



Robert L. Lumpkins
Vice Chairman

Letter of Comment No: 106
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September 11, 2003

Mr. Robert Herz
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Subject: Financial Accounting Standards Board's (FASB) On-going Stock-based
Compensation Project

Dear Mr. Herz:

Cargill, Incorporated (www.cargill.com) is an international marketer, processor and distributor of agricultural, food, financial and industrial products and services with 98,000 employees in 61 countries. Cargill provides distinctive customer solutions in supply chain management, food applications, and health and nutrition.

This letter is in response to the Financial Accounting Standards Board's (FASB) ongoing stock-based compensation project and the recent observations made at the July 8, 2003 public meeting with the Option Valuation Group (OVG) regarding the current exception under Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (FAS 123) allowing private companies to use the minimum value method to estimate the fair value of employee stock options. While we realize that the observations of the OVG do not yet reflect any decisions on the part of the FASB, we believe our perspective -- as a large privately-held corporation with a significant stock-based compensation program -- offers unique insights that will be of value as you continue your deliberations on this topic.

Our comments are divided into two sections. First, we discuss our experience attempting to estimate a volatility input when valuing Cargill's stock options. Second, we consider the role this standard will have within the broader context of issues that impact a private company's ability to deliver stock-based compensation.

Estimating Volatility

In November of 2002, Cargill elected to adopt the fair value method of accounting for stock options under the provisions of FAS 123. To determine fair value, we opted to use the minimum value method as allowed for nonpublic entities. Based on our experience attempting to estimate the fair value of employee stock options, both from an accounting and compensation perspective, we believe this is the fairest way to represent options expense for a company like Cargill.

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Contrary to the opinions expressed by the OVG, but in agreement with the thinking outlined in FAS 123, we do not believe there is a suitable way to estimate the volatility of Cargill's stock. There are several issues driving this conclusion:

1. Cargill's stock price is determined by a quarterly appraisal.

Since the establishment of our ESOP in 1992, Cargill has contracted with an independent valuation firm (Duff & Phelps) to value our stock on a quarterly basis. While it may be technically possible to calculate a historical volatility on the basis of these valuations, there is not a sufficient sample of information to generate a valid, reliable estimate.

2. Cargill's mix of businesses is very unique.

An alternative to using minimum value, as described in the IASB Proposed IFRS, *Share-Based Payment*, would be to use historical or implied volatility of similar public companies. However, Cargill's businesses compete in a diverse set of industries including agricultural products, food ingredient processing, meat packing, steel production, fertilizer production, financial trading, and commodity trading. Given the diversity of these businesses, any list of public comparables would be comprised primarily of companies who compete with various segments of Cargill, but not Cargill as a whole. So using the average of these industry competitors or the average of a specific industry in which Cargill competes would not provide a representative estimate for Cargill overall.

We have examined an alternative approach to estimating volatility by building a portfolio that combines the stocks of various public competitor companies into a weighted index that better represents Cargill's business mix. However, this approach still suffers from three key drawbacks. First, it does not address the problem that, in an appraised value context, the volatility of Cargill's actual stock price will never be comparable to the volatility of stocks that are traded in a public market. Second, the volatility of industry-specific companies, even within an index, is inherently different from the volatility of the overall Cargill business. Third, it would further reduce the transparency of a valuation process that is already complex and may become even more complex under the new standard.

As a result of these factors, we urge the FASB to retain the current exception allowing nonpublic entities to use the minimum value method to determine the fair value of employee stock options. While we share the OVG's concern that this method may not produce the most accurate option value, given the problems that a company such as Cargill faces in estimating its volatility, we do not believe other alternatives will produce a better estimate of fair value.

The Broader Context

Although the ultimate goal of the FASB project on stock-based compensation is the establishment of a universal standard that would be followed by all companies, please keep in mind that this standard must coexist within a broader context of regulatory requirements. As such, we encourage the FASB to consider not just the pure technical issues related to measuring the value of stock-based compensation, but the practical implications that this standard will have for private companies like Cargill who are trying to foster an environment in which employees are aligned with the controlling shareholders and actively engaged in building shareholder value.

To this end, we would like to address several issues that, although unrelated to the issues being considered by the OVG, have significant consequences for private companies trying to deliver stock-based compensation. Our principal point in raising these issues is that, although on a narrow technical basis it is reasonable to argue that allowing private companies to use the minimum value method to determine the fair value of options creates a bias against public companies who must report higher compensation cost, across the board, private companies are still greatly disadvantaged in their ability to effectively deliver stock-based compensation.

As mentioned, Cargill is a company that actively fosters an environment in which employees are aligned with the shareholder and actively engaged in building shareholder value. In addition, as a large, multi-national corporation, to attract suitable talent Cargill must offer compensation packages that are comparable both in value and in form to those available in a labor market that is comprised, primarily, of large public corporations. To accomplish these goals, we have implemented several stock-based compensation programs, including a stock option program. These plans have been critical for acquiring, retaining, and engaging the talent that Cargill needs to continue to deliver the performance that our shareholders expect. However, there are several significant disadvantages related to being private that are already pressuring our ability to maintain adequate stock-based compensation plans:

1. As a private company whose stock is not registered with the Securities and Exchange Commission, Cargill must limit the number of management stock and option holders, including potential transferees, to 500 or less.

Due to this limitation, we have established a stock appreciation rights plan, which in combination with the stock option plan, allows us to deliver sufficient equity interest and compensation to our employees. For all practical purposes, we consider these two plans to be identical: both deliver compensation to employees based on stock price appreciation over and above the grant price, except that one pays the proceeds in cash and the other pays the proceeds in stock. Although using the minimum value method for calculating the expense of our stock option grants results in a much lower expense than what would otherwise be obtained, we assume a significant burden in having to apply variable accounting to expense our stock appreciation rights (compensation cost is measured as the amount by which the quarterly appraised value at date of exercise exceeds the appraised value at date of grant).

From this perspective, eliminating the minimum value method exception for private companies would significantly disadvantage Cargill in terms of how it must recognize compensation cost for all of its stock-based compensation plans relative to its public competitors. In this circumstance we see three alternatives that would provide better balance:

- Maintain the current standards and continue to allow private companies to elect to use the minimum value method to expense stock options.
- Require private companies to use the same standard as public companies, but also allow private companies to apply this standard to stock appreciation rights.
- Require all companies to use variable accounting for stock options.

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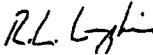
2. Since there is no market for our shares, Cargill, ultimately, buys back all shares of stock issued through its stock-based compensation programs.

This requirement means that private companies must keep a much sharper focus on issues of dilution and liquidity than public companies who rely on the market to purchase the shares issued from exercise of employee stock options. This focus lessens the importance of accurately capturing an expense at grant when stock options are issued, since the key issue will be managing the potential liquidity expense in a fashion that does not impede the company's ability to generate the cash flow necessary to drive shareholder value through dividend payments and investment that leads to future growth.

In conclusion, we would like to express our appreciation for your consideration of our comments and our sincere hope that the perspective they provide will help make a better standard for all. Again, we urge the Board to contemplate this issue as it applies to private companies, both in terms of the technical difficulty involved and the broader implications on the ability of private companies to continue to use stock-based compensation on an equal footing with public competitors.

If you have any questions regarding our views as expressed in this letter, or would like to seek further input as your deliberations continue, please feel free to contact me at 952-742-6145.

Sincerely,



RLL:pv

Cc: Michael Tovey