CF Industries Holdings, Inc.
Form 10-Q
May 02, 2019

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cf:Litigation_case cf:Plaintiff cf:Entity
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM10-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 **March 31, 2019**

OR

o **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 001-32597

CF INDUSTRIES HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-2697511**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4 Parkway North, Suite 400 Deerfield, Illinois	**60015**
(Address of principal executive offices)	(Zip Code)

(847) 405-2400

(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 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. Yes x No o

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes x No o

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

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
common stock, par value $0.01 per share	CF	New York Stock Exchange

221,077,667 shares of the registrant’s common stock, $0.01 par value per share, were outstanding at April 29, 2019.

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PART I—FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended March 31,	
	2019	2018
	(in millions, except per share amounts)	
Net sales	$1,001	$957
Cost of sales	781	767
Gross margin	220	190
Selling, general and administrative expenses	58	57
Other operating—net	4	(21)
Total other operating costs and expenses	62	36
Equity in earnings of operating affiliate	7	7
Operating earnings	165	161
Interest expense	60	60
Interest income	(4)	(3)
Other non-operating—net	(1)	(1)
Earnings before income taxes	110	105
Income tax (benefit) provision	(8)	17
Net earnings	118	88
Less: Net earnings attributable to noncontrolling interests	28	25
Net earnings attributable to common stockholders	$90	$63
Net earnings per share attributable to common stockholders:		
Basic	$0.40	$0.27
Diluted	$0.40	$0.27
Weighted-average common shares outstanding:		
Basic	223.4	233.9
Diluted	224.6	234.8
Dividends declared per common share	$0.30	$0.30

See accompanying Notes to Unaudited Consolidated Financial Statements.

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CF INDUSTRIES HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three months ended March 31,	
	2019	**2018**
	(in millions)	
Net earnings	$118	$88
Other comprehensive income (loss):		
Foreign currency translation adjustment—net of taxes	32	17
Defined benefit plans—net of taxes	(2)	(1)
	30	16
Comprehensive income	148	104
Less: Comprehensive income attributable to noncontrolling interests	28	25
Comprehensive income attributable to common stockholders	$120	$79

See accompanying Notes to Unaudited Consolidated Financial Statements.

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CF INDUSTRIES HOLDINGS, INC.

CONSOLIDATED BALANCE SHEETS

	(Unaudited) March 31, 2019	December 31, 2018
	(in millions, except share and per share amounts)	
Assets		
Current assets:		
Cash and cash equivalents	$671	$682
Accounts receivable—net	264	235
Inventories	446	309
Prepaid income taxes	1	28
Other current assets	30	20
Total current assets	1,412	1,274
Property, plant and equipment—net	8,471	8,623
Investment in affiliate	100	93
Goodwill	2,360	2,353
Operating lease right-of-use assets	285	—
Other assets	314	318
Total assets	$12,942	$12,661
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued expenses	$432	$545
Income taxes payable	3	5
Customer advances	301	149
Current operating lease liabilities	85	—
Other current liabilities	5	6
Total current liabilities	826	705
Long-term debt	4,700	4,698
Deferred income taxes	1,135	1,117
Operating lease liabilities	203	—
Other liabilities	408	410
Equity:		
Stockholders' equity:		
Preferred stock—$0.01 par value, 50,000,000 shares authorized	—	—
Common stock—$0.01 par value, 500,000,000 shares authorized, 2019—223,070,183 shares issued and 2018—233,800,903 shares issued	2	2
Paid-in capital	1,311	1,368
Retained earnings	2,047	2,463
Treasury stock—at cost, 2019—1,546,005 shares and 2018—10,982,408 shares	(64)	(504)
Accumulated other comprehensive loss	(341)	(371)
Total stockholders' equity	2,955	2,958
Noncontrolling interests	2,715	2,773
Total equity	5,670	5,731
Total liabilities and equity	$12,942	$12,661

See accompanying Notes to Unaudited Consolidated Financial Statements.

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CF INDUSTRIES HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited)

	Common Stockholders							
	$0.01 Par Value Common Stock	Treasury Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
	(in millions, except per share amounts)							
Balance as of December 31, 2018	$2	$(504)	$1,368	$2,463	$(371)	$2,958	$2,773	$5,731
Net earnings	—	—	—	90	—	90	28	118
Other comprehensive income	—	—	—	—	30	30	—	30
Purchases of treasury stock	—	(60)	—	—	—	(60)	—	(60)
Retirement of treasury stock	—	504	(65)	(439)	—	—	—	—
Acquisition of treasury stock under employee stock plans	—	(4)	—	—	—	(4)	—	(4)
Issuance of $0.01 par value common stock under employee stock plans	—	—	2	—	—	2	—	2
Stock-based compensation expense	—	—	6	—	—	6	—	6
Cash dividends ($0.30 per share)	—	—	—	(67)	—	(67)	—	(67)
Distribution declared to noncontrolling interest	—	—	—	—	—	—	(86)	(86)
Balance as of March 31, 2019	$2	$(64)	$1,311	$2,047	$(341)	$2,955	$2,715	$5,670
Balance as of December 31, 2017	$2	$—	$1,397	$2,443	$(263)	$3,579	$3,105	$6,684
Adoption of ASU No. 2014-09	—	—	—	(1)	—	(1)	—	(1)
Adoption of ASU No. 2016-01	—	—	—	1	(1)	—	—	—
Net earnings	—	—	—	63	—	63	25	88
Other comprehensive income	—	—	—	—	16	16	—	16
Acquisition of treasury stock under employee stock plans	—	(1)	—	—	—	(1)	—	(1)
Issuance of $0.01 par value common stock under employee stock plans	—	—	2	—	—	2	—	2
Stock-based compensation expense	—	—	6	—	—	6	—	6
Cash dividends ($0.30 per share)	—	—	—	(70)	—	(70)	—	(70)
Distributions declared to noncontrolling interests	—	—	—	—	—	—	(59)	(59)
Balance as of March 31, 2018	$2	$(1)	$1,405	$2,436	$(248)	$3,594	$3,071	$6,665

See accompanying Notes to Unaudited Consolidated Financial Statements.

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CF INDUSTRIES HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three months ended March 31, 2019	2018
	(in millions)	
Operating Activities:		
Net earnings	$118	$88
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	188	193
Deferred income taxes	14	29
Stock-based compensation expense	6	6
Unrealized net loss (gain) on natural gas derivatives	2	(3)
Unrealized loss on embedded derivative	1	—
Loss on disposal of property, plant and equipment	1	—
Undistributed earnings of affiliate—net of taxes	(8)	(3)
Changes in:		
Accounts receivable—net	(28)	61
Inventories	(101)	(97)
Accrued and prepaid income taxes	24	(14)
Accounts payable and accrued expenses	(65)	(24)
Customer advances	152	65
Other—net	2	(19)
Net cash provided by operating activities	306	282
Investing Activities:		
Additions to property, plant and equipment	(80)	(68)
Proceeds from sale of property, plant and equipment	5	8
Distributions received from unconsolidated affiliate	—	4
Other—net	—	1
Net cash used in investing activities	(75)	(55)
Financing Activities:		
Financing fees	—	1
Dividends paid on common stock	(67)	(70)
Distributions to noncontrolling interests	(86)	(59)
Purchases of treasury stock	(87)	—
Issuances of common stock under employee stock plans	2	2
Shares withheld for taxes	(4)	(1)
Net cash used in financing activities	(242)	(127)
Effect of exchange rate changes on cash and cash equivalents	—	1
(Decrease) increase in cash and cash equivalents	(11)	101
Cash and cash equivalents at beginning of period	682	835
Cash and cash equivalents at end of period	$671	$936

See accompanying Notes to Unaudited Consolidated Financial Statements.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Background and Basis of Presentation

We are a leading global fertilizer and chemical company. Our 3,000 employees operate world-class manufacturing complexes in Canada, the United Kingdom and the United States. Our principal customers are cooperatives, independent fertilizer distributors, traders, wholesalers, farmers and industrial users. Our principal nitrogen fertilizer products are ammonia, granular urea, urea ammonium nitrate solution (UAN) and ammonium nitrate (AN). Our other nitrogen products include diesel exhaust fluid (DEF), urea liquor, nitric acid and aqua ammonia, which are sold primarily to our industrial customers, and compound fertilizer products (NPKs), which are solid granular fertilizer products for which the nutrient content is a combination of nitrogen, phosphorus, and potassium. We serve our customers in North America through our production, storage, transportation and distribution network. We also reach a global customer base with exports from our Donaldsonville, Louisiana, plant, the world's largest and most flexible nitrogen complex. Additionally, we move product to international destinations from our Verdigris, Oklahoma, facility, our Yazoo City, Mississippi, facility, our Billingham and Ince facilities in the United Kingdom, and from a joint venture ammonia facility in the Republic of Trinidad and Tobago in which we own a 50 percent interest.

All references to "CF Holdings," "the Company," "we," "us" and "our" refer to CF Industries Holdings, Inc. and its subsidiarie except where the context makes clear that the reference is only to CF Industries Holdings, Inc. itself and not its subsidiaries. All references to "CF Industries" refer to CF Industries, Inc., a 100% owned subsidiary of CF Industries Holdings, Inc.

The accompanying unaudited interim consolidated financial statements have been prepared on the same basis as our audited consolidated financial statements for the year ended December 31, 2018, in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial reporting. In the opinion of management, these statements reflect all adjustments, consisting only of normal and recurring adjustments, that are necessary for the fair representation of the information for the periods presented. The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. Operating results for any period presented apply to that period only and are not necessarily indicative of results for any future period.

The accompanying unaudited interim consolidated financial statements should be read in conjunction with our audited consolidated financial statements and related disclosures included in our 2018 Annual Report on Form 10-K filed with the SEC on February 22, 2019. The preparation of the unaudited interim consolidated financial statements requires us to make use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the unaudited consolidated financial statements and the reported revenues and expenses for the periods presented. Significant estimates and assumptions are used for, but are not limited to, net realizable value of inventories, environmental remediation liabilities, environmental and litigation contingencies, the cost of customer incentives, useful lives of property and identifiable intangible assets, the assumptions used in the evaluation of potential impairments of property, investments, identifiable intangible assets and goodwill, income tax and valuation reserves, allowances for doubtful accounts receivable, the measurement of the fair values of investments for which markets are not active, assumptions used in the determination of the funded status and annual expense of defined benefit pension and other postretirement benefit plans and the assumptions used in the valuation of stock-based compensation awards granted to employees.

2. New Accounting Standards

Recently Adopted Pronouncements

On January 1, 2019, we adopted Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842), which supersedes the lease accounting requirements in ASC Topic 840, Leases. This ASU requires lessees to recognize the rights and obligations resulting from virtually all leases (other than leases that meet the definition of a short-term lease) on their balance sheets as right-of-use assets with corresponding lease liabilities. Extensive quantitative and qualitative disclosures, including significant judgments made by management, are required to provide greater insight into the extent of income and expense recognized and expected to be recognized from existing contracts. We elected the optional transition method provided under ASU No. 2018-11, Leases (Topic 842): Targeted Improvements, which provides the option to adopt ASU No. 2016-02 as of the adoption date with a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The cumulative effect adjustment we recognized in the opening balance of retained earnings as of January 1, 2019 was not material. In addition, we elected the package of practical expedients permitted under the transition guidance within ASU No. 2016-02, which allows us to carry forward the historical lease determination, lease classification, and assessment of initial direct costs. See Note 13—Leases for additional information.

On January 1, 2019, we adopted ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, which improves the financial reporting of hedging relationships in order to better portray the economic results of an entity’s risk management activities in its financial statements. The adoption of this ASU had no effect on our consolidated financial statements.

Recently Issued Pronouncements

In August 2018, the Financial Accounting Standards Board issued ASU No. 2018-15, Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract. This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This ASU does not affect the accounting for the service element of a hosting arrangement that is a service contract. The amendments in this ASU are effective for annual and interim periods beginning after December 15, 2019 and can be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. Early adoption is permitted. We plan to adopt this ASU prospectively and are currently evaluating the impact that our adoption of this ASU will have on our consolidated financial statements.

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3. Revenue Recognition

We track our revenue by product and by geography. See Note 17—Segment Disclosures for our revenue by reportable segment, which are ammonia, granular urea, UAN, AN and Other. The following table summarizes our revenue by product and by geography (based on destination of our shipment) for the three months ended March 31, 2019 and 2018:

	Ammonia	Granular Urea	UAN	AN	Other	Total
	(in millions)					
Three months ended March 31, 2019						
North America	$160	$ 335	$242	$46	$ 59	$842
Europe and other	27	8	14	81	29	159
Total revenue	$187	$ 343	$256	$127	$ 88	$1,001
Three months ended March 31, 2018						
North America	$168	$ 264	$246	$45	$ 59	$782
Europe and other	44	—	37	55	39	175
Total revenue	$212	$ 264	$283	$100	$ 98	$957

As of March 31, 2019 and December 31, 2018, we had $301 million and $149 million, respectively, in customer advances on our consolidated balance sheets. The revenue recognized during the three months ended March 31, 2019 and 2018 that was included in our customer advances at the beginning of each respective period amounted to approximately $85 million and $65 million, respectively.

We offer cash incentives to certain customers based on the volume of their purchases over a certain period. These incentives do not provide an option to the customer for additional product. The balances of customer incentives accrued at March 31, 2019 and December 31, 2018 were not material.

We have certain customer contracts with performance obligations where if the customer does not take the required amount of product specified in the contract, then the customer is required to make a payment to us, which may vary based upon the terms and conditions of the applicable contract. As of March 31, 2019, excluding contracts with original durations of less than one year, and based on the minimum product tonnage to be sold and current market price estimates, our remaining performance obligations under these contracts are approximately $1.3 billion. We expect to recognize approximately 19% of these performance obligations as revenue in the remainder of 2019, approximately 42% as revenue during 2020 and 2021, approximately 26% as revenue during 2022 and 2023, and the remainder thereafter. If these customers do not fulfill their contractual obligations under such contracts, the legally enforceable minimum amount that they would pay to us under these contracts, in the aggregate, is approximately $285 million as of March 31, 2019. Other than the performance obligations described above, any performance obligations with our customers that were unfulfilled or partially filled at December 31, 2018 will be satisfied in 2019.

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CF INDUSTRIES HOLDINGS, INC.

4. Net Earnings Per Share

Net earnings per share were computed as follows:

	Three months ended March 31,	
	2019	2018
	(in millions, except per share amounts)	
Net earnings attributable to common stockholders	$90	$63
Basic earnings per common share:		
Weighted-average common shares outstanding	223.4	233.9
Net earnings attributable to common stockholders	$0.40	$0.27
Diluted earnings per common share:		
Weighted-average common shares outstanding	223.4	233.9
Dilutive common shares—stock options	1.2	0.9
Diluted weighted-average shares outstanding	224.6	234.8
Net earnings attributable to common stockholders	$0.40	$0.27

In the computation of diluted earnings per common share, potentially dilutive stock options are excluded if the effect of their inclusion is anti-dilutive. Shares for anti-dilutive stock options not included in the computation of diluted earnings per common share were 1.5 million and 2.0 million for the three months ended March 31, 2019 and 2018, respectively.

5. Inventories

Inventories consist of the following:

	March 31, 2019	December 31, 2018
	(in millions)	
Finished goods	$405	$ 272
Raw materials, spare parts and supplies	41	37
Total inventories	$446	$ 309

6. Property, Plant and Equipment—Net

Property, plant and equipment—net consists of the following:

	March 31, 2019	December 31, 2018
	(in millions)	
Land	$70	$ 69
Machinery and equipment	12,162	12,127
Buildings and improvements	882	886
Construction in progress	210	225
Property, plant and equipment(1)	13,324	13,307
Less: Accumulated depreciation and amortization	4,853	4,684
Property, plant and equipment—net	$8,471	$ 8,623

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(1) As of March 31, 2019 and December 31, 2018, we had property, plant and equipment that was accrued but unpaid of approximately $26 million and $48 million, respectively. As of March 31, 2018 and December 31, 2017, we had property, plant and equipment that was accrued but unpaid of $42 million and $46 million, respectively.

During the first quarter of 2019, we entered into an agreement to sell our Pine Bend dry bulk storage and logistics facility in Minnesota. As of March 31, 2019, the assets met the criteria to be classified as held for sale and, as a result, we reclassified the carrying value of the assets of $10 million from property, plant and equipment—net to other current assets on our consolidated balance sheet. See Note 19—Subsequent Event for additional information.

Depreciation and amortization related to property, plant and equipment was $183 million and $185 million for the three months ended March 31, 2019 and 2018, respectively.

Plant turnarounds—Scheduled inspections, replacements and overhauls of plant machinery and equipment at our continuous process manufacturing facilities during a full plant shutdown are referred to as plant turnarounds. The expenditures related to turnarounds are capitalized in property, plant and equipment when incurred. The following is a summary of capitalized plant turnaround costs:

	Three months ended March 31,	
	2019	2018
	(in millions)	
Net capitalized turnaround costs:		
Beginning balance	$252	$208
Additions	9	20
Depreciation	(30)	(28)
Effect of exchange rate changes	2	1
Ending balance	$233	$201

Scheduled replacements and overhauls of plant machinery and equipment include the dismantling, repair or replacement and installation of various components including piping, valves, motors, turbines, pumps, compressors, heat exchangers and the replacement of catalysts when a full plant shutdown occurs. Scheduled inspections are also conducted during full plant shutdowns, including required safety inspections which entail the disassembly of various components such as steam boilers, pressure vessels and other equipment requiring safety certifications. Internal employee costs and overhead amounts are not considered turnaround costs and are not capitalized.

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CF INDUSTRIES HOLDINGS, INC.

7. Goodwill and Other Intangible Assets

The following table shows the carrying amount of goodwill by reportable segment as of March 31, 2019 and December 31, 2018:

	Ammonia	Granular Urea	UAN	AN	Other	Total
	(in millions)					
Balance as of December 31, 2018	$586	$ 828	$576	$292	$ 71	$2,353
Effect of exchange rate changes	—	—	—	6	1	7
Balance as of March 31, 2019	$586	$ 828	$576	$298	$ 72	$2,360

All of our identifiable intangible assets have definite lives and are presented in other assets on our consolidated balance sheets at gross carrying amount, net of accumulated amortization, as follows:

	March 31, 2019			December 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
	(in millions)					
Customer relationships	$129	$ (40)	$89	$127	$ (37)	$90
TerraCair brand	—	—	—	10	(10)	—
Trade names	32	(6)	26	30	(5)	25
Total intangible assets	$161	$ (46)	$115	$167	$ (52)	$115

Our intangible assets are being amortized over a weighted-average life of approximately 20 years. Amortization expense of our identifiable intangible assets for each of the three-month periods ended March 31, 2019 and 2018 was $2 million. The gross carrying amount and accumulated amortization of our intangible assets are also impacted by the effect of exchange rate changes. Total estimated amortization expense for the remainder of 2019 and each of the five succeeding fiscal years is as follows:

	Estimated Amortization Expense
	(in millions)
Remainder of 2019	$ 6
2020	8
2021	8
2022	8
2023	8
2024	8

8. Equity Method Investment

We have a 50% ownership interest in Point Lisas Nitrogen Limited (PLNL), which operates an ammonia production facility in the Republic of Trinidad and Tobago. We include our share of the net earnings from this equity method investment as an element of earnings from operations because PLNL provides additional production to our operations and is integrated with our other supply chain and sales activities in the ammonia segment.

As of March 31, 2019, the total carrying value of our equity method investment in PLNL was $100 million, $48 million more than our share of PLNL's book value. The excess is attributable to the purchase accounting impact of our acquisition of the investment in PLNL and reflects the revaluation of property, plant and equipment. The increased basis for property, plant and equipment is being amortized over a remaining period of approximately 14 years. Our equity in earnings of PLNL is different from our ownership interest in income reported by PLNL due to amortization of this basis difference.

We have transactions in the normal course of business with PLNL reflecting our obligation to purchase 50% of the ammonia produced by PLNL at current market prices. Our ammonia purchases from PLNL totaled $22 million and $29 million for the three months ended March 31, 2019 and 2018, respectively.

The Trinidadian tax authority (the Board of Inland Revenue) has issued PLNL a tax assessment with respect to tax years 2011 and 2012 in the aggregate amount of approximately $12 million, in addition to interest and penalties with respect to tax years 2011 and 2012 in the aggregate amount of approximately $22 million, for alleged underpayment of withholding taxes on distributions made by PLNL to its owners. Since we own a 50% interest in PLNL, our effective share of any assessment that is determined to be a liability of PLNL would be 50%, which would be reflected as a reduction in our equity in earnings of PLNL. The Board of Inland Revenue has not provided PLNL with the legal or factual basis for the assessment. As a result, PLNL cannot assess the likelihood of the outcome of this matter and we cannot assess the potential foreign tax credit we may be eligible for, if the withholding tax amount was determined to be a liability of PLNL.

9. Fair Value Measurements

Our cash and cash equivalents and other investments consist of the following:

	March 31, 2019			
	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
	(in millions)			
Cash	$73	$ —	$ —	$73
Cash equivalents:				
U.S. and Canadian government obligations	562	—	—	562
Other debt securities	36	—	—	36
Total cash and cash equivalents	$671	$ —	$ —	$671
Nonqualified employee benefit trusts	17	2	—	19

	December 31, 2018			
	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
	(in millions)			
Cash	$34	$ —	$ —	$34
Cash equivalents:				
U.S. and Canadian government obligations	623	—	—	623
Other debt securities	25	—	—	25
Total cash and cash equivalents	$682	$ —	$ —	$682
Nonqualified employee benefit trusts	17	2	—	19

Under our short-term investment policy, we may invest our cash balances, either directly or through mutual funds, in several types of investment-grade securities, including notes and bonds issued by governmental entities or corporations. Securities issued by governmental entities include those issued directly by the U.S. and Canadian federal governments; those issued by state, local or other governmental entities; and those guaranteed by entities affiliated with governmental entities.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present assets and liabilities included in our consolidated balance sheets as of March 31, 2019 and December 31, 2018 that are recognized at fair value on a recurring basis, and indicate the fair value hierarchy utilized to determine such fair value:

	March 31, 2019			
	Total Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in millions)			
Cash equivalents	$598	$ 598	$ —	$ —
Nonqualified employee benefit trusts	19	19	—	—
Embedded derivative liability	(22)	—	(22)	—

	December 31, 2018			
	Total Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in millions)			
Cash equivalents	$648	$ 648	$ —	$ —
Nonqualified employee benefit trusts	19	19	—	—
Embedded derivative liability	(21)	—	(21)	—

Cash Equivalents

As of March 31, 2019 and December 31, 2018, our cash equivalents consisted primarily of U.S. and Canadian government obligations and money market mutual funds that invest in U.S. government obligations and other investment-grade securities.

Nonqualified Employee Benefit Trusts

We maintain trusts associated with certain nonqualified supplemental pension plans. The fair values of the trust assets are based on daily quoted prices in an active market, which represents the net asset values of the shares held in the trusts, and are included on our consolidated balance sheets in other assets. Debt securities are accounted for as available-for-sale securities. Changes in the fair value of equity securities in the trust assets are recognized through earnings.

Embedded Derivative Liability

Under the terms of our strategic venture with CHS Inc. (CHS), if our credit rating as determined by two of three specified credit rating agencies is below certain levels, we are required to make a non-refundable yearly payment of $5 million to CHS. Since our credit ratings were below certain levels in 2016, 2017 and 2018, we made a payment of $5 million to CHS in the fourth quarter of each year. These payments will continue on a yearly basis until the earlier of the date that our credit rating is upgraded to or above certain levels by two of the three specified credit rating agencies or February 1, 2026. This obligation is recognized on our consolidated balance sheets as an embedded derivative. As of March 31, 2019 and December 31, 2018, the embedded derivative liability of $22 million and $21 million, respectively, is included in other current liabilities and other liabilities on our consolidated balance sheets. Included in other operating—net in our consolidated statement of operations for the three months ended March 31, 2019 is a net loss of $1 million. For the three months ended March 31, 2018, no loss was recognized.

The inputs into the fair value measurement include the probability of future upgrades and downgrades of our credit rating based on historical credit rating movements of other public companies and the discount rates to be applied to potential annual payments based on applicable credit spreads of other public companies at different credit rating levels. Based on these inputs, our fair value measurement is classified as Level 2.

See Note 14—Noncontrolling Interests for additional information regarding our strategic venture with CHS.

Financial Instruments

The carrying amount and estimated fair value of our financial instruments are as follows:

	March 31, 2019		December 31, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in millions)			
Long-term debt	$4,700	$4,555	$4,698	$4,265

The fair value of our long-term debt was based on quoted prices for identical or similar liabilities in markets that are not active or valuation models in which all significant inputs and value drivers are observable and, as a result, they are classified as Level 2 inputs.

The carrying amounts of cash and cash equivalents, as well as instruments included in other current assets and other current liabilities that meet the definition of financial instruments, approximate fair values because of their short-term maturities.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

We also have assets and liabilities that may be measured at fair value on a nonrecurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances, such as when there is evidence of impairment, when there is allocation of purchase price in an acquisition or when a new liability is being established that requires fair value measurement. These include long-lived assets, goodwill and other intangible assets and investments in unconsolidated subsidiaries, such as equity method investments, which may be written down to fair value as a result of impairment. The fair value measurements related to each of these rely primarily on Company-specific inputs and the Company's assumptions about the use of the assets. Since certain of the Company's assumptions would involve inputs that are not observable, these fair values would reside within Level 3 of the fair value hierarchy.

10. Income Taxes

For the three months ended March 31, 2019, we recorded an income tax benefit of $8 million on pre-tax income of $110 million, or an effective tax rate of (7.3)%, compared to an income tax provision of $17 million on pre-tax income of $105 million, or an effective tax rate of 15.8%, for the three months ended March 31, 2018.

For the three months ended March 31, 2019, our income tax benefit includes an incentive tax credit from the State of Louisiana of $30 million, net of federal income tax, related to certain capital projects at our Donaldsonville, Louisiana complex.

Our effective tax rate is also impacted by earnings attributable to noncontrolling interests in CF Industries Nitrogen, LLC (CFN) and in the first quarter of 2018 by earnings attributable to the noncontrolling interests in Terra Nitrogen Company, L.P. (TNCLP), as our consolidated income tax provision (benefit) does not include a tax provision on the earnings attributable to the noncontrolling interests. Our effective tax rate for the three months ended March 31, 2019 of (7.3)%, which is based on pre-tax income of $110 million, would be 27.4% exclusive of the earnings attributable to the noncontrolling interests of $28 million and the incentive tax credit of $30 million. Our effective tax rate for the three months ended March 31, 2018 of 15.8%, which is based on pre-tax income of $105 million, would be 20.8% exclusive of the earnings attributable to the noncontrolling interests of $25 million. See Note 14—Noncontrolling Interests for additional information.

11. Interest Expense

Details of interest expense are as follows:

	Three months ended March 31,	
	2019	2018
	(in millions)	
Interest on borrowings[(1)]	$57	$57
Fees on financing agreements[(1)]	3	3
Interest on tax liabilities	—	1
Interest capitalized	—	(1)
Total interest expense	$60	$60

[(1)] See Note 12—Financing Agreements for additional information.

12. Financing Agreements

Revolving Credit Agreement

We have a senior secured revolving credit agreement (the Revolving Credit Agreement) providing for a revolving credit facility of up to $750 million with a maturity of September 18, 2020. The Revolving Credit Agreement includes a letter of credit sub-limit of $125 million. Borrowings under the Revolving Credit Agreement may be used for working capital and general corporate purposes. CF Industries, the borrower under the Revolving Credit Agreement, may also designate as borrowers one or more wholly owned subsidiaries that are organized in the United States or any state thereof or the District of Columbia.

Borrowings under the Revolving Credit Agreement may be denominated in dollars, Canadian dollars, euros and British pounds, and bear interest at a per annum rate equal to an applicable eurocurrency rate or base rate plus, in either case, a specified margin, and the borrowers are required to pay an undrawn commitment fee on the undrawn portion of the commitments under the Revolving Credit Agreement and customary letter of credit fees. The specified margin and the amount of the commitment fee depend on CF Holdings' credit rating at the time.

The guarantors under the Revolving Credit Agreement are currently comprised of CF Holdings and CF Holdings' wholly owned subsidiaries CF Industries Enterprises, LLC (CFE), CF Industries Sales, LLC (CFS), CF USA Holdings, LLC (CF USA) and CF Industries Distribution Facilities, LLC (CFIDF).

As of March 31, 2019, we had excess borrowing capacity under the Revolving Credit Agreement of $750 million and no outstanding letters of credit. There were no borrowings outstanding under the Revolving Credit Agreement as of March 31, 2019 or December 31, 2018, or during the three months ended March 31, 2019.

The Revolving Credit Agreement contains representations and warranties and affirmative and negative covenants, including financial covenants. As of March 31, 2019, we were in compliance with all covenants under the Revolving Credit Agreement.

Letters of Credit

In addition to the letter of credit capacity under the Revolving Credit Agreement, as described above, we have also entered into a bilateral agreement with capacity to issue letters of credit up to $145 million (reflecting an increase of $20 million in January 2019). As of March 31, 2019, approximately $127 million of letters of credit were outstanding under this agreement.

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CF INDUSTRIES HOLDINGS, INC.

Senior Notes
Long-term debt presented on our consolidated balance sheets as of March 31, 2019 and December 31, 2018 consisted of the following Public Senior Notes (unsecured) and Senior Secured Notes issued by CF Industries:

		March 31, 2019		December 31, 2018	
	Effective Interest Rate	Principal	Carrying Amount (1)	Principal	Carrying Amount (1)
		(in millions)			
Public Senior Notes:					