

**Internet Appendix to**  
**“The Role of Activist Hedge Funds in Financially Distressed Firms”**

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TABLE IA.1

**Hedge Fund Involvement and Restructuring Method, Control Function Approach**

Table IA.1 estimates the effects of hedge fund involvement on the choice of restructuring method, using the control function approach as described in Section V.A. All models have three outcomes: restructuring via an out-of-court workout, a prepackaged restructuring, and a traditional Chapter 11 (the base outcome). The definitions of all the variables are provided in the Appendix. All models contain a constant term. Standard errors are corrected for the clustering of observations by year. The numbers in parentheses are standard errors. \*\* and \* indicate statistical significance at the 1% and 5% levels, respectively.

Variables	Restructuring Methods								
	1		2		3		4		
	PREPACK	OUT-OF-COURT	PREPACK	OUT-OF-COURT	PREPACK	OUT-OF-COURT	PREPACK	OUT-OF-COURT	
HF_UNSECURED	2.949** (0.937)	-3.620* (1.577)							
HF_SECURED			1.374* (0.617)	-12.398 (9.610)					
HF_NEW_LOAN					0.218 (0.325)	-1.270* (0.632)			
HF_NEW_EQUITY							-0.383 (0.363)	0.283 (0.391)	
DEBT_COMPLEXITY	-1.101 (0.585)	0.766* (0.353)	-0.136 (0.563)	0.082 (0.423)	-0.292 (0.495)	0.652 (0.383)	-0.188 (0.463)	0.540 (0.366)	
PUBLIC_PORTION	0.827 (0.450)	2.114** (0.661)	1.222* (0.520)	1.265 (0.686)	1.020* (0.405)	1.429* (0.648)	0.992* (0.475)	1.471* (0.590)	
ln(ASSET)	-0.243 (0.173)	0.288** (0.092)	-0.043 (0.106)	0.097 (0.157)	-0.018 (0.103)	0.188 (0.150)	0.004 (0.098)	0.203 (0.142)	
EBITDA	1.780 (1.673)	4.266** (1.596)	1.329 (1.323)	6.049** (1.945)	2.298 (1.502)	3.572* (1.667)	2.644 (1.694)	3.000 (1.749)	
CURRENT_DUE	-0.450 (0.295)	-3.390** (0.907)	-0.458 (0.434)	-3.074** (0.994)	-0.389 (0.395)	-2.477** (0.624)	-0.397 (0.356)	-2.442** (0.572)	
CASH	-0.800 (1.475)	2.025* (1.024)	0.842 (1.011)	0.424 (1.193)	0.905 (1.251)	1.496 (1.289)	1.465 (1.230)	1.793 (1.307)	
BANK_UNDERCOLL	0.941* (0.392)	0.832* (0.377)	0.640* (0.258)	1.724** (0.530)	0.588 (0.309)	0.873* (0.395)	0.672* (0.317)	1.022** (0.389)	
LEVERAGE	1.885** (0.506)	2.308** (0.323)	1.683** (0.407)	1.743** (0.376)	1.861** (0.382)	1.683** (0.318)	1.800** (0.400)	1.866** (0.300)	
MULTI_HF	-0.308 (0.482)	-1.802* (0.881)	-0.249 (0.283)	-1.532 (0.824)	-0.141 (0.194)	-1.852** (0.547)	0.123 (0.258)	-2.118** (0.493)	
CONTROL_FUNCTION	-4.473* (2.230)	4.717** (1.551)	-1.919* (0.906)	13.702 (9.811)	-1.072 (1.455)	4.649* (2.263)	0.300 (1.170)	-0.499 (2.338)	
No. of obs.		396		420		455		449	
Adjusted R <sup>2</sup>		0.238		0.192		0.140		0.134	

TABLE IA.2

**Hedge Fund Involvement and Time in Distress, Control Function Approach**

Table IA.2 estimates the effects of hedge fund involvement on the length of time spent in distress, using the control function approach as described in Section V.A. The dependent variable is the log of the number of months spent in distress for linear specifications (columns 1–4) and the number of months spent in distress for Poisson specifications (columns 5–8). The definitions of all the other variables are provided in the Appendix. All models contain a constant term. Standard errors are corrected for the clustering of observations by year. The numbers in parentheses are standard errors. \*\* and \* indicate statistical significance at the 1% and 5% levels, respectively.

Variables	Models							
	OLS				Poisson			
	1	2	3	4	5	6	7	8
HF_UNSECURED	-0.076 (0.074)				-0.091 (0.061)			
HF_SECURED		-0.085 (0.109)				-0.260 (0.142)		
HF_NEW_LOAN			-0.138 (0.077)				-0.144* (0.064)	
HF_NEW_EQUITY				-0.034 (0.084)				-0.174 (0.093)
DEBT_COMPLEXITY	0.166* (0.079)	0.119 (0.091)	0.188* (0.085)	0.194* (0.087)	0.043 (0.112)	-0.020 (0.120)	0.072 (0.113)	0.059 (0.114)
PUBLIC_PORTION	0.101 (0.101)	0.046 (0.093)	0.066 (0.088)	0.041 (0.089)	0.045 (0.086)	-0.051 (0.089)	-0.031 (0.078)	-0.028 (0.078)
ln(ASSET)	0.070* (0.029)	0.070** (0.025)	0.059** (0.021)	0.058* (0.025)	0.064* (0.028)	0.061* (0.025)	0.055* (0.024)	0.053 (0.028)
EBITDA	0.227** (0.080)	0.246 (0.127)	0.204* (0.094)	0.297** (0.097)	0.153 (0.115)	0.091 (0.202)	0.150 (0.137)	0.189 (0.132)
CURRENT_DUE	-0.115 (0.119)	-0.038 (0.117)	-0.046 (0.103)	-0.026 (0.105)	-0.048 (0.167)	-0.018 (0.166)	-0.012 (0.150)	-0.000 (0.151)
CASH	-0.475 (0.541)	-0.534 (0.477)	-0.341 (0.417)	-0.450 (0.477)	-0.712 (0.601)	-0.963 (0.553)	-0.889 (0.530)	-0.814 (0.561)
BANK_UNDERCOLL	-0.132 (0.084)	-0.095 (0.089)	-0.101 (0.076)	-0.096 (0.077)	-0.176** (0.067)	-0.148 (0.083)	-0.180* (0.073)	-0.167* (0.067)
LEVERAGE	-0.131 (0.080)	-0.119 (0.078)	-0.186* (0.080)	-0.147* (0.069)	-0.043 (0.145)	-0.032 (0.116)	-0.086 (0.127)	-0.082 (0.103)
MULTI_HF	0.065 (0.061)	0.118 (0.068)	0.077* (0.031)	0.083 (0.070)	0.044 (0.064)	0.132* (0.058)	0.097 (0.073)	0.067 (0.068)
OUT-OF-COURT	-1.426** (0.081)	-1.390** (0.096)	-1.384** (0.094)	-1.389** (0.089)	-1.313** (0.124)	-1.283** (0.135)	-1.290** (0.130)	-1.273** (0.111)
PREPACK	-0.874** (0.082)	-0.880** (0.075)	-0.875** (0.066)	-0.890** (0.065)	-0.883** (0.112)	-0.879** (0.103)	-0.876** (0.102)	-0.894** (0.095)
CONTROL_FUNCTION	0.280 (0.185)	0.260 (0.149)	0.846* (0.427)	0.819 (0.692)	0.253 (0.192)	0.383* (0.159)	1.037** (0.356)	1.246 (0.658)
No. of obs.	396	420	455	449	396	420	455	449
Adjusted R <sup>2</sup>	0.467	0.455	0.468	0.467	0.280	0.274	0.276	0.283

TABLE IA.3

**Hedge Fund Involvement and Debt Reduction, Control Function Approach**

Table IA.3 estimates the effects of hedge fund involvement on long-term debt reductions using the control function approach as described in Section V.A. The dependent variable is the percentage reduction in long-term debt, calculated using financial data provided in the 10-K reports filed just before and just after each firm's restructuring. The definitions of all the other variables are provided in the Appendix. All models contain a constant term. Standard errors are corrected for the clustering of observations by year. The numbers in parentheses are standard errors. \*\* and \* indicate statistical significance at the 1% and 5% levels, respectively.

Variables	Samples				
	<i>All</i>	<i>Out-of-Court</i>	<i>All</i>	<i>All</i>	<i>All</i>
	1	2	3	4	5
HF_UNSECURED	0.614 (0.476)	0.301 (0.162)			
HF_SECURED			-0.100 (0.183)		
HF_NEW_LOAN				0.671 (0.423)	
HF_NEW_EQUITY					0.182 (0.114)
DEBT_COMPLEXITY	-1.305 (1.087)	-0.148 (0.147)	-0.785 (0.660)	-0.845 (0.504)	-0.735 (0.588)
PUBLIC_PORTION	0.743 (0.689)	-0.081 (0.165)	0.739 (0.772)	0.303 (0.234)	0.704 (0.727)
LN(ASSET)	0.168 (0.148)	-0.001 (0.031)	0.154 (0.156)	0.190 (0.132)	0.152 (0.153)
EBITDA	-0.764 (0.543)	0.508 (0.831)	-0.445 (0.376)	-1.611 (0.823)	-0.668 (0.349)
CURRENT_DUE	0.098 (0.177)	0.162 (0.092)	-0.084 (0.176)	0.081 (0.257)	-0.077 (0.169)
CASH	-2.535 (2.990)	1.170* (0.540)	-2.109 (2.527)	-1.421 (1.620)	-2.104 (2.446)
BANK_UNDERCOLL	0.547 (0.349)	0.117 (0.099)	0.524 (0.401)	0.246 (0.161)	0.445 (0.340)
LEVERAGE	0.727 (0.473)	0.042 (0.161)	0.708 (0.477)	0.750* (0.378)	0.682 (0.436)
MULTI_HF	-0.517 (0.339)	-0.207 (0.154)	-0.443 (0.289)	-0.091 (0.177)	-0.425 (0.314)
OUT-OF-COURT	-0.034 (0.211)		-0.356** (0.097)	0.017 (0.248)	-0.308** (0.089)
PREPACK	0.230 (0.150)		0.145 (0.149)	0.220 (0.158)	0.208 (0.168)
CONTROL_FUNCTION	-1.228 (1.048)	-0.100 (0.181)	0.311 (0.647)	-11.823 (7.161)	-1.001 (2.068)
No. of obs.	148	55	169	181	180
Adjusted R <sup>2</sup>	0.166	0.017	0.114	0.351	0.114