

Company No FC017708

Capital Research Company

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

**Financial statements for the years ended June 30,
2015 and 2014 and independent auditors' report**

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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, 2015 and 2014, 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, 2015 and 2014, 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.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, effective July 1, 2014, the Company and The Capital Group Companies, Inc. executed a corporate reorganization whereby certain of the Company's wholly-owned subsidiaries were dissolved and the Company transferred assets and liabilities to Capital International Sarl (CISA), Capital International K K (CIKK), Capital International, Inc. (CIInc), Capital Group Companies Global - US (CGCG-US), and Capital Research and Management Company (CRMC). Our opinion is not modified with respect to this matter.

Deloitte & Touche LLP

October 8, 2015

Member of
Deloitte Touche Tohmatsu Limited

Capital Research Company

Balance sheets

June 30, 2015 and 2014 (dollars in thousands, except per share amounts)

Assets	2015	2014
Current assets:		
Cash and cash equivalents	\$ 9,238	\$ 89,000
Investment securities available for sale	45,019	65,285
Receivables	7,214	33,970
Income tax receivable	15,349	-
Deferred income taxes, net	2,875	12,120
Prepaid expenses	681	1,033
Total current assets	80,376	201,408
Property, at cost:		
Land	38,471	38,471
Buildings	230,494	229,635
Furniture, equipment and software	7,719	8,603
Leasehold improvements	40,472	43,223
Total Property	317,156	319,932
Accumulated depreciation and amortization	(127,064)	(119,269)
Property, net	190,092	200,663
Other assets		
Restricted cash	13,660	14,810
Deferred income taxes, net	5,500	9,007
Deposits, deferred charges, and other assets	3,132	11,941
Total other assets	22,292	35,758
Total	\$ 292,760	\$ 437,829

(Continued)

Capital Research Company

Balance sheets

June 30, 2015 and 2014 (dollars in thousands, except per share amounts)

LIABILITIES AND STOCKHOLDER'S EQUITY	2015	2014
Current liabilities:		
Accounts payable and accrued expenses	\$ 4,703	\$ 19,246
Accrued compensation and employee benefits	7,741	38,638
Income tax payable	1,773	2,972
Total current liabilities	14,217	60,856
Noncurrent liabilities - Accrued postretirement benefits	-	2,965
Total liabilities	14,217	63,821
Stockholder's equity:		
Capital stock, \$10 par value - authorized, 150,000 shares, issued and outstanding, 100,000 in 2015 and 2014	1,000	1,000
Additional paid-in capital	2	2
Retained earnings	278,721	372,435
Accumulated other comprehensive income/(loss), net of taxes	(1,180)	571
Total stockholder's equity	278,543	374,008
Total	<u>\$ 292,760</u>	<u>\$ 437,829</u>

See notes to financial statements

(Concluded)

Company No FC017708

Capital Research Company

Statements of income

Years ended June 30, 2015 and 2014 (dollars in thousands)

	2015	2014
Operating revenues:		
Research fees	\$ 70,139	\$ 331,164
Lease income	14,587	14,659
	<u>84,726</u>	<u>345,823</u>
Total operating revenues		
	<u>84,726</u>	<u>345,823</u>
Operating expenses:		
Compensation and employee benefits	57,196	219,429
Other expenses - including administrative, information technology, office facilities, human resources and travel expenses	17,248	101,051
	<u>74,444</u>	<u>320,480</u>
Total operating expenses		
	<u>74,444</u>	<u>320,480</u>
Income from operations	10,282	25,343
Other income, net (principally interest)	1,527	433
	<u>11,809</u>	<u>25,776</u>
Income before income taxes	11,809	25,776
Income taxes	5,523	11,949
	<u>6,286</u>	<u>13,827</u>
Net income	<u>\$ 6,286</u>	<u>\$ 13,827</u>

See notes to financial statements

Capital Research Company

Statements of comprehensive income

Years ended June 30, 2015 and 2014 (dollars in thousands)

	2015	2014
Net income	\$ 6,286	\$ 13,827
Other comprehensive income/(loss)		
Foreign exchange translation adjustments, net of taxes	(1,726)	1,236
Net unrealized (loss)/gain on investments available for sale arising during the year, net of taxes	(21)	74
Reclassification adjustment for gain on sales of investments available-for-sale included in net income, net of taxes	(4)	-
Transfer of accumulated postretirement and postemployment benefit plan obligations	-	196
Comprehensive income	<u>\$ 4,535</u>	<u>\$ 15,333</u>

See notes to financial statements

Capital Research Company

Statements of stockholder's equity

Years ended June 30, 2015 and 2014 (dollars in thousands)

	Capital stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income/(loss)	Total equity
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 benefits plan obligations, net of taxes of \$129				196	196
Balance, June 30, 2014	1,000	2	372,435	571	374,008
Cash dividends			(100,000)		(100,000)
Comprehensive income					
Net income			6,286		6,286
Foreign exchange translation adjustments, net of taxes of \$(983)				(1,726)	(1,726)
Net unrealized loss on investments available for sale arising during the year, net of taxes of \$(13)				(21)	(21)
Reclassification adjustment for gain on sales of investments available-for-sale included in net income, net of taxes of \$(3)				(4)	(4)
Balance, June 30, 2015	<u>\$ 1,000</u>	<u>\$ 2</u>	<u>\$ 278,721</u>	<u>\$ (1,180)</u>	<u>\$ 278,543</u>

See notes to financial statements

Capital Research Company

Statements of cash flows

Years ended June 30, 2015 and 2014 (dollars in thousands)

	2015	2014
Cash flows from operating activities.		
Net income	\$ 6,286	\$ 13,827
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	10,101	12,303
Net loss on disposition of property	-	90
Net realized and unrealized gain on investments recorded in Other Assets	-	(383)
Amortization of premiums and accretion of discounts on securities, net	1,307	1,453
Net realized gain on sales of investment securities available for sale	(7)	-
Deferred income taxes	13,872	156
Changes in assets and liabilities		
Receivables	31,645	(1,603)
Prepaid expenses	(489)	2,087
Deposits, deferred charges and other assets	1,793	1,057
Accounts payable and accrued expenses	(17,105)	(2,711)
Accrued compensation and employee benefits	557	3,872
Accrued postretirement and postemployment benefits	(233)	(3,524)
Income tax payable	(15,947)	2,384
Total adjustments	25,494	15,181
Net cash provided by operating activities	31,780	29,008
Cash flows from investing activities.		
Purchases of property	(122)	(2,704)
Proceeds from disposition of property	-	3,327
Net deposits (withdrawals) of restricted cash	1,150	(14,810)
Purchases of investment securities available for sale	(129,608)	(60,303)
Purchases of investments recorded in Other Assets	-	(142)
Proceeds of investments recorded in Other Assets	-	176
Proceeds from maturities of investment securities available for sale	143,505	103,425
Proceeds from sales of investment securities available for sale	5,027	-
Cash used in transactions between entities under common control	(32,024)	-
Cash received in transactions between entities under common control	3,239	-
Net cash (used in) provided by investing activities	(8,833)	28,969
Cash flows from financing activities – Dividends paid	(100,000)	(15,000)
Effects of exchange rate changes on cash	(2,709)	2,025
Net (decrease)/increase in cash and cash equivalents	(79,762)	45,002
Cash and cash equivalents, beginning of year	89,000	43,998
Cash and cash equivalents, end of year	\$ 9,238	\$ 89,000
Supplemental disclosures of cash flow information – Income taxes paid	\$ 6,335	\$ 6,699
See notes to financial statements		

Notes to financial statements

Years ended June 30, 2015 and 2014 (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 second-tier 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. Lease income 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").

Effective July 1, 2014, the Company and the Capital Group executed a corporate reorganization whereby certain of the Company's branches were dissolved. In addition, the Company transferred assets and liabilities to Capital International Sarl (CISA), Capital International K.K. (CIKK), Capital International, Inc. (CIInc), Capital Group Companies Global - US (CGCG-US), and Capital Research and Management Company (CRMC). These transactions include the following transfers: research and investment operations related associates to CISA along with net liabilities of \$932, research related associates to CIKK along with net liabilities of \$378, business services, information technology, research, trading, and other investment operations related associates to CIInc along with net liabilities of \$4,598, communications related associates to CGCG-US along with liabilities of \$198, and research, trading, and other investment operations related associates to CRMC along with net liabilities of \$22,879.

These transfers of assets and liabilities occurred between entities under common control. The entities involved recognized the transaction using the transferring entity's carrying values at the date of the transfer. The transactions resulted in a cash exchange, which is reflected in the investing activity section of the Statements of Cash Flows. No entities recognized a gain or loss on the transaction. The transaction does not represent a change in reporting entity, therefore, the transfer is accounted for prospectively from the date of the transaction.

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. Significant estimates made by management relate primarily to the recognition of certain expense accruals.

Foreign currency translation – The Company's reporting currency is the U.S. dollar. Assets and liabilities of each foreign branch that has a non-U.S. dollar functional currency are translated using the exchange rate prevailing at the balance sheet date. Revenue, expenses, gains and losses for such branches are translated using an average of exchange rates prevailing throughout the fiscal year. Foreign exchange translation adjustments are reported, net of tax, in accumulated other comprehensive income within stockholder's equity.

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 adviser.

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.

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 and equity securities (with readily determinable fair values) 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 available-for-sale securities for impairment on an annual basis, taking into consideration numerous criteria, including the duration and extent of a decline in fair value. For equity securities, the Company considers its ability and intent to retain the equity security to allow for anticipated recovery in market value. For debt securities, the Company evaluates whether it intends to sell the debt security, if it is more likely than not the Company will be required to sell the debt security prior to recovery, or if a credit loss exists. If a decline is determined to be other than temporary, the carrying value of the security is written down to fair value. At June 30, 2015 and 2014 the Company's debt or equity securities were not other-than-temporarily impaired.

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 also carries investments in money market mutual fund instruments, 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 is the basis for current transactions. Money market mutual funds of \$9,033 and \$82,370 are presented in cash and cash equivalents as of June 30, 2015 and 2014, respectively. Receivables and payables, excluding receivables and payables with affiliates, are recorded at carrying amounts that approximate fair value. Receivables and payables with affiliates are carried at cost. It is not practicable to estimate fair values due to the related-party nature of such amounts.

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 related 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. Guidance in ASC 740 related to uncertain tax positions did not have a material effect on the financial condition or results of operations as of and for the years ended June 30, 2015 and 2014.

The Company recognizes the accrual of interest and penalties on uncertain tax positions in other income. For the years ended June 30, 2015 and 2014, 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.

Postretirement benefits – Capital Group sponsors a plan to provide these services and the company is allocated an amount of periodic benefit cost based on actuarial estimates, however, the Company is not allocated a portion of accumulated benefit obligation or plan assets. 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.

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.

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 services plus an agreed upon markup. Additionally, lease income is determined using intercompany lease arrangements and is recognized ratably over the lease term.

Other income – For the years ended June 30, 2015 and 2014, other income includes gains (losses) on investments of \$0 and (\$85), interest income of \$948 and \$568, and foreign currency transactions gains (losses) of \$579 and (\$50), respectively.

Operating expenses – Effective July 1, 2014, Capital Group changed its method of allocating expenses to and between subsidiaries whereby only direct expenses are reflected in a subsidiary's standalone financial statements unless regulations require an allocation of both direct and indirect expenses. The Company receives an allocation of only direct expenses paid for by affiliates within the Capital Group organization. Prior to July 1, 2014, both direct and indirect expenses were allocated to the Company.

Regarding the allocation method described above, direct expenses may be described as goods or services received directly by the reporting entity but paid for by an affiliate. The good or service provided to or performed for the reporting entity is directly related to, identifiable with, and unique to the reporting entity. Indirect expenses may be described as expenses incurred by an affiliate for purposes of performing a function or service that indirectly benefits the reporting entity. Indirect expenses include accounting and legal services, talent management and human resources, tax and treasury functions, and other selling, general and administrative expenses.

As a change in estimate affected by a change in principle this accounting change is adopted prospectively beginning July 1, 2014. The change was executed to coincide with the July 1, 2014 corporate reorganization described above, and reflects a change in facts and circumstances beginning July 1, 2014.

This change in methodology results in financial statements that are significantly different from those of a standalone entity

Recent accounting pronouncements – In May 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-07, *Fair Value Measurement (Topic 820) Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*—a consensus of the FASB Emerging Issues Task Force. Under the amendments in this Update, investments for which fair value is measured at net asset value per share (or its equivalent) using the practical expedient permitted in ASC 820, *Fair Value Measurement*, should not be categorized in the fair value hierarchy. The Company has elected to adopt this Update early to be consistent with the Parent’s accounting policies, however, the Company’s financial statements and notes thereto were not affected by the adoption of this Update.

In February 2015, the FASB issued ASU No. 2015-02, *Consolidations (Topic 810) Amendments to the Consolidation Analysis*, which requires an entity to re-evaluate its consolidation for limited partnerships or similar entities. The Update also changes the criteria for identifying variable interests and variable interest entities, and for the determination of primary beneficiary. The Company is required to adopt the Update in the fiscal year ending June 30, 2018, however, early adoption is permitted. The Company is currently evaluating the impact of the future adoption of this ASU on its financial statements.

In May 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. For the Company, the adoption of ASU No. 2014-09 is effective for fiscal year ending June 30, 2020. The Company is currently evaluating the impact of the future adoption of this ASU on its financial statements.

2. Investment securities

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

June 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
Fair Value			
Current Assets			
U.S. Treasury and agency securities			
Due in one year or less	\$ 44,969	\$ 50	\$ -
			\$ 45,019
June 30, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
Fair Value			
Current Assets			
U.S. Treasury and agency securities			
Due in one year or less	\$ 14,458	\$ 15	\$ -
Due after one year through five years	50,736	85	(9)
			50,812
	\$ 65,194	\$ 100	\$ (9)
			\$ 65,285

Proceeds from the sales of available-for-sale securities in 2015 totaled \$5,027 and net realized gains were \$7. There were no sales of securities in 2014.

At June 30, 2015 none of the securities held were in a loss position. The unrealized losses in 2014 on the Company's investments in U S Treasury were due to changes in interest rates. The Company did not intend to sell these securities and it was not more likely than not that the Company would have been forced to sell the securities prior to recovery. These securities were 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 were 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	<u>\$ 15,348</u>	<u>\$ 9</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,348</u>	<u>\$ 9</u>

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 and in accordance with the requirements of ASC 820, *Fair Value Measurement*.

	June 30, 2015			
	Level 1	Level 2	Level 3	Total
Investments available for sale				
U S Treasury securities	<u>\$ -</u>	<u>\$ 45,019</u>	<u>\$ -</u>	<u>\$ 45,019</u>

	June 30, 2014			
	Level 1	Level 2	Level 3	Total
Investments available for sale				
U S Treasury securities	<u>\$ -</u>	<u>\$ 65,285</u>	<u>\$ -</u>	<u>\$ 65,285</u>
Other assets - Equity mutual funds	<u>2,965</u>	<u>-</u>	<u>-</u>	<u>2,965</u>
	<u>\$ 2,965</u>	<u>\$ 65,285</u>	<u>\$ -</u>	<u>\$ 68,250</u>

Transfers in or out of the levels of the fair value measurement hierarchy 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, 2015 and 2014.

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.

U S Treasury 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.

4. Property held for lease

The Company's leasing operations consist principally of owned office facilities leased to affiliates that are obligated to make the following minimum annual payments

Years ending June 30

2016	\$ 15,005
2017	15,005
2018	15,005
2019	15,005
2020	4,593
Thereafter	<u>82,824</u>
Total	<u>\$ 147,437</u>

5. Income taxes

The income tax provision consists of the following

	Year ended June 30, 2015	Year ended June 30, 2014
Federal		
Current	\$ (10,728)	\$ 9,874
Deferred	<u>12,799</u>	<u>284</u>
Federal provision	<u>2,071</u>	<u>10,158</u>
State and foreign		
Current	2,379	1,919
Deferred	<u>1,073</u>	<u>(128)</u>
State and foreign provision	<u>3,452</u>	<u>1,791</u>
Total income tax provision	<u>\$ 5,523</u>	<u>\$ 11,949</u>

The net deferred tax asset consists of the following

	June 30, 2015	June 30, 2014
Deferred tax assets		
Accrued compensation and benefits	\$ 2,307	\$ 13,153
Accrued expenses and other	530	2,239
Depreciation and amortization	5,096	6,389
Unrealized loss on foreign exchange translation	754	-
Total deferred tax assets	<u>8,687</u>	<u>21,781</u>
Deferred tax liabilities		
State franchise taxes	293	270
Unrealized gain on investment securities available for sale	19	35
Unrealized gain on foreign exchange translation	-	349
Total deferred tax liabilities	<u>312</u>	<u>654</u>
Net deferred tax asset	<u>\$ 8,375</u>	<u>\$ 21,127</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

6. 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 \$2,163 and \$8,861 in 2015 and 2014, respectively.

7. Transactions with affiliates

Research fee revenues include charges to affiliates of \$70,139 and \$331,164 in 2015 and 2014, respectively. Other revenues include rent charged to affiliates of \$14,587 and \$14,659 in 2015 and 2014, respectively. Other operating expenses include charges from affiliated companies for administrative services, information technology, office facilities and human resources of \$0 and \$31,648 in 2015 and 2014, respectively. Receivables at June 30, 2015 and 2014 include \$6,559 and \$33,760, respectively, and accounts payable and accrued expenses at June 30, 2015 and 2014 include \$3,771 and \$13,621, respectively, relating to transactions with affiliates. Receivables at June 30, 2015 and 2014 are primarily related to research fees and accounts payable and accrued expenses at June 30, 2015 and 2014 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 standalone entity.

Refer to the note 1, summary of significant accounting policies, which explains the change in accounting estimate effected by a change in accounting principles for the cost allocation methods between the Company and CRMC. Given other changes to the business resulting from corporate restructure described in note 1, it is not possible to determine the effects of such change on the consolidated statement of income.

8. Accumulated other comprehensive income

The following table presents before tax changes in AOCI by component for 2015 and 2014

	Unrealized gains (losses) on available-for-sale investments	Postretirement and postemployment benefit plans	Foreign exchange translation adjustments	Total
Balance, June 30, 2013	\$ (30)	\$ (325)	\$(1,300)	\$(1,655)
Other comprehensive income (loss) before reclassifications	121	-	2,025	2,146
Transfer of accumulated postretirement and postemployment benefit plan obligations	-	325	-	325
Net other comprehensive income (loss) for 2014	121	325	2,025	2,471
Balance, June 30, 2014	\$ 91	\$ -	\$ 725	\$ 816

	Unrealized gains (losses) on available-for-sale investments	Foreign exchange translation adjustments	Total
Balance, June 30, 2014	\$ 91	\$ 725	\$ 816
Other comprehensive income (loss) before reclassifications	(34)	(2,709)	(2,743)
Amount reclassified from AOCI	(7)	-	(7)
Net other comprehensive income (loss) for 2015	(41)	(2,709)	(2,750)
Balance, June 30, 2015	\$ 50	\$(1,984)	\$ (1,934)

The before tax effects on net income of amounts reclassified out of AOCI were as follows for 2015

Details about AOCI components	Affected line item in the Statements of Income	Amount reclassified from AOCI Year ended June 30, 2015
Realized gain on sale of available-for-sale securities	Other income, net	\$ 7
Tax expense		(3)
Net of tax		4
Total amount reclassified for the period		\$ 7

No amounts were reclassified out of AOCI for 2014

9. Common control transactions

The Company and Capital Group executed a corporate reorganization effective July 1, 2014 whereby the Company transferred certain associates and business functions to affiliates along with the related assets and liabilities. See Note 1 for more information.

The following table presents the impact to certain balance sheet line items as of July 1, 2014, the date that the transfer of associates and business functions was executed. The accounts payable and accrued expenses include \$28,985 in intercompany payables to CRMC and other affiliates to execute the transaction. The impact to the income statement for the year ended June 30, 2015 cannot be determined.

	June 30, 2015
Increase (decrease) in assets	
Cash and cash equivalents	\$ (20)
Receivables	7,940
Property - net	(591)
Deferred income taxes, net	330
Other assets	<u>(4,108)</u>
Total assets	3,551
Increase (decrease) in liabilities	
Accounts payable and accrued expenses	34,567
Accrued compensation and employee benefits	(31,454)
Deferred income taxes, net	210
Other liabilities	<u>417</u>
Total liabilities	3,740
Decrease in accumulated other comprehensive income, net of taxes	<u>(189)</u>
Change in net assets	<u>\$ -</u>

10. Subsequent events

The Company has evaluated subsequent events through October 8, 2015, the date the financial statements were available to be issued. No material subsequent events have occurred since June 30, 2015 that would require recognition or disclosure in these financial statements.

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