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**Tim Siutang Leung\*** (siutang@princeton.edu), Dept. of OR&FE, Engineering Quad,  
Princeton University, Princeton, NJ 08544, and **Ronnie Sircar**. *Accounting for Risk Aversion and  
Other Idiosyncrasies in the Valuation of Employee Stock Options.*

We present a valuation framework that captures the main characteristics of employee stock options (ESOs), which financial regulations now require to be expensed in firms' accounting statements. The value of these options is much less than Black-Scholes prices for corresponding market-traded options due to the suboptimal exercising strategies of the holders and other idiosyncrasies of ESOs. This leads to the study of a portfolio optimization problem with multiple optimal stopping opportunities. We solve the problem and analyze the combined effect of different factors on the granting cost. (Received February 21, 2007)