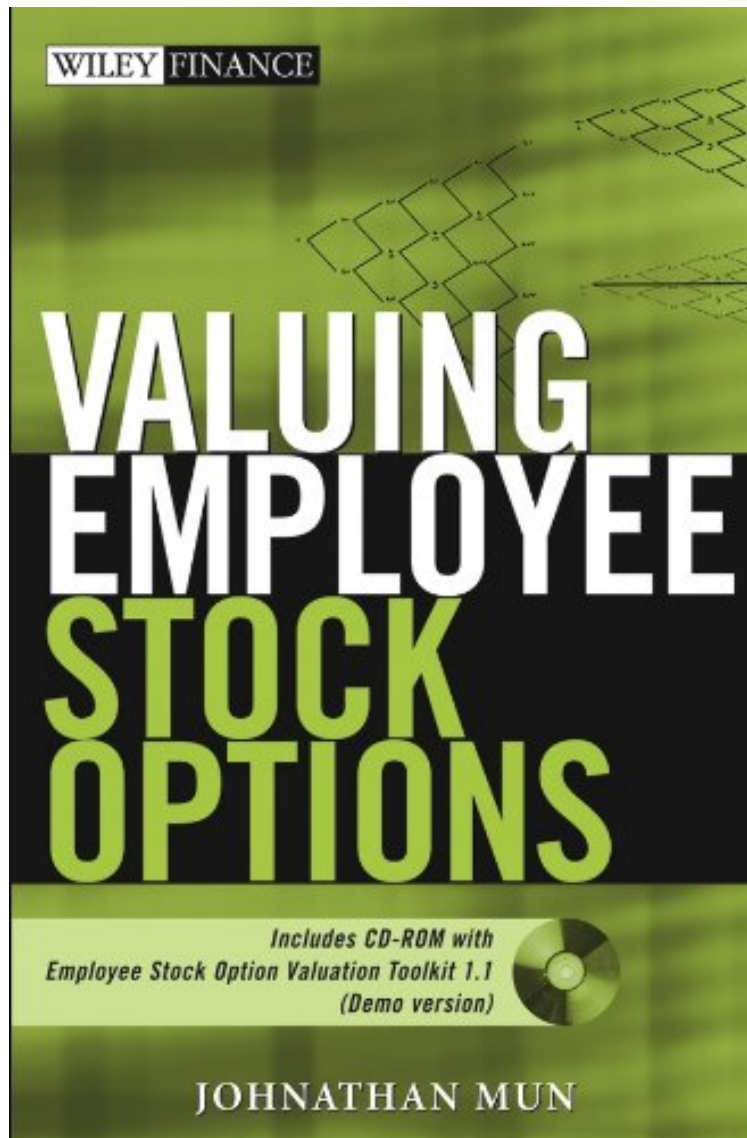


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Valuing Employee Stock Options (Wiley Finance)

Johnathan Mun

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Johnathan Mun : Valuing Employee Stock Options (Wiley Finance) before purchasing it in order to gage whether or not it would be worth my time, and all praised Valuing Employee Stock Options (Wiley Finance):

12 of 12 people found the following review helpful. FrustratingBy Diego BanducciJonathan Mun is one of those authors with lean credentials who write a book to establish themselves as experts in a field, rather than seeking to clarify an admittedly complex subject for the reader. In so doing, he manages to cram a 15-page paper into a 300-page book, primarily by being repetitive and secondly by including lots of obscure tables.Aha!, one says, I'll load the accompanying C.D. and work my way through the spreadsheet examples. Well, unfortunately the speadsheets are not operational. In order to use them, you have to buy the author's working version for a mere \$1,000. For even more, you

can buy Mun's corporate solutions for HR departments. In other words, the book is simply one long advertisement for Mun's software company, and is of limited usefulness to readers seeking to understand the complexities of ESOs. This is not Wiley's standard practice. For instance, another of their books ["Financial Modeling" by Chandan Sengupta], which discusses option pricing using lattice models, contains a cd with working Excel spreadsheets that are fully operational. Unfortunately, it does not discuss ESOs, which differ somewhat from regular stock options. So what are the alternatives? 1. The casual user (e.g., an employee who wants to get an idea of what his stock options are worth) can use one of the many calculators for general options available for free on the internet. A good one is the Option Pricing Calculator by OTrader Software. 2. Three useful articles for understanding the basics of lattice models are "Valuing employee Stock Options Using a Lattice Model" from the December 2004 issue of the CPA Journal, "Valuing Employee Stock Options: A Binomial Approach Using Microsoft Excel" from the July 2005 issue of the CPA Journal, and "How to 'Excel' at Options Valuation" from the December 2005 issue of the Journal of Accountancy. All three articles contain Excel spreadsheets as examples. 3. Readers wishing Excel spreadsheets that incorporate all of the features unique to ESOs (vesting periods, termination, illogical behavior, etc.) may wish to consider purchasing (@ 1/15 of Mun's price) Peter Hoadley's ESO package over the Internet. He also provides (for free) links to academic papers on the subject. NOTE: The book describes Mun's credentials as follows: "JOHNATHAN MUN is Vice President of Analytical Services at Decisioneering, Inc., the makers of Crystal Balldeg; analytical software. His duties focus primarily on heading up the development of real options and financial analytics software powered by Crystal Ball. Prior to joining Decisioneering, he was a consulting manager and financial economist in the Valuation Services and Global Financial Services practice of KPMG Consulting, and a manager with the Economic Consulting Services practice at KPMG LLP. He holds a PhD in finance and economics, and an MBA and MS in management. Mun is also certified in financial risk management and in financial consulting. He is currently a visiting professor in finance, economics, and statistics at various universities, including the University of Applied Sciences (Germany), the Swiss School of Management (Switzerland), and Golden Gate University (California). Mun is the author of Applied Risk Analysis, Real Options Analysis, and Real Options Analysis Course, all published by Wiley. He continues to offer worldwide seminars and lectures on the topics of real options, simulation and risk analysis, and corporate finance." 11 of 11 people found the following review helpful. Generous on Theory, Secretive on Details By Ganesh V Jois The book does a decent job of providing intuition on why traditional Black-Scholes framework will not work for Employee Stock Options. But then again, if directional intuition is what you are seeking, why spend the money on this book when you can get the same information by reading articles published in the Financial Analysts Journal (FAJ)? The book and the accompanying CD seem to be very cryptic when it comes to understanding the effects of early exercise. The CD is pretty much a black-box. If you think you can buy this book and explain the results of the analysis, then you are mistaken. Unless you have a PhD in Finance or a Masters in Financial Engineering, you may not understand what the algorithms do. Then again, if you had these degrees, you wouldn't need the book!

A comprehensive guide to understanding the implications and applications of valuing employee stock options in light of the new FAS 123 requirements Due to the new requirements of the Proposed Statement of Financial Accounting Standards (FAS 123) released by the Financial Accounting Standards Board (FASB)-namely the fact that employee services received in exchange for equity instruments be recognized in financial statements-companies are now scrambling to learn how to value and expense employee stock options (ESOs). Based on author Dr. Johnathan Mun's consulting and advisory work with the FASB consulting projects with several Fortune 500 firms, Valuing Employee Stock Options provides readers with a comprehensive look at this complex issue. Filled with valuable information on binomial lattice and closed-form modeling techniques, Valuing Employee Stock Options can help financial professionals make informed decisions when attempting to ascertain the fair-market value of ESOs under the new requirements. Johnathan Mun, PhD, MBA, MS, CFC, FRM (San Francisco, CA), is Vice President of Analytical Services at Decisioneering, Inc., the makers of Crystal Ball analytical software. He is also the author of Applied Risk Analysis (0-471-47885-7), Real Options Analysis (0-471-25696-X), and Real Options Analysis Course (0-471-43001-3), all of which are published by Wiley.

From the Inside Flap The Financial Accounting Standards Board (FASB) released a Proposed Statement of Financial Accounting Standards (FAS) in 2004 that amended earlier FAS Statements 123 and 95. Soon after, the Wall Street Journal called this release "among the most far-reaching steps that the Financial Accounting Standards Board has made in its thirty-year history." As a result, companies must learn how to rigorously and efficiently value and expense employee stock options (ESOs). Based on author Johnathan Mun's advisory work with the FASB over 2003 and 2004, his graduate research work in the area of options analysis, and actual FAS 123 consulting projects with several Fortune 500 firms, Valuing Employee Stock Options provides you with a comprehensive understanding of the valuation applications of a customized binomial lattice through a systematic and objective assessment of the methodology. This just-in-time resource includes informative sections that: the impact of ESO Cost Illustrate the issues of fair market valuation through an analytical assessment of three mainstream approaches used in option pricing

Discuss the technical background required to run the Black-Scholes model (BSM) and customized binomial lattices. Run through in-depth sample case studies applying FAS 123. Provide multiple options valuation results that prove valuable from the perspective of both an analyst and a chief financial officer. The analyses performed in this book also use the author's own proprietary customized binomial lattice computer algorithms as well as his Real Options Analysis Toolkit, and Decisioneering, Inc.'s Crystal Ball Monte Carlo simulation software. Filled with in-depth insight and expert advice, Valuing Employee Stock Options can help CFOs and finance directors as well as analysts, consultants, and accountants understand the implications and applications of valuing employee stock options in light of today's ever-changing financial rules and regulations.

From the Back Cover: Praise for VALUING EMPLOYEE STOCK OPTIONS "Veritas has modeled the valuation of its employee stock options for analytical purposes using a proprietary customized binomial lattice developed by Dr. Johnathan Mun. The valuation based on the customized binomial lattice model allows us to take into account the impacts of multiple vesting periods, employee suboptimal exercise behavior, forfeiture rates, changing risk-free rates, and changing volatilities over the life of the option. . . . The customized binomial lattice model resulted in a considerably lower expense, considering the expensing guidelines included in the FAS 123." —Don Rath, Vice President, Tax and Stock Administration, Veritas Software Corporation "This is one of those rare books written in anticipation of a major shift in the industry and economy. FAS 123 will throw a lot of public companies into a frenzy . . . the smart ones are identifying the opportunity to master the process and take over the driver's seat. The methodology and the tools developed by Dr. Johnathan Mun are proven, pragmatic, and offer a great deal of value and benefit to those early adopters." —Dr. Markus Junginger, Managing Partner, IBCOL Consulting "After extensive review of the FASB exposure draft and consideration of a variety of option valuation methodologies, E*TRADE FINANCIAL has decided to implement a binomial lattice model in Equity Edge, our stock plan management and reporting software. We found Dr. Mun's work on employee stock option pricing very valuable." —Naveen Agarwal, Director, Product Management, E*TRADE FINANCIAL Corporation

About the Author: JOHNATHAN MUN is Vice President of Analytical Services at Decisioneering, Inc., the makers of Crystal Ballreg; analytical software. His duties focus primarily on heading up the development of real options and financial analytics software powered by Crystal Ball. Prior to joining Decisioneering, he was a consulting manager and financial economist in the Valuation Services and Global Financial Services practice of KPMG Consulting, and a manager with the Economic Consulting Services practice at KPMG LLP. He holds a PhD in finance and economics, and an MBA and MS in management. Mun is also certified in financial risk management and in financial consulting. He is currently a visiting professor in finance, economics, and statistics at various universities, including the University of Applied Sciences (Germany), the Swiss School of Management (Switzerland), and Golden Gate University (California). Mun is the author of Applied Risk Analysis, Real Options Analysis, and Real Options Analysis Course, all published by Wiley. He continues to offer worldwide seminars and lectures on the topics of real options, simulation and risk analysis, and corporate finance.