information about the company's financial performance, including audited financial statements as well as the management's assessment of future opportunities and challenges for the business.

Any report that contains a qualification about a customer's status as a going concern or questions the sufficiency of a customer's liquidity should be noted. Indeed, a customer's mere failure to file a timely report is an additional red flag of financial distress.

An often-overlooked source of timely information about larger customers is the "investor" section of their company website. Many sites allow users to enter an e-mail address to receive timely alerts about events and information that may be useful to corporate investors.

Notifications may include company newsletters, press releases, announcements of SEC filings, investor earnings teleconferences and transcripts, as well as stock-price information and financial statements. If your company has extended significant credit to a customer, you will want to closely review the information about the customer's operations and performance provided to its investors.

If you don't have access to SEC filings or other financial information about your customers, consider requiring your customers to periodically provide financial statements and supporting information. This request should be made right from the inception of the relationship. A financially distressed customer is likely to resist such requests.

Certain personnel changes will tip a creditor's hand. The unanticipated resignation or firing of a CEO or CFO is not a good sign.

You can also gain insights about creditors from the Uniform Commercial Code (UCC) filings as well as federal and state law tax lien filings against a customer. Suits commenced against a customer also provide insight into its dire financial condition.

Recent UCC filings may disclose that another creditor is concerned about its ability to collect claims or reveal a new lending relationship that further encumbers the customer's assets. Look for an increase in filings against the company related to delinquent taxes and/or collection lawsuits commenced by other creditors. Those are additional red flags that the customer is facing financial decline.

There are also numerous subscription services that provide analysis about larger customers. For instance, credit rating agencies, such as Moody's, Fitch Ratings and Standard & Poor's, analyze a customer's probability of defaulting on its obligations.

A decision by one or more credit agencies to downgrade a customer, and the reasons for the downgrade, can be a warning sign of financial distress. A downgrade to junk status suggests that bankruptcy is closing in.

Similarly, a growing number of propriety subscription-based businesses exist that specifically track financially distressed companies and industries. Such services include Bloomberg, Debtwire, S&P Capital IQ, Reorg Research, The Deal, Daily Bankruptcy Review, Thomson Reuter and Markit. They report publicly available financial information, press releases, gossip and "soft" information that may assist in accessing a customer's credit risk.

They may unearth some telltale signs, such as the retention of bankruptcy professionals by the customer or its bondholders; a reduction or loss of availability of credit insurance; the loss of puts protecting against the risk of the customer's insolvency, and management changes.

These services might also report on defaults and forbearance arrangements concerning the customer's loan and/or secured debt and the views of various participants involved in the customer's restructuring.

PROACTIVE STEPS

When signs point toward bankruptcy, there are a number of steps that can be taken. Creditors that are not required by contract to continue doing business with a customer can switch to cash in advance or more restricted credit terms.

Creditors subject to a long-term contract that requires the extension of credit can also protect themselves from the risk of

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A QUIZNOS CASE STUDY

Look no further than to the fast food chain Quiznos for a textbook example of how many warning signs can accumulate when a company is headed toward bankruptcy.

The Denver-based sandwich chain filed for Chapter 11 in Delaware on March 14, 2014. Certain warning signs about its financial problems were publicly known for over a year in advance of the filing, giving creditors significant time to take action and reduce or eliminate their credit exposure.

As early as February 2013, proprietary news services reported that Quiznos had experienced a 10% year-over-year drop in EBITDA (earnings before interest, taxes, depreciation and amortization) and that the price of its first lien bank debt had declined substantially since the beginning of 2013. In March 2013, *The Denver Post* reported that 10 lawsuits had been filed by Quiznos franchisees alleging that the company was improperly forcing franchisees to purchase food from a Quiznos affiliated supplier at marked-up prices.

During a company investor call in May 2013, Quiznos' management lowered its guidance for comparable year-over-year sales.

In August 2013, reports surfaced that Quiznos' majority shareholder retained a large law firm known for its insolvency expertise. In October 2013, there were news reports that the same majority shareholder hired a financial advisor known for its restructuring practice group.

Throughout the fall of 2013 there were also frequent news reports concerning significant declines in the company's sales, EBITDA and available cash.

In early December 2013, news services reported that Quiznos had entered into a forbearance agreement with its lenders that allowed the company to forego making interest and principal loan payments due on Dec. 31, 2013.

By January 2014, there were reports that the first and second lien lender groups each retained financial advisors in advance of beginning workout negotiations with the company and that the lenders extended the company's loan forbearance agreement.

Exactly one month prior to the Chapter 11 filing, *The Wall Street Journal* reported that creditors were continuing to negotiate a prepackaged bankruptcy plan and that a Chapter 11 filing could happen within weeks.