We are interested in the default risk of a firm. Let $a < b$ and $c > 0$ be three exogenously


determined constants, with $a$ interpreted as the liquidity threshold, $b$ as the reorganization


threshold and $c$ as the grace period. The firm is considered as defaulted whenever its value


either goes below level $a$ or constantly stays below level $b$ for $c$ units of time. Economic


justifications for this concept of default are the US bankruptcy codes Chapter 7 (Liquidation)


and Chapter 11 (Reorganization). We model the firm value by a jump-diffusion process and
derive an explicit formula for the default probability.