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InkStop files for Chapter 7 bankruptcy

By Janet Cho, The Plain Dealer November 10, 2009, 6:07PM

Peggy Turbett, The Plain Dealer

The InkStop store in the Lakewood Plaza in Lakewood, Ohio.

INKSTOP TIMELINE

Sept. 2005: InkStop incorporated.

Jan. 2006: InkStop opens first store in Independence.

Jan. 2007: InkStop operates 29 stores, reaches $7 million in sales.

Jan. 2008: InkStop opens 120th store, projects $40 million in sales.

CLEVELAND, Ohio -- Ink and toner retailer InkStop Inc. has filed for Chapter 7 bankruptcy, saying the cash-strapped company owes too much money to reopen and will instead liquidate its assets and close for good.

InkStop laid off 456 employees on Oct. 1, telling them it hadn't paid their health care premiums for the past month and didn't have the money to issue their final paychecks.

"We are working on a plan to improve our cash flow and reopen under better circumstances," the board of directors told workers via fax and e-mail on Oct. 1.

But now the board says via its 495-page U.S. Bankruptcy Court filing that InkStop owes nearly $48.3 million to more than a 1,000 creditors.

Board members chipped in the $20,379.97 in fees and expenses to file for bankruptcy.

InkStop owes $1.1 million in wages, vacation pay and expense reimbursements to employees, including $63,804.17 owed to CEO and co-founder Dirk Kettlewell.

The company is the subject of numerous lawsuits and legal complaints, including 95 evictions.

The list of creditors does not include Chagrin Falls investor Keith DeGreen, who invested $250,000 in the company just before it collapsed. He is suing InkStop founders Dirk and Dawn Kettlewell, its officers and board of directors for misleading him about the company's finances.

Kettlewell could not be reached for comment.

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Attorney Steven Davis, who is representing InkStop in the bankruptcy, said the filing was a liquidation proceeding that would take place according to bankruptcy law.

Jon Groetzinger, a visiting law professor at Case Western Reserve University School of Law, said the fact that InkStop chose to liquidate rather than try to reorganize and reopen is bleak news for employees.

"If the corporate entity has no money, then no payments are going to be made to anybody," he said.

Secured creditors such as banks and lending institutions are likely to get paid first, followed by unsecured creditors such as the landlords where InkStop had its stores, he said. Workers would come after that.

But the attorneys representing 205 former InkStop employees in a lawsuit disagree, saying that just because the company is bankrupt doesn't release its executives and board members from their obligations to pay employees' wages.

"The only thing that the filing of this bankruptcy does is change our strategy a little bit, because our clients have strong claims both inside and outside the bankruptcy," said attorney Jason Bristol of Cohen Rosenthal & Kramer LLP, who with Anthony Lazzaro is suing InkStop and founders Dirk and Dawn Kettlewell.

"It doesn't affect the strength of our claims," he said.

"The bankruptcy places more emphasis on individuals (defendants) for how the employees were treated, especially those who had control of the company and made the decision to keep operating despite financial problems," added Lazzaro, of the Lazzaro Law Firm LLC.

Plain Dealer News Researcher Jo Ellen Corrigan contributed to this story.

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