Unrealized loss on investment securities available for sale	-	12
Unrealized loss on foreign exchange translation	-	460
Postretirement benefits	-	618
Total deferred tax assets	<u>21,781</u>	<u>22,528</u>
Deferred tax liabilities		
State franchise taxes	270	257
Unrealized gain on investment securities available for sale	35	-
Unrealized gain on foreign exchange translation	349	23
Total deferred tax liabilities	<u>654</u>	<u>280</u>
Net deferred tax asset	<u>\$ 21,127</u>	<u>\$ 22,248</u>

The Company has not established a valuation allowance against the net deferred tax asset, as it has been determined that it is more likely than not that the asset will be realized

The income tax receivable/payable balances primarily relate to amounts receivable/payable between Capital Group and the Company for jurisdictions in which Capital Group and the Company file a consolidated/combined tax return.

The effective income tax rate differs from the federal statutory rate primarily due to state income taxes and permanent differences between taxable income and financial statement income related to items such as non-deductible expenses

5. RETIREMENT PLANS

The Company participates with Capital Group and affiliates in defined contribution retirement plans covering substantially all of its associates. The Company annually contributes up to 15% of each participant's eligible compensation. Contributions for certain employees residing outside the United States are made to local plans. Total retirement plan expenses were \$8,861 and \$8,573 in 2014 and 2013, respectively.

6. TRANSACTIONS WITH AFFILIATES

Research fee revenues include charges to affiliates of \$331,164 and \$316,569 in 2014 and 2013, respectively. Other revenues include rent charged to affiliates of \$14,659 and \$15,401 in 2014 and 2013, respectively. Other operating expenses include charges from affiliated companies for administrative services, information technology, office facilities and human resources of \$31,648 and \$29,141 in 2014 and 2013, respectively. Receivables at June 30, 2014 and 2013 include \$33,760 and \$31,538, respectively, and accounts payable and accrued expenses at June 30, 2014 and 2013 include \$13,621 and \$15,034, respectively, relating to transactions with affiliates. Receivables at

June 30, 2014 and 2013 are primarily related to research fees and accounts payable and accrued expenses at June 30, 2014 and 2013 are primarily related to compensation and employee benefits. Given the significance of the aforementioned related party transactions, the operations of the Company could be materially different if the Company were a stand-alone entity.

7. INDEMNIFICATIONS, GUARANTEES, AND COMMITMENTS

Management has reviewed the indemnification provisions of its material contracts. In the normal course of its business, the Company enters into contracts in which it makes representations and warranties as well as standard “hold harmless” indemnifications to counterparties. These agreements include a real estate lease under which the Company may be required to indemnify property owners for claims arising from the Company’s use of the applicable premise. The obligation amounts of these types of agreements are not explicitly stated, therefore, the overall maximum amount of the obligations cannot be reasonably estimated. However, management believes that it is unlikely that the Company will have to make material payments under these agreements, and no liabilities related to these agreements have been recognized in the Company’s financial statements.

The Company is obligated under leases for office space requiring minimum annual rentals as follows:

Years Ending June 30

2015	\$ 8,719
2016	8,719
2017	<u>8,719</u>
Total	<u>\$ 26,157</u>

A portion of this leased space is utilized by affiliates and others that are allocated or charged a proportionate share of the lease cost. Total minimum rentals to be received from affiliates and others under these leases are \$3,511 over the life of the leases.

In addition, Capital Group and other affiliates lease equipment and office facilities that are utilized by the Company. The Company is allocated its proportionate share of the expense. Rental expense was \$16,235 and \$16,895 in 2014 and 2013, respectively.

8. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through October 7, 2014, the date the financial statements were available to be issued. No material subsequent events have occurred since June 30, 2014 that should require recognition or disclosure in these financial statements, except as follow. As part of the Capital Group corporate structure changes effective July 1, 2014, the Company transferred the net assets and operations of the CRC branches in Geneva, Hong Kong, Singapore and Tokyo to other entities in Capital Group.

* * * * *