



# DISTRESSED EQUITY AS AN OPTION



# Distressed Equity

For distressed equity to be viewed as an option, which of the following conditions have to hold?

- a. The company has to have a significant amount of debt outstanding.
- b. The debt owed has to be a high percentage of the value of the firm
- c. The company is either losing money or not making very much money
- d. The equity investors run the firm and have limited liability
- e. The equity investors have the right to liquidate the firm and claim whatever proceeds are left after debt holders are paid.
- f. All of the above

# Vulture Investing 101

Assume that you agree with the proposition that distressed equity is more option than cash flow generating asset. In which of the following firms would equity have the highest value? (You can assume that they look alike on all of the other financial characteristics):

- a. Risky business, long term debt
- b. Safe business, long term debt
- c. Risky business, short term debt
- d. Safe business, short term debt