**Option I:** No debt ($200,000 equity)

|  |  |  |
| --- | --- | --- |
|  | **Recession** | **Strong Economy** |
| EBIT | -$60,000 | $140,000 |
| Less: Interest (12%) |  |  |
| =EBT |  |  |
| Less: Taxes (40%) |  |  |
| =EAT or Net income |  |  |
|  |  |  |
| ROE=EAT/Total equity |  |  |

**Option II:** 50% debt ($100,000 equity and $100,000 debt at 10% interest rate)

|  |  |  |
| --- | --- | --- |
|  | **Recession** | **Strong Economy** |
| EBIT | -$60,000 | $140,000 |
| Less: Interest (12%) |  |  |
| =EBT |  |  |
| Less: Taxes (40%) |  |  |
| =EAT or Net income |  |  |
|  |  |  |
| ROE =EAT/Total equity |  |  |