

CHAPTER 11 WORKSHOP

In re Clearwater Organic Markets, Inc.

Introduction

Clearwater Organic Markets, Inc. (“Clearwater”) is a privately held regional grocery chain headquartered in Spokane, Washington. Founded in 1963 by John Smith as a family-owned organic grocery store, Clearwater evolved into a recognizable brand in the Pacific Northwest, known for sustainability, zero-waste packaging, and deep partnerships with regional farms. As of mid-2025, the company operated 12 retail stores across Washington, Oregon, and Idaho, supported by a central warehouse facility and a network of over 130 local suppliers.

Under the leadership of John’s son, Thomas Smith, who assumed the CEO role in 2020, Clearwater pursued an aggressive expansion strategy. Clearwater raised \$10 million in growth capital from a venture capital firm (“VC Group”), relinquishing 40% of its equity. This funding supported a rapid expansion phase, including the leasing of five new retail locations between Q1 2021 and Q4 2022 — a bold bet to capture market share in fast-growing metro areas like Boise, Portland, Tacoma, and Seattle (Ballard, Bothell, and Northgate). Unfortunately, Clearwater entered these new leases at above-market rates, banking on projected revenue increases that never materialized.

Clearwater’s expansion, however, coincided with mounting external pressures. Inflation drove up food prices, reducing customer spending, while national organic chains began encroaching on Clearwater’s market share. In 2023, natural disasters — including wildfires and floods — disrupted supply chains, straining store inventories and damaging relationships with regional producers. In 2024, Clearwater lost two major, favorable commercial supply contracts, a critical blow to its wholesale revenue stream. By 2025, Clearwater’s gross revenue had declined from \$52 million in 2023 to a projected \$38 million, a 27% drop in just over a year.

To remain competitive, Clearwater invested \$1.8 million in an e-commerce platform that failed to gain traction, draining resources without return. By early 2025, three of its stores — in Boise, Portland, and Ballard — were generating consistent operating losses, while others hovered near break-even. Payroll obligations mounted, and by mid-year, the company had fallen behind on lease payments and vendor accounts.

The company's leadership was ill-equipped to handle this downturn. Neither Thomas Smith nor his father, who has remained chairman of the board, have experience managing distressed businesses. Clearwater engaged restructuring counsel and a financial advisor in June 2025. Internal reviews revealed the extent of the company's liquidity crisis: over \$11 million in unsecured debt, \$14 million in secured debt, and a growing risk of store closures that may trigger WARN Act obligations, or the Washington state "Mini-WARN" Act.

Labor and Store Performance

Clearwater employs about 600 workers, including 385 full-time and 215 part-time employees, many of whom are covered by collective bargaining agreements. Management has considered cutting costs through store closures but has not closed any stores.

Operationally, Clearwater's store network is fragile. The Boise, Portland, and Ballard stores are consistently unprofitable, losing a combined \$1.9 million annually. Three other stores (in Bothell, Bend, and Tacoma) are barely breaking even but have shown marginal profit in recent months. Only five stores, clustered around eastern Washington and northern Idaho, are consistently cash-flow positive.

Clearwater currently owes over \$100,000 in unpaid rent across the Boise, Tacoma, and Bothell locations. Lessors have issued termination notices for the Boise and Tacoma sites and are contesting lease rejection,

claiming the stores are critical to maintaining brand value in key markets.

Financial Condition and Capital Structure

Clearwater's debt totals approximately **\$25 million**, divided as follows:

Secured Debt			
<i>Creditor</i>	<i>Debt</i>	<i>Security Interest</i>	<i>Collateral Value</i>
PNW Bank	\$10 million	blanket lien on all personal property, including inventory and receivables	Estimated \$11 million
Capital Lending	\$4 million	PMSI in equipment purchased in 2022	Estimated \$6.5 million

Unsecured Debt	
<i>Creditor</i>	<i>Debt</i>
Vendors/Suppliers	\$5 million (including \$1.2 million to local farms)
Litigation Claims	\$2.5 million
Marketing/IT Vendors	\$1.5 million
Utilities and Government Entities	\$2 million (including \$1.8 million in past-due sales tax)

Clearwater also faces lease rejection claims that could substantially increase the pool of unsecured creditors post-filing.

Management Issues

Complicating matters, Clearwater's internal governance had begun to draw scrutiny. In August 2025, the company paid a large fee to a digital marketing firm owned by the CEO's wife. In September, just six weeks before the filing, executive bonuses were issued. Meanwhile, Clearwater was actively negotiating with PNW Bank, its primary secured lender, to resolve its debt issues. PNW's special credits officer, however, has expressed doubt about management's credibility, and the bank believes that an out-of-court workout is not feasible, and is rumored to have prepared receivership proceedings.

Path to Bankruptcy and the Chapter 11 Filing

In September 2025, Clearwater's cash position was deteriorating rapidly. Payroll obligations loomed, and vendors began demanding COD terms. PNW Bank imposed tighter controls over Clearwater's cash management accounts and declared a default. Clearwater engaged bankruptcy counsel and a financial advisor to explore restructuring options.

With only weeks of liquidity remaining, Clearwater's board convened in late October 2025. Faced with threatened lease terminations, declining sales, and the prospect of creditor lawsuits, the board voted to authorize a voluntary Chapter 11 filing. On October 15, 2025, Clearwater filed its petition for Chapter 11 protection in the U.S. Bankruptcy Court. At the time of filing, Clearwater sought emergency relief, including the authority to use cash collateral and reject leases at underperforming locations. Clearwater also announced its intent to pursue DIP financing from its existing venture capital investor.

The filing marks a critical inflection point for Clearwater: a chance to stabilize operations, shed underperforming assets, and either reorganize around a core set of profitable stores or explore a going-concern sale. But with creditor distrust, insider conflicts, and operational headwinds, Clearwater's path through chapter 11 is anything but straightforward.