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InkStop started with a bang and ended with a bust

By Janet Cho, The Plain Dealer December 21, 2009, 3:00PM



Gus Chan, The Plain Dealer

Bright yellow signs posted in front of the laminators and other items remind customers that all sales are final and they will not be able to return or exchange any items.

WARRENSVILLE HEIGHTS, Ohio -- InkStop Inc. set out to redefine the way Americans shop for ink and toner.

But in the end, the company might be remembered more for the way it went out of business than for anything it did while it was open.

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By the time InkStop shut down Oct. 1, it owed nearly \$48.3 million to more than 1,000 creditors, according to its 495-page Chapter 7 filing in U.S. Bankruptcy Court.

That includes \$1.1 million in wages, vacation pay and expense reimbursements to 456 employees, who are still waiting for their final paychecks.

Nobody knows how much money will be raised from the asset liquidation sales taking place at its stores through the end of the month, or whether its employees will ever get paid.

Yet long before InkStop filed for bankruptcy, long before the retailer locked its stores, changed its alarm codes and laid off all of its workers, the upstart office supply chain seemed poised for greatness.

In four short years, InkStop had gone from a concept on paper to a retail phenomenon with 152 stores in 14 states -- including 16 in Northeast Ohio -- ringing up brisk sales even as its big box rivals were struggling.

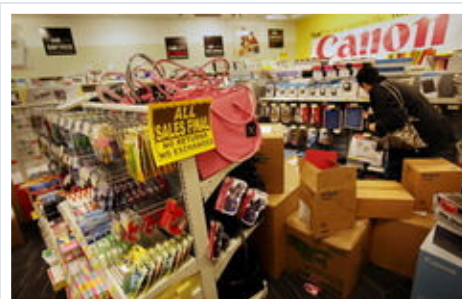
"It was a great concept, just executed poorly, right from the get-go," said Jim Varagona, InkStop's former store manager in St. Louis, Mo.

What started out as a good niche category quickly got crowded as other retailers such as Walgreens started selling ink, said Cleveland retail consultant Robert Antall of **Consumer Centric Consulting LLC** in Shaker Heights.

While its founders and directors didn't expect to make money right away, they also didn't anticipate the economic disaster that hit just as InkStop was supposed to become profitable, Chief Financial Officer Dale Fuller told 17 creditors and lawyers at a bankruptcy hearing last week.

"Vendors pulled back their support, banks suspended their lending and consumers stopped buying," he said. They canceled plans to open 30 more stores.

"The cash just wasn't there," he said. Without new investors to write



[View full size](#) Gus Chan, The Plain Dealer

Shoppers pick their way through the boxes of CD cases and other merchandise stacked between the school supplies and laptop cases at the InkStop store in Independence. The store, at 6800 Rockside Road, was InkStop's first retail location and remained its top seller until the company closed Oct. 1.

Other coverage

[InkStop timeline](#)

[InkStop's board of directors](#)

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Nov. 10: InkStop files for Chapter 7 bankruptcy

Oct. 27: InkStop investor suing CEO, officers and directors for misrepresenting retailer as financially healthy

Oct. 8: Inkstop's board of directors looking for money to repay workers

Oct. 7: Inkstop pays employees employees benefit premiums

Oct. 6: Inkstop insurance letter to employees

checks, there wasn't enough money to keep the stores going.

"In late September, the board of directors decided to close down the business," he said.

Management notified 456 workers via phone, fax and e-mail around 10 p.m. on Oct. 1 that their stores would not reopen the next day.

Oct. 5: Inkstop employees file suit against company for unpaid wages, benefits

Oct. 2: InkStop closes all stores

Oct. 2: Inkstop letter to employees (PDF) Around the Web

"Paychecks will not be issued on Friday [the next day] due to our cash constraints. We are working on a plan to improve our cash flow situation and reopen under better circumstances," InkStop directors told workers in a letter.

Not only did workers not get paid for their last two to three weeks of work, they also found out their medical coverage and other insurance had not been paid for September. The company says it later paid for the employees' coverage through September.

"Your patience during this difficult time is appreciated," the letter concluded.

Within hours, workers were trashing InkStop via Twitter, Facebook, jobvent.com and other sites.

Three days later, dozens of employees filed a lawsuit accusing InkStop and founders Dirk and Dawn Kettlewell of wage theft.

Workers didn't have the money to pay their mortgages, make their car payments or buy groceries, said Cleveland attorney Jason Bristol of **Cohen Rosenthal & Kramer LLP**, who is representing the group with attorney Anthony Lazzaro of the **Lazzaro Law Firm LLC**.

"I had \$23 in the bank when they closed," said Lana Bell, assistant manager at the Mayfield store. "I had so many checks bounce and so many overdraft fees."

More than 240 people have since joined that lawsuit, which now includes InkStop's officers and directors.

From the beginning, InkStop was designed to be smaller and more nimble than its superstore competitors, with fewer employees and a leaner inventory of ink, toner, office supplies, digital cameras, printers, copiers and other office gadgets.

The concept was to take printer cartridges and other higher-profit products and sell them out of smaller 1,500-square-foot stores staffed by more experienced, helpful salespeople, Fuller said.

"If you needed a cheap ink cartridge, I always came here first before going to Best Buy and other places," said customer Will Taylor of Cleveland. "If you had a problem, they'd exchange it, no problem."

Founder Dirk Kettlewell said he realized while working as OfficeMax's senior vice president of technology that office supply stores should operate more like gas station convenience stores.

"Buying ink is more like buying gas than buying a car," **he told Inside Business magazine** last December. "Customers aren't there to ogle the merchandise. They're in the store because they need ink, and they needed it 10 minutes ago. They want to be in and out as quickly as possible."



Gus Chan, The Plain Dealer

Boxes of InkStop brand inkjet cartridges fill a display case at the InkStop in Independence. The store that started out selling ink eventually couldn't keep enough of it in stock in the months before InkStop closed, and even shoppers noticed gaps between the boxes of ink on the shelves.

Kettlewell hired co-founder Dawn Callahan (his future wife) and other senior officers from OfficeMax, and financed the first four stores with a six-figure home-equity loan.

InkStop opened its first retail store at 6800 Rockside Road in Independence on Jan. 22, 2006, and it remained one of its busiest stores. Store 1001 was one of several Cleveland-area stores company officials showed off to investors they were wooing.

For a start-up, InkStop multiplied quickly.

Within months the Independence store, InkStop opened four more stores in Lakewood, Solon, Woodmere, and Mentor, then expanded to Michigan, Kansas, Pennsylvania and Virginia.

By the end of its first year, InkStop was operating 29 stores in eight states and raking in \$7 million in sales. But it had yet to turn a profit, Fuller said.

InkStop opened 88 more stores in fiscal 2007, including 19 in November alone.

And by January 2008, the end of its second fiscal year, its store count had risen to 120 and sales were approaching \$40 million. InkStop told investors it expected to eventually become a 3,000-store chain.

InkStop was just about to open five stores in Arizona when the company's board of directors abruptly pulled the plug.

InkStop's tremendous expansion was fueled by a steady infusion of cash from well-heeled investors. The company's business model relied on investors' money to keep things running.

To generate cash, the company issued shares of stock seven times between 2006 and 2009. It raised \$15 million in its first offering, \$25 million in its second, \$35 million in its third and \$7.5 million in its fourth, Fuller said.

InkStop's leadership projected they would become profitable in the fourth quarter of 2008, but then the stock market tanked and everything went haywire.

"It was an economic disaster," Fuller said. Management cut payroll, trimmed expenses, laid off employees at company headquarters and took a pay cut. But it wasn't enough.

Employees said they were discouraged from asking questions about the company's finances.

"There were times we were told there were more supplies coming in, but they never did," said Mike Stuckert, assistant manager at the Woodmere store.

"Customers would call us saying, 'Hey, where's our product?' We would call corporate, and corporate would say, 'Tell them we're working on it.' "

InkStop opened stores faster than it could stock them, and when things ran out, "they'd expect you to drive to other stores getting merchandise," said Varagona, the St. Louis store manager. "We were all having problems with gaping holes on our shelves. We were all cycling through the same merchandise."

Bell, of the Mayfield store, said: "The last time we got an ink shipment was in June, and we're an ink store."

Yet even as revenue streams from investors were dwindling, the company issued nearly \$5.3 million worth of checks and wire transfers to its directors and senior managers, according to court documents.

Directors were repaid for their previously issued notes: \$1.7 million to Richard Ames; \$1.2 million to James Hummer's Luxemburg Capital; \$369,000 to B. Charles Ames; \$350,000 to James Mastrian; and \$109,268 to Norman "Boomer" Esiason.

Company executives were reimbursed for their expenses, including \$143,495 to Dirk Kettlewell and \$80,328 to Mark Race, vice president of real estate; and \$10,451 to Dawn Kettlewell.

Fuller said during the bankruptcy hearing that executives and directors talked about employee payroll at three to four meetings in September, the same time they agreed to pay about \$80,000 in sales tax for the month.

"When did you know that the employees would not get paid for the last three weeks?" asked attorney Anthony Lazzaro.

"On the day that the payroll was due, about September 26," Fuller said.

"Was there any other way to pay the employees other than the funding" from future investors, Lazzaro asked.

Fuller shook his head. "No."

InkStop, which started with such fanfare and promise, is now facing dozens of lawsuits and eviction notices from landlords, vendors and contractors.

And its case in bankruptcy court continues.