Zoetis Inc.
Form 10-Q
August 06, 2015
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 28, 2015
or
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

¨ For the transition period from __________ to __________
Commission File Number: 001-35797
Zoetis Inc.
(Exact name of registrant as specified in its charter)

Delaware	46-0696167
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
100 Campus Drive, Florham Park, New Jersey	07932
(Address of principal executive offices)	(Zip Code)

(973) 822-7000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act). ¨ Yes x No

At August 3, 2015, there were 498,943,831 shares of common stock outstanding.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I – FINANCIAL INFORMATION
Item 1. Financial Statements

ZOETIS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended		Six Months Ended	
	June 28,	June 29,	June 28,	June 29,
(MILLIONS OF DOLLARS AND SHARES, EXCEPT PER SHARE DATA)	2015	2014	2015	2014
Revenue	$1,175	$1,158	$2,277	$2,255
Costs and expenses:				
Cost of sales[a]	427	413	821	792
Selling, general and administrative expenses[a]	379	396	733	752
Research and development expenses[a]	84	92	164	179
Amortization of intangible assets[a]	15	15	30	30
Restructuring charges and certain acquisition-related costs	266	5	267	8
Interest expense, net of capitalized interest	29	29	57	58
Other (income)/deductions—net	2	8	2	9
(Loss)/income before provision for taxes on income	(27)	200	203	427
Provision for taxes on income	9	61	74	133
Net (loss)/income before allocation to noncontrolling interests	(36)	139	129	294
Less: Net income attributable to noncontrolling interests	1	3	1	3
Net (loss)/income attributable to Zoetis Inc.	$(37)	$136	$128	$291
(Loss) earnings per share attributable to Zoetis Inc. stockholders:				
Basic	$(0.07)	$0.27	$0.26	$0.58
Diluted	$(0.07)	$0.27	$0.25	$0.58
Weighted-average common shares outstanding:				
Basic	500.173	500.975	500.660	500.603
Diluted	500.173	501.684	502.893	501.193
Dividends declared per common share	$—	$—	$0.083	$0.072

(a) Amortization expense related to finite-lived acquired intangible assets that contribute to our ability to sell, manufacture, research, market and distribute products, compounds and intellectual property is included in Amortization of intangible assets as these intangible assets benefit multiple business functions. Amortization expense related to finite-lived acquired intangible assets that are associated with a single function is included in Cost of sales, Selling, general and administrative expenses or Research and development expenses, as appropriate, in the condensed consolidated statements of operations.

See notes to condensed consolidated financial statements.

Table of Contents

ZOETIS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended		Six Months Ended	
(MILLIONS OF DOLLARS)	June 28, 2015	June 29, 2014	June 28, 2015	June 29, 2014
Net (loss)/income before allocation to noncontrolling interests	$(36)	$139	$129	$294
Other comprehensive (loss)/income, net of taxes and reclassification adjustments:				
Foreign currency translation adjustments, net	(25)	29	(143)	18
Benefit plans: Actuarial gains, net[(a)]	—	—	1	—
Plan settlement, net[(b)]	—	—	—	3
Total other comprehensive (loss)/income, net of tax	(25)	29	(142)	21
Comprehensive (loss)/income before allocation to noncontrolling interests	(61)	168	(13)	315
Less: Comprehensive income attributable to noncontrolling interests	—	2	1	2
Comprehensive (loss)/income attributable to Zoetis Inc.	$(61)	$166	$(14)	$313

(a) Presented net of reclassification adjustments and tax impacts, which are not significant in any period presented. Reclassification adjustments related to benefit plans are generally reclassified, as part of net periodic pension cost, into Cost of sales, Selling, general and administrative expenses, and/or Research and development expenses, as appropriate, in the condensed consolidated statements of operations.

(b) Reflects the 2014 settlement charge associated with the 2012 sale of our Netherlands manufacturing facility which was recorded to Other (income)/deductions—net. See Note 12. Benefit Plans for additional information.

See notes to condensed consolidated financial statements.

Table of Contents

ZOETIS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(MILLIONS OF DOLLARS, EXCEPT SHARE AND PER SHARE DATA)	June 28, 2015 (Unaudited)	December 31, 2014
Assets		
Cash and cash equivalents	$544	$882
Accounts receivable, less allowance for doubtful accounts of $35 in 2015 and $32 in 2014	993	980
Inventories	1,417	1,289
Current deferred tax assets	127	109
Other current assets	235	205
Total current assets	3,316	3,465
Property, plant and equipment, less accumulated depreciation of $1,179 in 2015 and $1,145 in 2014	1,295	1,318
Goodwill	1,167	976
Identifiable intangible assets, less accumulated amortization	697	727
Noncurrent deferred tax assets	65	54
Other noncurrent assets	58	67
Total assets	$6,598	$6,607
Liabilities and Equity		
Short-term borrowings	$4	$7
Current portion of long-term debt	400	—
Accounts payable	278	290
Dividends payable	—	42
Accrued expenses	627	475
Accrued compensation and related items	165	238
Income taxes payable	59	26
Other current liabilities	39	8
Total current liabilities	1,572	1,086
Long-term debt	3,243	3,643
Noncurrent deferred tax liabilities	234	277
Other taxes payable	59	57
Other noncurrent liabilities	288	207
Total liabilities	5,396	5,270
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value: 1,000,000,000 authorized, none issued	—	—
Common stock, $0.01 par value: 6,000,000,000 authorized; 501,501,542 and 501,342,267 shares issued; 499,339,397 and 501,327,524 shares outstanding at June 28, 2015, and December 31, 2014, respectively	5	5
Treasury stock, at cost, 2,162,145 and 14,743 shares of common stock at June 28, 2015, and December 31, 2014, respectively	(100)	—
Additional paid-in capital	980	958
Retained earnings	795	709

Accumulated other comprehensive loss	(504)	(361)
Total Zoetis Inc. equity	1,176	1,311
Equity attributable to noncontrolling interests	26	26
Total equity	1,202	1,337
Total liabilities and equity	$6,598	$6,607

See notes to condensed consolidated financial statements.

Table of Contents

ZOETIS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(UNAUDITED)

	Zoetis						
(MILLIONS OF DOLLARS)	Common Stock[(a)]	Treasury Stock[(a)]	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Equity Attributable to Noncontrolling Interests	Total Equity
Balance, December 31, 2013	$5	$—	$ 878	$276	$ (219)	$ 22	$962
Six months ended June 29, 2014							
Net income	—	—	—	291	—	3	294
Other comprehensive income/(loss)	—	—	—	—	22	(1)	21
Share-based compensation awards[(b)]	—	—	13	—	—	—	13
Defined contribution plans transactions[(c)]	—	—	29	—	—	—	29
Pension plan transfer from Pfizer Inc.[(d)]	—	—	2	—	(2)	—	—
Employee benefit plan contribution from Pfizer Inc.[(e)]	—	—	1	—	—	—	1
Dividends declared	—	—	—	(36)	—	(1)	(37)
Balance, June 29, 2014	$5	$—	$ 923	$531	$ (199)	$ 23	$1,283
Balance, December 31, 2014	$5	$—	$ 958	$709	$ (361)	$ 26	$1,337
Six months ended June 28, 2015							
Net income	—	—	—	128	—	1	129
Other comprehensive (loss)/income	—	—	—	—	(143)	1	(142)
Share-based compensation awards [(b)]	—	(2)	21	—	—	—	19
Treasury stock acquired[(f)]	—	(98)	—	—	—	—	(98)
Employee benefit plan contribution from Pfizer Inc.[(e)]	—	—	1	—	—	—	1
Dividends declared	—	—	—	(42)	—	(2)	(44)
Balance, June 28, 2015	$5	$(100)	$ 980	$795	$ (504)	$ 26	$1,202

(a) As of June 28, 2015, and June 29, 2014, there were 499,339,397 and 501,037,794 outstanding shares of common stock, respectively, and 2,162,145 and 13,420 shares of treasury stock, respectively. Treasury stock is recognized at the cost to reacquire the shares. For additional information, see Note 14. Stockholders' Equity.

(b) Includes the issuance of shares of Zoetis Inc. common stock and the reacquisition of shares of treasury stock associated with the vesting of employee share-based awards. For additional information, see Note 13. Share-Based Payments and Note. 14. Stockholders' Equity.

(c) Reflects company matching and profit-sharing contributions funded through the issuance of shares of Zoetis Inc. common stock. For additional information, see Note 14. Stockholders' Equity.

(d) Reflects the 2014 transfers of defined benefit pension plans from Pfizer Inc. and the associated reclassification from Additional Paid in Capital to Accumulated Other Comprehensive Loss. See Note 12. Benefit Plans.

(e) Represents contributed capital from Pfizer Inc. associated with service credit continuation for certain Zoetis Inc. employees in Pfizer Inc.'s U.S. qualified defined benefit and U.S. retiree medical plans. See Note 12. Benefit Plans.

(f)

Reflects the acquisition of treasury shares in connection with the Share Repurchase Program. For additional information, see Note 14. Stockholders' Equity.

See notes to condensed consolidated financial statements.

Table of Contents

ZOETIS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six Months Ended	
(MILLIONS OF DOLLARS)	June 28, 2015	June 29, 2014
Operating Activities		
Net income before allocation to noncontrolling interests	$129	$294
Adjustments to reconcile net income before noncontrolling interests to net cash provided by operating activities:		
Depreciation and amortization expense	98	101
Share-based compensation expense	21	13
Restructuring, net of payments	225	(5)
Asset write-offs and asset impairments	38	1
Deferred taxes	(73)	(4)
Employee benefit plan contribution from Pfizer Inc.	1	1
Other non-cash adjustments	9	(8)
Other changes in assets and liabilities, net of acquisitions and divestitures		
Accounts receivable	(71)	24
Inventories	(134)	(40)
Other assets	(30)	(3)
Accounts payable	(2)	(176)
Other liabilities	(60)	(100)
Other tax accounts, net	31	38
Net cash provided by operating activities	182	136
Investing Activities		
Purchases of property, plant and equipment	(91)	(87)
Milestone payment related to previously acquired intangibles	—	(15)
Asset acquisition[(a)]	(229)	—
Net proceeds from sales of assets	2	7
Net cash used in investing activities	(318)	(95)
Financing Activities		
Decrease in short-term borrowings, net	(2)	(2)
Stock-based compensation-related proceeds and excess tax benefits	2	1
Purchases of treasury stock	(100)	—
Cash dividends paid	(85)	(73)
Net cash used in financing activities	(185)	(74)
Effect of exchange-rate changes on cash and cash equivalents	(17)	1
Net decrease in cash and cash equivalents	(338)	(32)
Cash and cash equivalents at beginning of period	882	610
Cash and cash equivalents at end of period	$544	$578
Supplemental cash flow information		
Cash paid during the period for:		
Income taxes	$121	$87
Interest, net of capitalized interest	59	57
Non-cash transactions:		
Purchases of property, plant and equipment	$17	$—

Contingent purchase price consideration[a]	22	—

(a) Reflects the acquisition of certain assets of Abbott Animal Health. See Note 5. Acquisitions for additional information.

See notes to condensed consolidated financial statements.

Table of Contents

ZOETIS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Organization

Zoetis Inc. (including its subsidiaries, collectively, Zoetis, the company, we, us or our) is a global leader in the discovery, development, manufacture and commercialization of animal health medicines and vaccines, with a focus on both livestock and companion animals. We organize and operate our business in two geographic regions: the United States (U.S.) and International.

We directly market our products in approximately 70 countries across North America, Europe, Africa, Asia, Australia and South America. Our products are sold in more than 120 countries, including developed markets and emerging markets, and our revenue is mostly generated in the United States. We have a diversified business, marketing products across eight core species: cattle, swine, poultry, sheep and fish (collectively, livestock) and dogs, cats and horses (collectively, companion animals); and within five major product categories: anti-infectives, vaccines, parasiticides, medicated feed additives and other pharmaceuticals.

2. The Separation and Transactions and Agreements with Pfizer

Pfizer Inc. (Pfizer) formed Zoetis to acquire, own and operate the animal health business of Pfizer. On June 24, 2013, Pfizer completed an exchange offer (the Exchange Offer) resulting in the full separation of Zoetis from Pfizer and the disposal of Pfizer's entire ownership and voting interest in Zoetis.

In the first quarter of 2013, through a series of steps (collectively, the Separation), Pfizer transferred to us its subsidiaries holding substantially all of the assets and liabilities of its animal health business. After the Separation, an initial public offering (IPO) of our common stock was completed. Pfizer retained the net proceeds from the IPO.

Zoetis had related party transactions with Pfizer through the completion of the Exchange Offer. As of the completion of the Exchange Offer, Pfizer is no longer a related party. In connection with the IPO, we entered into certain agreements that provide a framework for an ongoing relationship with Pfizer. For additional information regarding activities while Pfizer was a related party, as well as our ongoing agreements with Pfizer, see Note 19. Transactions and Agreements with Pfizer in our 2014 Annual Report on Form 10-K.

At June 28, 2015, and December 31, 2014, $19 million and $24 million, respectively, was included in Accounts receivable as receivable from Pfizer, and $34 million and $42 million, respectively, was included in Accounts payable as payable to Pfizer.

3. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements were prepared following the requirements of the Securities and Exchange Commission (SEC) for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by accounting principles generally accepted in the United States of America (U.S. GAAP) can be condensed or omitted. Balance sheet amounts and operating results for subsidiaries operating outside the United States are as of and for the three-month periods ended May 24, 2015, and May 25, 2014.

Revenue, expenses, assets and liabilities can vary during each quarter of the year. Therefore, the results and trends in these interim financial statements may not be representative of those for the full year.

We are responsible for the unaudited condensed consolidated financial statements included in this Form 10-Q. The condensed consolidated financial statements include all normal and recurring adjustments that are considered necessary for the fair presentation of our financial position and operating results. The information included in this interim report should be read in conjunction with the financial statements and accompanying notes included in our 2014 Annual Report on Form 10-K.

In the second quarter of 2015, we changed our segment reporting structure and recategorized certain costs that are not allocated to our operating segments. The prior period presentation has been revised to reflect the new segment reporting structure. See Note 17. Segment and Other Revenue Information for additional information.

Certain reclassifications have been made to prior year data to conform to current year presentation.

4. Significant Accounting Policies

New Accounting Standards

In July 2015, the Financial Accounting Standards Board (FASB) issued an accounting standards update to simplify the measurement of inventory by requiring that inventory be measured at the lower of cost or net realizable value, rather than as the lower of cost or market with market being defined as either replacement cost, net realizable value or net realizable value less a normal profit margin. The provisions of the new standard are effective beginning January 1, 2017, for annual and interim reporting periods. The guidance will be adopted prospectively and early adoption is permitted. We are currently assessing the potential impact that the adoption of this guidance will have on our consolidated financial statements, as well as whether or not to early adopt this guidance.

Table of Contents

In April 2015, the FASB issued an accounting standards update that requires that debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts, rather than as a deferred charge (i.e., an asset). The provisions of the new standard are effective beginning January 1, 2016, for annual and interim reporting periods. The guidance requires all prior period balance sheets to be adjusted retrospectively and early adoption is permitted. As of June 28, 2015, we had approximately $18 million of debt issuance costs recorded within Other noncurrent assets. We are currently assessing whether or not to early adopt this guidance.

In February 2015, the FASB issued an accounting standards update that provides revised guidance on whether to consolidate certain legal entities, such as limited partnerships, limited liability corporations and securitization structures. The provisions of the new standard are effective beginning January 1, 2016, for annual and interim reporting periods. Early adoption is permitted. We are currently assessing the potential impact that the adoption of this guidance will have on our consolidated financial statements, as well as whether or not to early adopt this guidance.

In May 2014, the FASB issued an accounting standards update that outlines a new, single comprehensive model for companies to use in accounting for revenue arising from contracts with customers. This update supersedes most current revenue recognition guidance under U.S. GAAP. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance includes a five-step model for determining how, when and how much revenue should be recognized. This update also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In July 2015, the FASB issued a one year deferral of the effective date. The provisions of the new standard are now effective for Zoetis beginning January 1, 2018, for annual and interim reporting periods. Early adoption is permitted beginning on January 1, 2017. The new standard allows for either full retrospective or modified retrospective transition upon adoption. We continue to assess the transition method we will elect for adoption as well as the potential impact that adopting this new guidance will have on our consolidated financial statements.

5. Acquisitions

Acquisition of Abbott Animal Health

On February 10, 2015, we completed the purchase of certain assets of Abbott Animal Health (AAH), a subsidiary of Abbott Laboratories (Abbott). AAH is a companion animal health business focused on the veterinary surgical suite. The purchase expands our companion animal product portfolio to include veterinarian solutions for anesthesia, pain management, and the diagnosis of diabetes.

The $254 million purchase price included net cash of $229 million and an additional contingent payment of $25 million which is due to Abbott within one year of the acquisition date, subject to certain deductions in the event of sales disruptions due to supply issues. The range of undiscounted amounts that Zoetis could pay pursuant to this contingent consideration arrangement is between zero and $25 million, with an acquisition date fair value of $22 million. The fair value of the contingent consideration recognized as of the acquisition date was determined using a probability weighted discounted cash flow analysis that considered significant estimates and assumptions not available in the market (Level 3 inputs).

The transaction was accounted for as a business combination, with the net assets acquired measured at their respective acquisition date fair values. Preliminary amounts recorded for the acquisition include $13 million of inventory, $8 million of in-process research and development (IPR&D) associated with oncology and osteoarthritis projects, $4 million of trade names related to diabetes and pain management products, $11 million of developed technology assets associated with pain management and surgical products, $15 million of other intangible assets including a favorable supply agreement and product exclusivity rights and property, plant and equipment of less than $1 million. Trade names and developed technology assets will be amortized over 15 years while other intangible assets acquired have a weighted average useful life of 5 years.

Goodwill of $200 million, representing the excess of consideration transferred over the fair value of assets acquired, was allocated across our reportable segments and is predominantly attributable to synergies expected to be realized through the integration of AAH operations into the existing Zoetis business. The goodwill recorded is expected to be

deductible for tax purposes.
All amounts recorded are subject to final valuation, however any difference between such amounts and the final fair value determination for net assets acquired is not expected to be material to our condensed consolidated financial statements.
Acquisition-related costs of the transaction were expensed as incurred and are not material to our condensed consolidated statements of operations. AAH revenue and earnings occurring subsequent to the acquisition date have been included in our 2015 financial results but are not material to the condensed consolidated statements of operations.

6. Restructuring Charges and Other Costs Associated with Acquisitions and Cost-Reduction/Productivity Initiatives

In connection with our cost-reduction/productivity initiatives, we typically incur costs and charges associated with site closings and other facility rationalization actions, workforce reductions and the expansion of shared services, including the development of global systems. In connection with our acquisition activity, we typically incur costs and charges associated with executing the transactions, integrating the acquired operations, which may include expenditures for consulting and the integration of systems and processes, product transfers and restructuring the consolidated company, which may include charges related to employees, assets and activities that will not continue in the consolidated company. All operating functions can be impacted by these actions, including sales and marketing, manufacturing and research and development (R&D), as well as functions such as business technology, shared services and corporate operations.

Table of Contents

On May 5, 2015, we announced a comprehensive operational efficiency program, which is incremental to the supply network strategy that was previously announced. These program's actions are focused on reducing complexity in our product portfolios through the elimination of approximately 5,000 product SKUs, changing our selling approach in certain markets and reducing our presence in certain countries, as well as planning to sell or exit ten manufacturing sites over the long term. We also plan to optimize our resource allocation and efficiency by reducing resources associated with non-customer facing commercial activities and operating more efficiently as a result of less internal complexity and more standardization of processes. As part of these initiatives, we expect to reduce certain positions through divestitures, normal attrition and involuntary terminations by approximately 2,000 to 2,500, subject to consultations with works councils and unions in certain countries, primarily over the next 18 months.

In the second quarter of 2015, we recorded restructuring charges of $253 million relating to the operational efficiency initiative, consisting of employee termination costs of $228 million and asset impairment charges of $25 million.

In the second quarter of 2015, we recorded restructuring charges of $10 million relating to the supply network strategy, consisting of employee termination costs of $9 million and asset impairment charges of $1 million.

In the first half of 2014, we recorded restructuring charges of $5 million related to employee termination costs in Europe as a result of initiatives to reduce costs and better align our organizational structure.

The components of costs incurred in connection with restructuring initiatives, acquisitions and cost-reduction/productivity initiatives follow:

	Three Months Ended		Six Months Ended	
(MILLIONS OF DOLLARS)	June 28, 2015	June 29, 2014	June 28, 2015	June 29, 2014
Restructuring charges and certain acquisition-related costs:				
Integration costs[(a)]	$3	$2	$4	$4
Restructuring charges[(b)]:				
Employee termination costs	237	3	237	3
Accelerated depreciation	—	—	—	1
Asset impairment charges	26	—	26	—
Total Restructuring charges and certain acquisition-related costs	266	5	267	8
Other costs associated with cost-reduction/productivity initiatives:				
Other operational efficiency initiative charges[(c)]	10	—	20	—
Other supply network strategy charges[(d)]	5		10	
Total costs associated with acquisitions and cost-reduction/productivity initiatives	$281	$5	$297	$8

(a) Integration costs represent external, incremental costs directly related to integrating acquired businesses and primarily include expenditures for consulting and the integration of systems and processes, as well as product transfer costs.

(b) The restructuring charges for the three and six months ended June 28, 2015, represent charges related to our operational efficiency initiative and supply network strategy. The restructuring charges for the three and six months ended June 29, 2014, include employee termination costs in Europe ($3 million and $5 million, respectively). Additionally, the six months ended June 29, 2014, includes a reversal of a previously established reserve as a result of a change in estimate of severance costs ($2 million benefit), and accelerated depreciation related to the exiting of a research facility ($1 million).

The restructuring charges are associated with the following:

- For the three and six months ended June 28, 2015—U.S. ($30 million), International ($115 million) and Manufacturing/research/corporate ($118 million).
- For the three months ended June 29, 2014—International ($3 million).

•For the six months ended June 29, 2014—International ($5 million) and Manufacturing/research/corporate ($1 million benefit).

(c) Primarily represents consulting fees and is included in Selling, general and administrative expenses .

(d) Primarily represents consulting fees and is included in Cost of sales.

The components of, and changes in, our restructuring accruals follow:

(MILLIONS OF DOLLARS)	Employee Termination Costs	Asset Impairment Charges	Exit Costs	Accrual
Balance, December 31, 2014[(a)]	$ 18	$—	$ 1	$ 19
Provision	237	26	—	263
Utilization and other[(b)]	(12)	(26)	—	(38)
Balance, June 28, 2015[(a)]	$ 243	$—	$ 1	$ 244

(a) At June 28, 2015, and December 31, 2014, included in Accrued expenses ($148 million and $13 million, respectively) and Other noncurrent liabilities ($96 million and $6 million, respectively).

(b) Includes adjustments for foreign currency translation.

7. Other (Income)/Deductions—Net

The components of Other (income)/deductions—net follow:

	Three Months Ended		Six Months Ended	
(MILLIONS OF DOLLARS)	June 28, 2015	June 29, 2014	June 28, 2015	June 29, 2014
Royalty-related income	$(7)	$(6)	$(14)	$(14)
Identifiable intangible asset impairment charges[a]	2	—	2	—
Net gain on sale of assets[b]	—	(6)	—	(6)
Certain legal and other matters, net[c]	—	13	—	11
Foreign currency loss[d]	4	7	12	16
Other, net[e]	3	—	2	2
Other (income)/deductions—net	$2	$8	$2	$9

(a) For the three and six months ended June 28, 2015, represents an impairment of IPR&D assets related to the termination of a canine oncology project.

(b) For the three and six months ended June 29, 2014, represents the net gain on sale of land in our Taiwan joint venture.

(c) For the three and six months ended June 29, 2014, represents a $13 million charge related to a commercial settlement in Mexico. See Note 16. Commitments and Contingencies for additional information. The six months ended June 29, 2014, also includes a $2 million insurance recovery of litigation related charges.

(d) Primarily driven by costs related to hedging and exposures to certain emerging market currencies. The six months ended June 29, 2014, also includes losses related to the depreciation of the Argentine peso in the first quarter of 2014.

(e) For the three and six months ended June 28, 2015, primarily represents inventory losses of $3 million sustained as a result of weather damage at storage facilities in Brazil and Australia, partially offset by interest income and other miscellaneous income. For the six months ended June 29, 2014, represents a pension plan settlement charge related to the sale of a manufacturing plant, partially offset by interest income and other miscellaneous income.

8. Income Taxes

A. Taxes on Income

The effective tax rate was (33.3)% for the second quarter of 2015, compared with 30.5% for the second quarter of 2014. The negative effective tax rate for the second quarter of 2015 was driven by a pre-tax loss which resulted from restructuring charges recorded in the quarter related to the operational efficiency initiative and supply network strategy. See Note 6. Restructuring Charges and Other Costs Associated with Acquisitions and Cost-Reduction/Productivity Initiatives for additional information. In addition the effective tax rate for the second quarter of 2015 includes a $6 million discrete tax benefit related to prior period tax adjustments, partially offset by a valuation allowance of $3 million, and changes in the jurisdictional mix of earnings, which includes the impact of the location of earnings as well as repatriation costs.

The effective tax rate was 36.5% for the six months ended June 28, 2015, compared with 31.1% for the six months ended June 29, 2014. The higher effective tax rate for the six months ended June 28, 2015 was primarily attributable to:

- changes in the jurisdictional mix of earnings, which includes the impact of the location of earnings from operations, restructuring charges related to the operational efficiency initiative and supply network strategy, as well as repatriation costs; and
- the recording of a valuation allowance of $3 million in the second quarter of 2015;

partially offset by:

- an $9 million discrete tax benefit recorded in the first quarter of 2015 related to a revaluation of deferred taxes as a result of a change in tax rates; and
- a $6 million discrete tax benefit recorded related to prior period tax adjustments.

B. Deferred Taxes

As of June 28, 2015, the total net deferred income tax liability of $52 million is included in Current deferred tax assets ($127 million), Noncurrent deferred tax assets ($65 million), Accrued expenses ($10 million) and Noncurrent deferred

tax liabilities ($234 million).
As of December 31, 2014, the total net deferred income tax liability of $125 million is included in Current deferred tax assets ($109 million), Noncurrent deferred tax assets ($54 million), Accrued expenses ($11 million) and Noncurrent deferred tax liabilities ($277 million).
C. Tax Contingencies
As of June 28, 2015, the tax liabilities associated with uncertain tax positions of $57 million (exclusive of interest and penalties related to uncertain tax positions of $8 million) are included in Noncurrent deferred tax assets ($6 million) and Other taxes payable ($51 million).
As of December 31, 2014, the tax liabilities associated with uncertain tax positions of $54 million (exclusive of interest and penalties related to uncertain tax positions of $8 million) are included in Noncurrent deferred tax assets ($6 million) and Other taxes payable ($48 million).
Our tax liabilities for uncertain tax positions relate primarily to issues common among multinational corporations. Any settlements or statute of limitations expirations could result in a significant decrease in our uncertain tax positions. Substantially all of these unrecognized tax benefits, if recognized, would impact our effective income tax rate. We do not expect that within the next twelve months any of our uncertain tax positions could significantly decrease as a result of settlements with taxing authorities or the expiration of the statutes of limitations. Our assessments are

Table of Contents

based on estimates and assumptions that have been deemed reasonable by management, but our estimates of uncertain tax positions and potential tax benefits may not be representative of actual outcomes, and any variation from such estimates could materially affect our financial statements in the period of settlement or when the statutes of limitations expire, as we treat these events as discrete items in the period of resolution. Finalizing audits with the relevant taxing authorities can include formal administrative and legal proceedings, and, as a result, it is difficult to estimate the timing and range of possible changes related to our uncertain tax positions, and such changes could be significant.

9. Financial Instruments

A. Debt

Credit Facilities

In December 2012, we entered into a revolving credit agreement with a syndicate of banks providing for a five-year $1.0 billion senior unsecured revolving credit facility (the credit facility), which became effective in February 2013 upon the completion of the IPO and expires in December 2017. Subject to certain conditions, we have the right to increase the credit facility to up to $1.5 billion. The credit facility contains a financial covenant requiring us to not exceed a maximum total leverage ratio (the ratio of consolidated net debt as of the end of the period to consolidated Earnings Before Interest, Income Taxes, Depreciation and Amortization (EBITDA) for such period) of 3.50:1 for fiscal year 2015 and 3.00:1 thereafter. The credit facility also contains a financial covenant requiring that we maintain a minimum interest coverage ratio (the ratio of EBITDA at the end of the period to interest expense for such period) of 3.50:1. In addition, the credit facility contains other customary covenants. We were in compliance with all financial covenants as of June 28, 2015, and December 31, 2014. There were no amounts drawn under the credit facility as of June 28, 2015, or December 31, 2014.

We have additional lines of credit and other credit arrangements with a group of banks and other financial intermediaries for general corporate purposes. We maintain cash and cash equivalent balances in excess of our outstanding short-term borrowings. As of June 28, 2015, we had access to $82 million of lines of credit which expire at various times through 2017. Short-term borrowings outstanding related to these facilities were $4 million and $7 million as of June 28, 2015, and December 31, 2014, respectively. Long-term borrowings outstanding related to these facilities were $2 million and $3 million as of June 28, 2015, and December 31, 2014, respectively.

Commercial Paper Program

In February 2013, we entered into a commercial paper program with a capacity of up to $1.0 billion. As of June 28, 2015, and December 31, 2014, there was no commercial paper issued under this program.

Short-Term Borrowings

As of June 28, 2015, short-term borrowings outstanding related to credit facilities were $4 million, with a weighted-average interest rate of 6.4%. As of December 31, 2014, short-term borrowings outstanding related to credit facilities were $7 million, with a weighted-average interest rate of 9.7%. See Credit Facilities for additional information.

Senior Notes Offering and Other Long-Term Debt

On January 28, 2013, we issued $3.65 billion aggregate principal amount of our senior notes (the senior notes offering) in a private placement, with an original issue discount of $10 million. The senior notes are comprised of $400 million aggregate principal amount of our 1.150% senior notes due 2016, $750 million aggregate principal amount of our 1.875% senior notes due 2018, $1.35 billion aggregate principal amount of our 3.250% senior notes due 2023 and $1.15 billion aggregate principal amount of our 4.700% senior notes due 2043.

The current portion of long-term debt was $400 million as of June 28, 2015, with a weighted-average interest rate of 1.150%. There was no current portion of long-term debt as of December 31, 2014.

The senior notes are governed by an indenture and supplemental indenture (collectively, the indenture) between us and Deutsche Bank Trust Company Americas, as trustee. The indenture contains certain covenants, including limitations on our and certain of our subsidiaries' ability to incur liens or engage in sale-leaseback transactions. The indenture also contains restrictions on our ability to consolidate, merge or sell substantially all of our assets. In addition, the indenture contains other customary terms, including certain events of default, upon the occurrence of which the senior notes may be declared immediately due and payable.

Pursuant to the indenture, we are able to redeem the senior notes, in whole or in part, at any time by paying a “make whole” premium, plus accrued and unpaid interest to, but excluding, the date of redemption. Pursuant to our tax matters agreement with Pfizer, we will not be permitted to redeem the 2023 notes pursuant to this optional redemption provision, except under limited circumstances. Upon the occurrence of a change of control of us and a downgrade of the senior notes below an investment grade rating by each of Moody's Investors Service, Inc. and Standard & Poor's Ratings Services, we are, in certain circumstances, required to make an offer to repurchase all of the outstanding senior notes at a price equal to 101% of the aggregate principal amount of the senior notes together with accrued and unpaid interest to, but excluding, the date of repurchase.

Table of Contents

The components of our long-term debt follow:

(MILLIONS OF DOLLARS)	June 28, 2015	December 31, 2014
Lines of credit, due 2016-2018	$2	$3
1.150% Senior Notes due 2016	400	400
1.875% Senior Notes due 2018	750	750
3.250% Senior Notes due 2023	1,350	1,350
4.700% Senior Notes due 2043	1,150	1,150
	3,652	3,653
Unamortized debt discount	(9)	(10)
Less current portion of long-term debt	(400)	—
Long-term debt	$3,243	$3,643

The fair value of our long-term debt, including the current portion of long-term debt, was $3,580 million and $3,690 million as of June 28, 2015, and December 31, 2014, respectively, and has been determined using a third-party matrix-pricing model that uses significant inputs derived from, or corroborated by, observable market data and Zoetis's credit rating (Level 2 inputs).

The principal amount of long-term debt outstanding, including the current portion of long-term debt, as of June 28, 2015, matures in the following years:

(MILLIONS OF DOLLARS)	2016	2017	2018	2019	2020	After 2020	Total
Maturities	$401	$—	$751	$—	$—	$2,500	$3,652

Interest Expense

Interest expense, net of capitalized interest, was $29 million and $57 million for the three and six months ended June 28, 2015, respectively, and $29 million and $58 million for the three and six months ended June 29, 2014, respectively. Capitalized interest was $1 million and $2 million for the both the three and six months ended June 28, 2015, and June 29, 2014, respectively.

B. Derivative Financial Instruments

Foreign Exchange Risk

A significant portion of our revenue, earnings and net investment in foreign affiliates is exposed to changes in foreign exchange rates. We seek to manage our foreign exchange risk, in part, through operational means, including managing same-currency revenue in relation to same-currency costs and same-currency assets in relation to same-currency liabilities. Depending on market conditions, foreign exchange risk is also managed through the use of derivative financial instruments. These financial instruments serve to protect net income against the impact of the translation into U.S. dollars of certain foreign exchange-denominated transactions. The aggregate notional amount of foreign exchange derivative financial instruments offsetting foreign currency exposures was $1.3 billion and $1.1 billion, as of June 28, 2015, and December 31, 2014, respectively. The derivative financial instruments primarily offset exposures in the euro, U.K. pound, and Japanese Yen. The vast majority of the foreign exchange derivative financial instruments mature within 60 days and all mature within 180 days.

All derivative contracts used to manage foreign currency risk are measured at fair value and are reported as assets or liabilities on the condensed consolidated balance sheet. The company has not designated the foreign currency forward-exchange contracts as hedging instruments. We recognize the gains and losses on forward-exchange contracts that are used to offset the same foreign currency assets or liabilities immediately into earnings along with the earnings impact of the items they generally offset. These contracts essentially take the opposite currency position of that reflected in the month-end balance sheet to counterbalance the effect of any currency movement.

Fair Value of Derivative Instruments

The location and fair values of derivative instruments not designated as hedging instruments are as follows:

		Fair Value of Derivatives	
(MILLIONS OF DOLLARS)	Balance Sheet Location	June 28, 2015	December 31, 2014

Foreign currency forward-exchange contracts	Other current assets	$11	$9
Foreign currency forward-exchange contracts	Other current liabilities	(12)	(4)
Total foreign currency forward-exchange contracts		$(1)	$5

We use a market approach in valuing financial instruments on a recurring basis. Our derivative financial instruments are measured at fair value on a recurring basis using Level 2 inputs in the calculation of fair value.

Table of Contents

The net gains and losses incurred on foreign currency forward-exchange contracts not designated as hedging instruments were losses of $1 million and gains of $6 million for the three and six months ended ended June 28, 2015, respectively, and losses of $13 million and $1 million for the three and six months ended June 29, 2014, respectively, and are recorded in Other (income)/deductions—net. These amounts were substantially offset in Other (income)/deductions—net by the effect of changing exchange rates on the underlying foreign currency exposures.

10. Inventories

The components of inventory follow:

(MILLIONS OF DOLLARS)	June 28, 2015	December 31, 2014
Finished goods	$715	$688
Work-in-process	424	340
Raw materials and supplies	278	261
Inventories	$1,417	$1,289

11. Goodwill and Other Intangible Assets

A. Goodwill

Prior to the second quarter of 2015, our businesses were managed through four operating segments, and they are now managed through two operating segments: U.S. and International. See Note 17. Segment and Other Revenue Information for additional information.

The components of, and changes in, the carrying amount of goodwill follow:

(MILLIONS OF DOLLARS)	U.S.	International	Total
Balance, December 31, 2014	$501	$475	$976
Additions[(a)]	162	38	200
Other[(b)]	—	(9)	(9)
Balance, June 28, 2015	$663	$504	$1,167

(a) Reflects the allocation across reportable segments of goodwill associated with the acquisition of certain assets of Abbott Animal Health (amounts recorded are preliminary and subject to final valuation). For additional information, see Note 5. Acquisitions.

(b) Reflects adjustments for foreign currency translation.

The gross goodwill balance was $1,703 million and $1,512 million as of June 28, 2015, and December 31, 2014, respectively. Accumulated goodwill impairment losses (generated entirely in fiscal 2002) were $536 million as of June 28, 2015, and December 31, 2014.

B. Other Intangible Assets

The components of identifiable intangible assets follow:

(MILLIONS OF DOLLARS)	As of June 28, 2015 Gross Carrying Amount	Accumulated Amortization	Identifiable Intangible Assets Less Accumulated Amortization	As of December 31, 2014 Gross Carrying Amount	Accumulated Amortization	Identifiable Intangible Assets Less Accumulated Amortization
Finite-lived intangible assets:						
Developed technology rights[(a)]	$709	$(268)	$441	$744	$(259)	$485
Brands	212	(116)	96	216	(111)	105
Trademarks and trade names[(a)]	63	(42)	21	60	(41)	19
Other[(a)]	133	(116)	17	119	(116)	3
Total finite-lived intangible assets	1,117	(542)	575	1,139	(527)	612
Indefinite-lived intangible assets:						
Brands	39	—	39	38	—	38
Trademarks and trade names	67	—	67	67	—	67
In-process research and development[(a)]	8	—	8	2	—	2
Product rights	8	—	8	8	—	8
Total indefinite-lived intangible assets	122	—	122	115	—	115
Identifiable intangible assets	$1,239	$(542)	$697	$1,254	$(527)	$727

(a) Includes the acquisition of intangible assets associated with the purchase of certain assets of Abbott Animal Health in the first quarter of 2015 (amounts recorded are preliminary and subject to final valuation), as well as the impact of foreign exchange. For additional information, see Note 5. Acquisitions.

C. Amortization

Amortization expense related to acquired intangible assets that contribute to our ability to sell, manufacture, research, market and distribute products, compounds and intellectual property is included in Amortization of intangible assets as it benefits multiple business functions. Amortization expense related to acquired intangible assets that are associated with a single function is included in Cost of sales, Selling, general and administrative expenses or Research and development expenses, as appropriate. Total amortization expense for finite-lived intangible assets was $16 million and $31 million for each of the three and six months ended June 28, 2015, and June 29, 2014, respectively.

12. Benefit Plans

Prior to the Separation from Pfizer, employees who met certain eligibility requirements participated in various defined benefit pension plans and postretirement plans administered and sponsored by Pfizer. Effective December 31, 2012, our employees ceased to participate in the Pfizer U.S. qualified defined benefit and U.S. retiree medical plans, and liabilities associated with our employees under these plans were retained by Pfizer. Pfizer is continuing to credit certain employees' service with Zoetis generally through December 31, 2017 (or termination of employment from Zoetis, if earlier) for certain early retirement benefits with respect to Pfizer's U.S. defined benefit pension and retiree medical plans. Pension and postretirement benefit expense associated with the extended service for certain employees in the U.S. plans totaled approximately $1 million in each three month period ended June 28, 2015, and June 29, 2014, respectively, and approximately $3 million in each six month period ended June 28, 2015, and June 29, 2014, respectively.

As part of the Separation (see Note 2. The Separation and Transactions and Agreements with Pfizer), certain separation adjustments were made to transfer the assets and liabilities of certain international defined benefit pension plans from Pfizer to Zoetis. During the first quarter of 2014, our pension plan in Japan was transferred to us from Pfizer. The net pension obligation (approximately $2 million) and the related accumulated other comprehensive loss (approximately $2 million, net of tax) associated with this plan were recorded. During the remainder of 2014, our pension plans in Australia, Belgium and Switzerland were transferred to us. Prior to the Separation and transfer, these benefit plans were accounted for as multi-employer plans. There were no transfers during the first six months of 2015. As of June 28, 2015, there existed a net liability of $1 million for the expected transfer of the Philippines pension plan which is expected to occur in 2015.

The following table provides the net periodic benefit cost associated with dedicated pension plans (including those transferred to us):

	Three Months Ended		Six Months Ended	
(MILLIONS OF DOLLARS)	June 28, 2015	June 29, 2014	June 28, 2015	June 29, 2014
Service cost	$2	$1	$4	$2
Interest cost	1	—	2	1
Expected return on plan assets	(1)	—	(1)	—
Amortization of net actuarial loss	1	—	1	—
Settlement loss[(a)]	—	—	—	4
Net periodic benefit cost	$3	$1	$6	$7

(a) Includes the first quarter 2014 settlement charge of approximately $4 million ($3 million, net of tax) associated with the 2012 sale of our Netherlands manufacturing facility.

Total company contributions to the dedicated international pension plans were $1 million and $3 million for the three and six months ended June 28, 2015, respectively, and $0 million and $2 million for the three and six months ended June 29, 2014, respectively. We expect to contribute a total of approximately $7 million to these plans in 2015.

Pension expense associated with international benefit plans accounted for as multi-employer plans was approximately $2 million and $3 million for the three months and six months ended June 29, 2014, respectively. Contributions to these plans were approximately $1 million and $2 million for the three and six months ended June 29, 2014, respectively. There were no plans accounted for as multi-employer plans in 2015.

13. Share-Based Payments

The company may grant a variety of share-based payments under the Zoetis 2013 Equity and Incentive Plan (Equity Plan) to employees and non-employee directors. The principal types of share-based awards available under the Equity Plan may include, but are not limited to, stock options, restricted stock and restricted stock units (RSUs), deferred stock unit awards (DSUs), performance share unit awards (PSUs) and other equity-based or cash-based awards.

Table of Contents

The components of share-based compensation expense follow:

	Three Months Ended		Six Months Ended	
(MILLIONS OF DOLLARS)	June 28, 2015	June 29, 2014	June 28, 2015	June 29, 2014
Stock options / stock appreciation rights	$5	$4	$11	$7
RSUs / DSUs	5	4	9	6
PSUs	1	—	1	—
Share-based compensation expense—total[(a)]	$11	$8	$21	$13

[(a)] For the three and six months ended June 28, 2015, we capitalized $1 million of share-based compensation expense to inventory.

During the six months ended June 28, 2015, the company granted 857,715 stock options with a weighted-average exercise price of $45.99 per stock option and a weighted-average fair value of $11.69 per option. The fair-value based method for valuing each Zoetis stock option grant on the grant date uses the Black-Scholes-Merton option-pricing model, which incorporates a number of valuation assumptions. The expected volatility assumption required for the Black-Scholes-Merton model for the 2015 grant was calculated using a 2-year historical volatility of the Zoetis stock price and weighting it equally against the implied volatility. Prior to 2015, the company had used an implied volatility. The selection of the blended historical and implied volatility approach was based on our assessment that this calculation of expected volatility is more representative of future stock price trends. The weighted-average fair value was estimated based on the following assumptions: risk-free interest rate of 1.79%; expected dividend yield of 0.72%; expected stock price volatility of 23.91%; and expected term of 6.5 years. The values determined through this fair-value based method generally are amortized on a straight-line basis over the vesting term into Cost of sales, Selling, general and administrative expenses, or Research and development expenses, as appropriate.

During the six months ended June 28, 2015, the company granted 707,932 RSUs with a weighted-average grant date fair value of $46.04 per RSU. RSUs are accounted for using a fair-value-based method that utilizes the closing price of Zoetis common stock on the date of grant. In general, RSUs vest after three years of continuous service from the grant date and the values are amortized on a straight-line basis over the vesting term into Cost of sales, Selling, general and administrative expenses, or Research and development expenses, as appropriate.

During the six months ended June 28, 2015, the company granted 157,130 PSUs with a weighted-average grant date fair value of $63.14 per PSU. PSUs are accounted for using a Monte Carlo simulation model. The units underlying the PSUs will be earned and vested over a three-year performance period, based upon total shareholder return of the company in comparison to the total shareholder return of the S&P 500 index at the start of the performance period (Relative TSR). The weighted-average fair value was estimated based on volatility assumptions of Zoetis common stock and an average of peer companies, which were 21.8% and 23.5%, respectively. Depending on the company’s Relative TSR performance at the end of the performance period, the recipient may earn between 0% and 200% of the target number of units. Vested units are settled in shares of the company’s common stock. PSU values are amortized on a straight-line basis over the vesting term into Cost of sales, Selling, general and administrative expenses, or Research and development expenses, as appropriate.

14. Stockholders' Equity

Zoetis is authorized to issue 6,000,000,000 shares of common stock and 1,000,000,000 shares of preferred stock.

Changes in common shares and treasury stock were as follows:

(MILLIONS OF DOLLARS AND SHARES)	Common Shares Issued[(a)]	Treasury Stock[(a)]	Cost of Treasury Stock
Balance, December 31, 2013	500.008	—	$—
Stock-based compensation[(b)]	0.086	0.013	0.4
Defined contribution plan	0.957	—	—
Balance, June 29, 2014	501.051	0.013	$0.4
Balance, December 31, 2014	501.342	0.015	$0.5
Stock-based compensation[(b)]	0.159	0.023	1.1

Share repurchase program[c]	—	2.124	98.1
Balance, June 28, 2015	501.502	2.162	$99.7

(a) Shares may not add due to rounding.

(b) Treasury shares associated with stock-based compensation are reacquired from employees to satisfy tax withholding requirements on the vesting of restricted shares from equity-based awards. For additional information regarding share-based compensation, see Note 13. Share-Based Payments.

(c) In November 2014, the company's Board of Directors authorized a $500 million share repurchase program. Purchases of Zoetis shares may be made at the discretion of management, depending on market conditions and business needs. As of June 28, 2015, there was approximately $402 million remaining under this authorization.

Table of Contents

Changes, net of tax, in accumulated other comprehensive loss, excluding noncontrolling interest, follow:

	Currency Translation Adjustment	Benefit Plans	
(MILLIONS OF DOLLARS)	Net Unrealized Gains/(Losses)	Actuarial Gains/(Losses)	Accumulated Other Comprehensive Loss
Balance, December 31, 2014	$(336)	$(25)	$(361)
Other comprehensive income (loss), net of tax	(144)	1	(143)
Balance, June 28, 2015	$(480)	$(24	