

INDUSTRIAL SERVICES OF AMERICA INC /FL  
Form 10-Q  
November 14, 2011

# FORM 10-Q

## SECURITIES AND EXCHANGE COMMISSION WASHINGTON, DC 20549

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the Transition Period From \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-20979

# INDUSTRIAL SERVICES OF AMERICA, INC.

(Exact Name of Registrant as specified in its Charter)

Florida

(State or other jurisdiction of  
Incorporation or Organization)

59-0712746

(IRS Employer  
Identification No.)

7100 Grade Lane, PO Box 32428  
Louisville, Kentucky 40232  
(Address of principal executive offices)

(502) 368-1661

(Registrant's Telephone Number, Including Area Code)

Check whether the registrant (1) has filed all Reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

(Check one): Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of September 30, 2011: 6,940,517.

Edgar Filing: INDUSTRIAL SERVICES OF AMERICA INC /FL - Form 10-Q

INDUSTRIAL SERVICES OF AMERICA, INC. AND SUBSIDIARIES

INDEX

	<b>Page No.</b>
<b><u>Part I</u></b>	
<b><u>Financial Information</u></b>	
<u>Condensed Consolidated Balance Sheets September 30, 2011 (Unaudited) and December 31, 2010</u>	3
<u>Condensed Consolidated Statements of Operations - Three Months Ended September 30, 2011 and 2010 (Unaudited)</u>	5
<u>Condensed Consolidated Statements of Operations - Nine Months Ended September 30, 2011 and 2010 (Unaudited)</u>	6
<u>Condensed Consolidated Statements of Shareholders' Equity September 30, 2011 (Unaudited) and December 31, 2010</u>	7
<u>Condensed Consolidated Statements of Cash Flows - Nine Months Ended September 30, 2011 and 2010 (Unaudited)</u>	8
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	9
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
<b><u>Part II</u></b>	
<b><u>Other Information</u></b>	34

---

## PART I FINANCIAL INFORMATION

## ITEM 1: CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

## INDUSTRIAL SERVICES OF AMERICA, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	September 30, 2011 (Unaudited)	December 31, 2010
	(in thousands)	
Current assets		
Cash and cash equivalents	\$ 3,037	\$ 2,468
Income tax receivable	3,177	
Accounts receivable - trade (after allowance for doubtful accounts of \$100 thousand in 2011 and 2010)	28,409	27,449
Net investment in sales-type leases	38	33
Inventories	21,027	34,311
Deferred income taxes	511	942
Prepaid expenses	535	392
Employee loans	5	6
Total current assets	56,739	65,601
Net property and equipment	26,555	27,554
Other assets		
Net investment in sales-type leases	11	40
Notes receivable - related party	56	88
Goodwill	6,840	6,840
Intangible assets, net	5,213	5,775
Deposits	626	263
Total other assets	12,746	13,006
Total assets	\$ 96,040	\$ 106,161

See accompanying notes to consolidated financial statements.

## INDUSTRIAL SERVICES OF AMERICA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS  
CONTINUEDLIABILITIES AND STOCKHOLDERS' EQUITY

	September 30, 2011 (Unaudited)	December 31, 2010
(in thousands)		
Current liabilities		
Current maturities of long-term debt (Note 4)	\$ 1,872	\$ 1,824
Accounts payable	5,646	11,406
Income tax payable		2,909
Interest rate swap agreement liability (Note 4)	558	650
Accrued bonuses		1,175
Other current liabilities	509	319
Total current liabilities	8,585	18,283
Long-term liabilities		
Long-term debt (Note 4)	44,729	43,623
Deferred income taxes	3,390	3,373
Total long-term liabilities	48,119	46,996
Shareholders' equity		
Common stock, \$0.0033 par value: 10,000,000 shares authorized, 7,192,500 shares issued in 2011 and 2010, 6,940,517 and 6,789,917 shares outstanding in 2011 and 2010, respectively	24	24
Additional paid-in capital	18,282	17,852
Retained earnings	21,882	23,938
Accumulated other comprehensive loss	(338)	(353)
Treasury stock at cost, 251,983 and 407,583 shares in 2011 and 2010, respectively	(514)	(579)
Total shareholders' equity	39,336	40,882
Total liabilities and shareholders' equity	\$ 96,040	\$ 106,161

See accompanying notes to consolidated financial statements.

Edgar Filing: INDUSTRIAL SERVICES OF AMERICA INC /FL - Form 10-Q

INDUSTRIAL SERVICES OF AMERICA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

(UNAUDITED)

	<u>2011</u>	<u>2010</u>
	(in thousands, except per share information)	
Revenue from services	\$ 1,403	\$ 1,761
Revenue from product sales	54,363	74,789
<b>Total Revenue</b>	<b>55,766</b>	<b>76,550</b>
Cost of goods sold for services	1,300	1,687
Cost of goods sold for product sales	55,496	67,494
Inventory adjustment for lower of cost or market	3,441	
<b>Total Cost of goods sold</b>	<b>60,237</b>	<b>69,181</b>
Selling, general and administrative expenses	2,694	3,884
<b>(Loss) income before other income (expense)</b>	<b>(7,165)</b>	<b>3,485</b>
Other income (expense)		
Interest expense	(426)	(353)
Interest income	5	6
Gain (loss) on sale of assets	(30)	22
Other income (loss), net	19	44
Total other expense	(432)	(281)
<b>(Loss) income before income taxes</b>	<b>(7,597)</b>	<b>3,204</b>
Income tax provision (benefit)	(3,061)	1,281
<b>Net (loss) income</b>	<b>\$ (4,536)</b>	<b>\$ 1,923</b>
Basic (loss) earnings per share	\$ (0.67)	\$ 0.28
Diluted (loss) earnings per share	\$ (0.67)	\$ 0.28
Weighted shares outstanding:		
Basic	6,790	6,785
Diluted	6,790	6,835

See accompanying notes to consolidated financial statements.

Edgar Filing: INDUSTRIAL SERVICES OF AMERICA INC /FL - Form 10-Q

INDUSTRIAL SERVICES OF AMERICA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010  
(UNAUDITED)

	2011	2010
	(in thousands, except per share information)	
Revenue from services	\$ 4,064	\$ 4,831
Revenue from product sales	222,852	238,703
<b>Total Revenue</b>	<b>226,916</b>	<b>243,534</b>
Cost of goods sold for services	3,758	4,474
Cost of goods sold for product sales	212,345	217,654
Inventory adjustment for lower of cost or market	3,441	
<b>Total Cost of goods sold</b>	<b>219,544</b>	<b>222,128</b>
Selling, general and administrative expenses	9,045	10,649
<b>(Loss) income before other income (expense)</b>	<b>(1,673)</b>	<b>10,757</b>
Other income (expense)		
Interest expense	(1,632)	(1,022)
Interest income	16	24
Gain on sale of assets	111	256
Other income (loss), net	(483)	40
<b>Total other expense</b>	<b>(1,988)</b>	<b>(702)</b>
<b>(Loss) income before income taxes</b>	<b>(3,661)</b>	<b>10,055</b>
Income tax provision (benefit)	(1,605)	4,022
<b>Net (loss) income</b>	<b>\$ (2,056)</b>	<b>\$ 6,033</b>
Basic (loss) earnings per share	\$ (0.30)	\$ 0.92
Diluted (loss) earnings per share	\$ (0.30)	\$ 0.91
Weighted shares outstanding:		
Basic	6,922	6,567
Diluted	6,922	6,611

See accompanying notes to consolidated financial statements.



Edgar Filing: INDUSTRIAL SERVICES OF AMERICA INC /FL - Form 10-Q

INDUSTRIAL SERVICES OF AMERICA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY  
NINE MONTHS ENDED SEPTEMBER 30, 2011  
(UNAUDITED)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Total Shareholders Equity
	Shares	Amount				Shares	Cost	
<b>(in thousands, except share information)</b>								
<b>Balance as of December 31, 2010</b>	7,192,500	\$ 24	\$ 17,852	\$ 23,938	\$ (353)	(402,583)	\$ (579)	\$ 40,882
Net unrealized income on derivative instruments, net of tax					15			15
Stock bonuses			430			150,600	65	495
Net loss				(2,056)				(2,056)
<b>Balance as of September 30, 2011</b>	<b>7,192,500</b>	<b>\$ 24</b>	<b>\$ 18,282</b>	<b>\$ 21,882</b>	<b>\$ (338)</b>	<b>(251,983)</b>	<b>\$ (514)</b>	<b>\$ 39,336</b>

See accompanying notes to consolidated financial statements.

INDUSTRIAL SERVICES OF AMERICA, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010  
 (UNAUDITED)

	<u>2011</u>	<u>2010</u>
	(in thousands)	
<b>Cash flows from operating activities</b>		
Net (loss) income	\$ (2,056)	\$ 6,033
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	3,387	2,681
Inventory write-down	3,441	
Stock bonus to employees	495	452
Deferred income taxes	371	
Gain on sale of property and equipment	(111)	(256)
Change in assets and liability		
Receivables	(960)	(27,658)
Net investment in sales-type leases	24	20
Inventories	9,842	(4,446)
Income tax receivable	(3,177)	
Other assets	(170)	(722)
Accounts payable	(5,759)	10,023
Accrued bonuses	(1,175)	290
Income tax payable	(2,909)	2,076
Other current liabilities	190	113
Net cash from (used in) operating activities	<u>1,433</u>	<u>(11,394)</u>
<b>Cash flows from investing activities</b>		
Proceeds from sale of property and equipment	173	351
Purchases of property and equipment	(1,856)	(1,871)
Deposits on equipment	(367)	(605)
Payments from related party	32	30
Net cash used in investing activities	<u>(2,018)</u>	<u>(2,095)</u>
<b>Cash flows from financing activities</b>		
Payments on capital lease obligation		(21)
Payments on long-term debt	(4,026)	(33,934)
Proceeds from long-term debt	5,180	48,800
Net cash from financing activities	<u>1,154</u>	<u>14,845</u>
Net increase in cash	569	1,356
Cash at beginning of year	2,468	713
<b>Cash at end of year</b>	<u>\$ 3,037</u>	<u>\$ 2,069</u>

Supplemental disclosure of cash flow information:

Edgar Filing: INDUSTRIAL SERVICES OF AMERICA INC /FL - Form 10-Q

Cash paid for interest	1,632	1,022
Cash paid for taxes	4,120	1,946
Supplemental disclosure of noncash investing and financing activities		
Common stock issued to acquire intangibles		2,260

---

See accompanying notes to consolidated financial statements.

8

---

INDUSTRIAL SERVICES OF AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Presentation*

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U. S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U. S. generally accepted accounting principles for complete consolidated financial statements. The information furnished includes all adjustments, which are, in the opinion of management, necessary to present fairly our financial position as of September 30, 2011 and the results of our operations and changes in our cash flow for the periods ended September 30, 2011 and 2010. Results of operations for the period ended September 30, 2011 are not necessarily indicative of the results that may be expected for the entire year. Additional information, including the audited December 31, 2010 consolidated financial statements and the Summary of Significant Accounting Policies, is included in our Annual Report on Form 10-K for the year ended December 31, 2010 on file with the Securities and Exchange Commission.

*Reclassifications*

We have reclassified certain balance sheet and cash flow items within the accompanying Condensed Consolidated Financial Statements and Notes to Condensed Consolidated Financial Statements for the prior year in order to be comparable with the current presentation. These reclassifications had no effect on previously reported income.

*Fair Value*

We carry certain of our financial assets and liabilities at fair value on a recurring basis. These financial assets and liabilities are composed of trading account assets and various types of derivative instruments. In addition, we measure certain assets, such as goodwill and other long-lived assets, at fair value on a non-recurring basis to evaluate those assets for potential impairment. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In accordance with the accounting standard, we categorize our financial assets and liabilities into the following fair value hierarchy:

Level 1 Financial assets and liabilities with values based on unadjusted quoted prices for identical assets or liabilities in an active market. Examples of level 1 financial instruments include active exchange-traded equity securities and certain U.S. government securities.

## Edgar Filing: INDUSTRIAL SERVICES OF AMERICA INC /FL - Form 10-Q

Level 2 Financial assets and liabilities with values based on quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability. Examples of level 2 financial instruments include commercial paper purchased from the State Street-administered asset-backed commercial paper conduits, various types of interest-rate derivative instruments, and various types of fixed-income investment securities. Pricing models are utilized to estimate fair value for certain financial assets and liabilities categorized in level 2.

Level 3 Financial assets and liabilities with values based on prices or valuation techniques that require inputs that are both unobservable in the market and significant to the overall fair value measurement. These inputs reflect management's judgment about the assumptions that a market participant would use in pricing the asset or liability, and are based on the best available information, some of which is internally developed. Examples of level 3 financial instruments include certain corporate debt with little or no market activity and a resulting lack of price transparency.

When determining the fair value measurements for financial assets and liabilities carried at fair value on a recurring basis, we consider the principal or most advantageous market in which we would transact and consider assumptions that market participants would use when pricing the asset or liability. When possible, we look to active and observable markets to price identical assets or liabilities. When identical assets and liabilities are not traded in active markets, we look to market observable data for similar assets and liabilities. Nevertheless, certain assets and liabilities are not actively traded in observable markets, and we use alternative valuation techniques to derive fair value measurements.

We use the fair value methodology outlined in the related accounting standard to value the assets and liabilities for cash, debt and derivatives. All of our cash is defined as Level 1 and all our debt and derivative contracts are defined as Level 2. In accordance with this guidance, the following table represents our fair value hierarchy for Level 1 and Level 2 financial instruments at September 30, 2011 (in thousands):

<b>Assets</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Cash and cash equivalents	\$ 3,037	\$	\$ 3,037
<b>Liabilities</b>			
Long-term debt	\$	\$ 46,601	\$ 46,601
Derivative contract		558	558

We have had no transfers in or out of Levels 1 or 2 fair value measurements, and no activity in Level 3 fair value measurements for the quarter ending September 30, 2011. For Level 3 assets, goodwill is subject to impairment analysis each year end under Phase I of the ASC guidance. We use an annual capitalized earnings computation to evaluate Level 3 assets for impairment.

*Subsequent Events*

We have evaluated the period from September 30, 2011 through the date the financial statements herein were issued, for subsequent events requiring recognition or disclosure in the financial statements and no events were identified.

**NOTE 2 ESTIMATES**

In preparing the condensed consolidated financial statements in accordance with U. S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X, management must make estimates and assumptions. These estimates and assumptions affect the amounts reported for assets, liabilities, revenues and expenses, as well as affecting the disclosures provided. Examples of estimates include the allowance for doubtful accounts, estimates associated with annual goodwill impairment tests, and estimates of deferred income tax and liabilities. The Company also uses estimates when assessing fair values of assets and liabilities acquired in business acquisitions as well as any fair value and any related impairment charges related to the carrying value of machinery and equipment, and other long-lived assets. Despite the Company's intention to establish accurate estimates and use reasonable assumptions, actual results may differ from these estimates.

**NOTE 3 INTANGIBLE ASSETS**

Purchased intangible assets are initially recorded at cost and finite life intangible assets are amortized over their useful economic lives on a straight line basis. Intangible assets having indefinite lives and intangible assets that are not yet ready for use are not amortized and are reviewed annually for impairment in accordance with Note 1 – Summary of Significant Accounting Policies – Fair Value.

Intangible assets are considered to have indefinite lives when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate cash flows for the Company. The factors considered in making this determination include the existence of contractual rights for unlimited terms and the life cycles of the products and processes that depend on the asset.

We have the following intangible assets as of September 30, 2011:

	<b>Gross Carrying Value</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Value</b>
	(in thousands)		
Amortized intangible assets			
Venture Metals, LLC trade name	\$ 730	\$ (182)	\$ 548
Non-compete agreements	620	(155)	465
Venture Metals, LLC customer list	4,800	(600)	4,200
	<u>          </u>	<u>          </u>	<u>          </u>
Total intangible assets	<u>\$ 6,150</u>	<u>\$ (937)</u>	<u>\$ 5,213</u>

## Edgar Filing: INDUSTRIAL SERVICES OF AMERICA INC /FL - Form 10-Q

We amortize the trade name and non-compete agreements using a method that reflects the pattern in which the economic benefits are consumed or otherwise used over a 5-year life as stated in the agreements. We amortize the customer list on a straight-line basis over a 10-year life as estimated by management. We incurred amortization expense related to these assets of \$562.5 thousand and \$67.5 thousand for the nine month periods ending September 30, 2011 and 2010, respectively.

As of September 30, 2011, we expect amortization expense for these assets for the next five fiscal years and thereafter to be as follows:

<u>Year</u>	<u>Balance - Beginning of Year</u>	<u>Amortization</u>	<u>Balance - End of Year</u>
(in thousands)			
2011	\$ 5,775	\$ (750)	\$ 5,025
2012	5,025	(750)	4,275
2013	4,275	(750)	3,525
2014	3,525	(750)	2,775
2015	2,775	(615)	2,160
Thereafter	2,160	(2,160)	

#### **NOTE 4 LONG TERM DEBT AND NOTES PAYABLE TO BANK**

On August 9, 2011, we entered into a Loan and Security Agreement (the August Agreement) with Fifth Third Bank (the Bank) pursuant to which the Bank agreed to loan the Company funds pursuant to a Promissory Note (the August Note) in the amount of \$115.0 thousand for the purpose of purchasing operating equipment. The interest rate is 5.95%. Principal and interest is payable in 48 equal monthly installments of \$2.7 thousand. The first such payment commenced on September 12, 2011, and the entire unpaid principal amount, together with all accrued and unpaid interest, charges, fees or other advances, if any, is due no later than August 12, 2015. As security for the Note, we have granted the Bank a first priority security interest in the equipment purchased with the proceeds of the Note. As of September 30, 2011, the outstanding balance of this loan was \$112.9 thousand.

On April 12, 2011, we entered into a Loan and Security Agreement (the Agreement) with Fifth Third Bank (the Bank) pursuant to which the Bank agreed to loan the Company funds pursuant to a Promissory Note (the Note) in the amount of \$226.9 thousand for the purpose of purchasing operating equipment. The interest rate is 5.68%. Principal and interest is payable in 48 equal monthly installments of \$5.3 thousand. The first such payment commenced on May 20, 2011, and the entire unpaid principal amount, together with all accrued and unpaid interest, charges, fees or other advances, if any, is due and payable no later than April 20, 2015. As security for the Note, we have granted the Bank a first priority security interest in the equipment purchased with the proceeds of the Note. As of September 30, 2011, the outstanding balance of this loan was \$200.2 thousand.

On April 14, 2011, we entered into a new First Amendment to Credit Agreement (the April Amendment) with Fifth Third Bank (the Bank) which amended the July 30, 2010 Credit Agreement between the Company and the Bank (the Credit Agreement) as follows: (i) increased the maximum revolving commitment and the

## Edgar Filing: INDUSTRIAL SERVICES OF AMERICA INC /FL - Form 10-Q

maximum amount of eligible inventory advances in the calculation of the borrowing base, (ii) changed the due date of the first excess cash flow payment to April 30, 2012, and (iii) amended certain other provisions of the Credit Agreement and certain of the other loan documents.

Under the Credit Agreement, we were permitted to borrow the lesser of \$40.0 million or the borrowing base, consisting of the sum of 80% of eligible accounts plus 60% of eligible inventory up to \$17.0 million. Under the April Amendment, the Bank agreed to increase the revolving credit facility to the lesser of \$45.0 million or the borrowing base, consisting of the sum of 85% of eligible accounts plus 60% of eligible inventory up to \$18.0 million.

The July 30, 2010 Credit Agreement, which except as described above, remains in full force and effect, provided us a revolving credit facility in the amount of \$40.0 million for the purpose of replacing the existing \$20.0 million senior revolving credit facility with Branch Banking and Trust Company ( BB&T ) and for payment of the \$5.0 million note payable to BB&T (collectively, the Prior Obligations ). Proceeds of the new revolving credit facility in the amount of \$33.4 million were used to repay the outstanding principal balance of the Prior Obligations. We used additional proceeds of the revolving credit facility to pay closing costs and for funding temporary fluctuations in accounts receivable of most of our customers and inventory. In addition, we entered into a term loan agreement with the Bank in the amount of \$8.8 million for the purpose of replacing the \$6.0 million note payable secured by our shredder system, the \$3.0 million note payable secured by our rental fleet equipment, and the \$610.0 thousand note payable secured by our crane.

With respect to the revolving credit facility, the interest rate is one month LIBOR plus two hundred fifty basis points (2.50%) per annum, adjusted monthly on the first day of each month. As of September 30, 2011, the interest rate was 3.00%. We also pay a fee of 0.5% on the unused portion. The revolving credit facility expires on July 31, 2013. Under the April Amendment to the revolving credit facility, we are permitted to borrow the lesser of \$45.0 million or the borrowing base, consisting of the sum of 85% of eligible accounts plus 60% of eligible inventory up to \$18.0 million. Eligible accounts are generally those receivables that are less than 90 days from the invoice date. As security for the revolving credit facility, we provided the Bank a first priority security interest in the accounts receivable from most of our customers and in our inventory. We also cross collateralized the revolving line of credit with the \$8.8 million term loan. As of September 30, 2011, the outstanding balance of the revolving line of credit was \$37.7 million.

The \$8.8 million term loan provides for an interest rate of 3.25% as of September 30, 2011. Principal and interest is payable monthly in consecutive equal installments of \$105,000. The first such payment commenced September 1, 2010 and the final payment of the then-unpaid balance becomes due and payable in full on July 31, 2013. In addition, beginning April 30, 2012 (or, if earlier, upon completion of the Company's financial statements for the fiscal year ending December 31, 2011), we will make an annual payment equal to 25% of (i) our adjusted earnings before interest, taxes, depreciation and amortization ( EBITDA ), minus (ii) our aggregate cash payments of interest expense and scheduled payments of principal (including any prepayments of the term loan), minus (iii) any non-financed capital expenditures, in each case for the Company's prior fiscal year. Any such payments will be applied to remaining installments of principal under the term loan in the inverse order of maturity, and to accrued but unpaid interest thereon. As security for the term loan, we provided the Bank a first priority security interest in all equipment other than the rental fleet that we own. As of September 30, 2011, the outstanding balance of the term loan was \$7.3 million.



## Edgar Filing: INDUSTRIAL SERVICES OF AMERICA INC /FL - Form 10-Q

In addition, we provided a first mortgage on the property at the following locations: 3409 Campground Road, 6709, 7023, 7025, 7101, 7103, 7110, 7124, 7200 and 7210 Grade Lane, Louisville Kentucky, 1565 East Fourth Street, Seymour, Indiana and 1617 State Road 111, New Albany, Indiana. The Company also cross collateralized the term loan with the revolving credit facility and all other existing debt the Company owes to the Bank.

In the Credit Agreement, we agreed to certain covenants, including (i) maintenance of a ratio of debt to adjusted EBITDA for the preceding 12 months of not more than 3.5 to 1 (or, if measured as of December 31 of any fiscal year, 4.0 to 1), (ii) maintenance of a ratio of adjusted EBITDA for the preceding twelve months to aggregate cash payments of interest expense and scheduled payment of principal in the preceding 12 months of not less than 1.20 to 1, and (iii) a limitation on capital expenditures of \$4.0 million in any fiscal year. As of September 30, 2011, we were not in compliance with all covenants. We received a waiver from the Bank for failing to meet the ratio requirements for covenants (i) and (ii) above. As of September 30, 2011, our ratio of debt to adjusted EBITDA was 8.7; our ratio of adjusted EBITDA to aggregate cash payments of interest expense and scheduled principal payments was (0.7), and our capital expenditures totaled \$1.9 million, which includes \$0.4 million in deposits on equipment. As of September 30, 2011, we have \$7.3 million under our existing credit facilities that we can use based on the bank waiver received.

On October 13, 2010, we entered into a Promissory Note (the Note ) with Fifth Third Bank in the amount of \$1.3 million for the purpose of purchasing equipment. The interest rate is 5.20%. Principal and interest is payable monthly in consecutive equal installments of \$30.5 thousand. The first such payment commenced on November 15, 2010, and the final unpaid principal amount due, together with all accrued and unpaid interest, charges, fees, or other advances, if any, is due and payable no later than October 15, 2014. As security for the Note, we provided the Bank a first priority security interest in the equipment purchased with the proceeds. As of September 30, 2011, the outstanding balance of this note was \$1.0 million.

We entered into three interest rate swap agreements with BB&T swapping variable rates for fixed rates in a previous year. The first swap agreement covers \$4.9 million in debt and commenced April 7, 2009 and matures on April 7, 2014. The second swap agreement covers approximately \$2.2 million in debt and commenced October 15, 2008 and matures on May 7, 2013. The third swap agreement covers approximately \$470.8 thousand in debt and commenced October 22, 2008 and matures on October 22, 2013. The three swap agreements fix our interest rate at approximately 5.8%. At September 30, 2011, we recorded the estimated fair value of the liability related to the three swaps at approximately \$558.4 thousand. We entered into the swap agreements for the purpose of hedging the interest rate market risk for the respective notional amounts. These swap agreements were not affected by the debt restructuring with Fifth Third Bank. We maintain a cash account on deposit with BB&T which serves as collateral for the swap agreements. As of September 30, 2011, the balance in this account was \$653.1 thousand.

Edgar Filing: INDUSTRIAL SERVICES OF AMERICA INC /FL - Form 10-Q

Our long term debt as of September 30, 2011 and December 31, 2010 consisted of the following:

	<u>2011</u>	<u>2010</u>
	(unaudited) (in thousands)	
Revolving credit facility of \$40 million with Fifth Third Bank. See above description for additional details.	\$ 37,705	\$ 35,489
Note payable to Fifth Third Bank in the amount of \$8.8 million secured by our rental fleet equipment, our shredder system assets, and a crane. See above description for additional details.	7,330	8,275
Note payable to Fifth Third Bank in the amount of \$1.3 million secured by equipment purchased with the proceeds. See above description for additional details.	1,041	1,271
Loan and Security Agreement payable to Fifth Third Bank in the amount of \$227 thousand secured by the equipment purchased with the proceeds. See above description for additional details.	200	
Note payable to Fifth Third Bank in the amount of \$115 thousand secured by the equipment purchased with the proceeds. See above description for additional details.	113	
Note payable to Paccar Financial Corp. in the amount of \$164 thousand secured by one Kenworth truck. Payments are \$1,697.68 per month with an effective interest rate of 6.5%. The maturity date under this agreement is September 2011.		36
Note payable to ILS for various assets including tractor trailers, trucks and containers. The repayment terms are \$20,000 per month for 60 months at a seven percent (7.0%) interest rate. The maturity date under this agreement is August 2012.	212	376
	<u>46,601</u>	<u>45,447</u>
Less current maturities	<u>1,872</u>	<u>1,824</u>
	<u>\$ 44,729</u>	<u>\$ 43,623</u>

## Edgar Filing: INDUSTRIAL SERVICES OF AMERICA INC /FL - Form 10-Q

The annual maturities of long term debt (in thousands) as of September 30, 2011 are as follows:

2011	\$ 1,872
2012	44,196
2013	444
2014	89
Thereafter	<u>          </u>
Total	\$ 46,601

### NOTE 5 SEGMENT INFORMATION

Our operations include two primary segments: Recycling and Waste Services.

The Company's two reportable segments are determined by the products and services that each offers. The Recycling segment generates its revenues based on buying and selling of ferrous, non-ferrous, including stainless steel, and fiber scrap. Waste Services' revenues consist of charges to customers for waste disposal services and equipment sales and lease income. The components of the column labeled "other" are selling, general and administrative expenses that are not directly related to the two primary segments.

We evaluate segment performance based on gross profit or loss and the evaluation process for each segment includes only direct expenses and selling, general and administrative costs, omitting any other income and expense and income taxes.

<b>FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011</b>	<b>RECYCLING</b>	<b>WASTE SERVICES</b>	<b>OTHER</b>	<b>SEGMENT TOTALS</b>
	<b>(in thousands)</b>			
Recycling revenues	\$ 221,203	\$	\$	\$ 221,203
Equipment sales, service and leasing revenues		1,649		1,649
Management fees		4,064		4,064
Cost of goods sold	(211,748)	(4,355)		(216,103)
Inventory adjustment for lower of cost or market	(3,441)			(3,441)
Selling, general, and administrative expenses	(6,133)	(600)	(2,312)	(9,045)
Segment (loss) profit	\$ (119)	\$ 758	\$ (2,312)	\$ (1,673)
Segment assets	\$ 83,204	\$ 2,046	\$ 10,790	\$ 96,040

<b>FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010</b>	<b>RECYCLING</b>	<b>WASTE SERVICES</b>	<b>OTHER</b>	<b>SEGMENT TOTALS</b>
	<b>(in thousands)</b>			
Recycling revenues	\$ 237,094	\$	\$	\$ 237,094
Equipment sales, service and leasing revenues		1,609		1,609
Management fees		4,831		4,831
Cost of goods sold	(217,023)	(5,105)		(222,128)
Selling, general, and administrative expenses	(5,255)	(753)	(4,641)	(10,649)
Segment profit (loss)	\$ 14,816	\$ 582	\$ (4,641)	\$ 10,757
Segment assets	\$ 102,506	\$ 2,454	\$ 2,325	\$ 107,285

<b>FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2011</b>	<b>RECYCLING</b>	<b>WASTE SERVICES</b>	<b>OTHER</b>	<b>SEGMENT TOTALS</b>
	(in thousands)			
Recycling revenues	\$ 53,879	\$	\$	\$ 53,879
Equipment sales, service and leasing revenues		484		484
Management fees		1,403		1,403
Cost of goods sold	(55,324)	(1,472)		(56,796)
Inventory adjustment for lower of cost or market	(3,441)			(3,441)
Selling, general, and administrative expenses	(1,931)	(215)	(548)	(2,694)
Segment (loss) profit	\$ (6,817)	\$ 200	\$ (548)	\$ (7,165)
Segment assets	\$ 83,204	\$ 2,046	\$ 10,790	\$ 96,040

<b>FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2010</b>	<b>RECYCLING</b>	<b>WASTE SERVICES</b>	<b>OTHER</b>	<b>SEGMENT TOTALS</b>
	(in thousands)			
Recycling revenues	\$ 74,289	\$	\$	\$ 74,289
Equipment sales, service and leasing revenues		500		500
Management fees		1,761		1,761
Cost of goods sold	(67,312)	(1,869)		(69,181)
Selling, general, and administrative expenses	(1,834)	(233)	(1,817)	(3,884)
Segment profit (loss)	\$ 5,143	\$ 159	\$ (1,817)	\$ 3,485
Segment assets	\$ 102,506	\$ 2,454	\$ 2,325	\$ 107,285

**NOTE 6 INVENTORIES**

Our inventories primarily consist of ferrous and non-ferrous, including stainless steel, scrap metals and are valued at the lower of average purchased cost or market using the specific identification method. Quantities of inventories are determined based on our inventory systems and are subject to periodic physical verification using estimation techniques including observation, weighing and other industry methods. We recognize inventory impairment when the market value, based upon current market pricing, falls below recorded value or when the estimated volume is less than the recorded volume of the inventory. We record the loss in cost of goods sold in the period during which we identified the loss.

We make certain assumptions regarding future demand and net realizable value in order to assess that inventory is properly recorded at the lower of cost or market. We base our assumptions on historical experience, current market conditions and current replacement costs. If the anticipated future selling prices of scrap metal and finished steel products should decline, we would re-assess the recorded net realizable value of our inventory and make any adjustments we feel necessary in order to reduce the value of our inventory (and increase cost of goods sold) to the lower of cost or market. In the third quarter of 2011, demand and prices for inventory decreased due to reduced demand for stainless steel arising from weakening economic conditions, which led to a reduction in stainless steel sales volumes and average stainless steel selling prices. In addition, continued weak demand and the impact of declines in anticipated future selling prices which outpaced the decline in inventory costs, resulted in ISA recording a non-cash net realizable value ( NRV ) inventory write-down of \$3.4 million.

We believe that given the current drop in market prices for nickel, a key commodity used in stainless steel blends, future stainless steel selling prices will continue to remain below prices that prevailed in prior periods. Due to the high level of uncertainty regarding the economic environment, our past trends of sales volumes may not be indicative of expected volumes going forward.

Some commodities are in saleable condition at acquisition. We purchase these commodities in small amounts until we have a truckload of material available for shipment. Some commodities are not in saleable condition at acquisition. These commodities must be shredded, torched, sheared or baled. We do not have work-in-process inventory that needs to be manufactured to become finished goods. We include processing costs in inventory for all commodities.

Inventory also includes all types of industrial waste handling equipment and machinery held for resale such as compactors, balers, and containers. Replacement parts included in inventory are depreciated over a one-year life. Other inventory includes fuel, cardboard and baling wire. Inventories as of September 30, 2011 and December 31, 2010 consist of the following:

	September 30, 2011				December 31, 2010			
	Raw Materials	Finished Goods	Processing Costs	Total (unaudited)	Raw Materials	Finished Goods	Processing Costs	Total
(in thousands)								
Stainless steel, ferrous and non-ferrous materials	\$ 17,452	\$ 1,654	\$ 664	\$ 19,770	\$ 30,546	\$ 1,203	\$ 1,115	\$ 32,864
Waste equipment machinery		39		39		75		75
Other		87		87		59		59
Total inventories for sale	17,452	1,780	664	19,896	30,546	1,337	1,115	32,998
Replacement parts	1,131			1,131	1,313			1,313
Total inventories	\$ 18,583	\$ 1,780	\$ 664	\$ 21,027	\$ 31,859	\$ 1,337	\$ 1,115	\$ 34,311

**NOTE 7 - LEASE COMMITMENTS**Operating Leases:

We lease our Louisville, Kentucky facility from a related party under an operating lease expiring December 2012. The rent was adjusted in December 2007 per the Company's agreement to make monthly payments of \$48.5 thousand through December 2012. In addition, we are also responsible for real estate taxes, insurance, utilities and maintenance expense.

We lease office space in Dallas, Texas for which monthly payments of \$1.0 thousand are due through September 2012.

We lease equipment from a related party under operating leases expiring in November 2015 and May 2016 for a monthly payment totaling \$10.5 thousand.

Future minimum lease payments for operating leases in thousands as of September 30, 2011 are as follows:

2011	\$ 764
2012	285
2013	126
2014	126
2015	57
Thereafter	
Future minimum lease payments	\$ 1,358

Total rent expense for the nine months ended September 30, 2011 and 2010 was \$768.7 thousand and \$675.1

thousand, respectively.

**NOTE 8 PER SHARE DATA**

The computation for basic and diluted earnings per share is as follows:

Nine months ended September 30, 2011 compared to nine months ended September 30, 2010:

	<u>2011</u>	<u>2010</u>
	(in thousands, except per share information)	
<b>Basic earnings per share</b>		
Net (loss) income	\$ (2,056)	\$ 6,033
Weighted average shares outstanding	<u>6,922</u>	<u>6,567</u>
Basic (loss) earnings per share	<u>\$ (0.30)</u>	<u>\$ 0.92</u>
<b>Diluted earnings per share</b>		
Net (loss) income	\$ (2,056)	\$ 6,033
Weighted average shares outstanding	6,922	6,567
Add dilutive effect of assumed exercising of stock options		44
Diluted weighted average shares outstanding	<u>6,922</u>	<u>6,611</u>
Diluted (loss) earnings per share	<u>\$ (0.30)</u>	<u>\$ 0.91</u>



Edgar Filing: INDUSTRIAL SERVICES OF AMERICA INC /FL - Form 10-Q

Three months ended September 30, 2011 compared to three months ended September 30, 2010:

	2011	2010
	(in thousands, except per share information)	
<b>Basic earnings per share</b>		
Net (loss) income	\$ (4,536)	\$ 1,923
Weighted average shares outstanding	6,790	6,785
Basic (loss) earnings per share	\$ (0.67)	\$ 0.28
<b>Diluted earnings per share</b>		
Net (loss) income	\$ (4,536)	\$ 1,923
Weighted average shares outstanding	6,790	6,785
Add dilutive effect of assumed exercising of stock options		50
Diluted weighted average shares outstanding	6,790	6,835
Diluted (loss) earnings per share	\$ (0.67)	\$ 0.28

**NOTE 9 LONG TERM INCENTIVE PLAN**

The Company's long term incentive plan makes available up to 2.4 million shares of our common stock for performance-based awards under the plan. We may grant any of these types of awards: non-qualified and incentive stock options, stock appreciation rights, and other stock awards including stock units, restricted stock units, performance shares, performance units, and restricted stock. The performance goals that we may use for such awards will be based on any one or more of the following performance measures: cash flow, earnings, earnings per share, market value added or economic value added, profits, return on assets, return on equity, return on investment, revenues, stock price, or total shareholder return.

The plan is administered by a committee selected by the Board, initially our Compensation Committee, and consisting solely of two or more outside members of the Board. The Committee may grant one or more awards to our employees, including our officers, our directors and consultants, and will determine the specific employees who will receive awards under the plan and the type and amount of any such awards. A participant who receives shares of stock awarded under the plan must hold those shares for six months before the participant may dispose of such shares. The Committee may settle an award under the plan in cash rather than stock.

As of July 1, 2009, we awarded options to purchase 30.0 thousand shares of our stock each to our three independent directors for a total of 90.0 thousand shares at a per share exercise price of \$4.23. We recorded expense related to these stock options of \$95.1 thousand in 2009.

On January 6, 2010, the Board of Directors granted non-performance based stock awards of 25.5 thousand shares to management at \$6.39 per share. On January 11, 2010, we issued 18.0 thousand shares and on February 11, 2010, we issued the remaining 7.5 thousand shares of this grant. On June 8, 2010, we issued 30.0 thousand shares of our stock to management. These shares were granted pursuant to a performance based stock plan authorized on April 14, 2009, at a grant date fair value of \$2.53 per share. On November 15, 2010, we issued non-performance based stock awards of 5.0 thousand shares to management at \$10.34 per share. In January 2011, we issued 60.0 thousand shares of our stock to management. These shares were granted pursuant to a performance based stock plan authorized on April 1, 2010, at a grant date fair value of \$11.93 per share. We also issued non-performance based stock awards of 0.6 thousand shares to consultants at \$12.31 per share.

#### **NOTE 10 LEGAL PROCEEDINGS**

On January 4, 2007, Lennox Industries, Inc., a commercial heating and air-conditioning manufacturer, filed a suit against us captioned Lennox Industries, Inc. v. Industrial Services of America, Inc., Case No. CV-2007-004, in the Arkansas County, Arkansas Circuit Court in Stuttgart, Arkansas. Lennox in its Second Amended Complaint alleged breach of contract, negligence, and breach of fiduciary duty arising from our alleged miscategorization of Lennox's scrap metal and mismanagement of the scrap metal recycling operations at three Lennox plants during the contract period April 18, 2001 through termination on November 17, 2005. Both compensatory and punitive damages were sought by Lennox.

A jury trial was held from June 20-24, 2011. The punitive damage claim was withdrawn by Lennox at the conclusion of its case, and Lennox claimed over \$1 million in compensatory damages. On June 24, the jury found in ISA's favor on five of the six claims. Lennox was awarded \$175,000 on the remaining claim, which we have accrued.

Following the trial, both Lennox and ISA filed motions with the court seeking an award of attorney fees against each other. Lennox also filed a motion requesting an award of pre-judgment interest on the \$175,000 verdict. The Court denied both of Lennox's motions and granted ISA's motion for attorney fees in the amount of \$98,000 against Lennox. Under Arkansas law, both parties have a right to appeal within 30 days of the date a final judgment is signed and entered by the Court. In the event the judgment becomes final and unappealable, the net liability to ISA will be reduced to \$77,000.

We have litigation from time to time, including employment-related claims, none of which we currently believe to be material.

ITEM 2: MANagements DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

*The following discussion and analysis should be read in conjunction with our unaudited condensed consolidated financial statements and the accompanying notes thereto included elsewhere in this report.*

*The following discussion and analysis contains certain financial predictions, forecasts and projections which constitute forward-looking statements within the meaning of the federal securities laws. Actual results could differ materially from those financial predictions, forecasts and projections and there can be no assurance that we will achieve such financial predictions, forecasts and projections. Factors that could affect financial predictions, forecasts and projections include the fluctuations in the commodity price index and any conditions internal to our major customers, including loss of their accounts and other factors as listed in our Form 10-K for the year ended December 31, 2010, as filed with the Securities and Exchange Commission.*

**General**

We are primarily focusing our attention now and in the future towards our recycling business. We sell processed ferrous and non-ferrous scrap material to end-users such as steel mini-mills, integrated steel makers, foundries and refineries. We deliver all scrap ourselves or through third parties via truck, railcar, and/or barge. Some customers choose to send their own delivery trucks, which are weighed and loaded at one of our sites based on the sales order. We purchase ferrous and non-ferrous scrap material primarily from industrial and commercial generators of steel, iron, aluminum, copper, stainless steel and other metals as well as from other scrap dealers who deliver these materials directly to our facilities. We process these materials by shredding, sorting, shearing, cutting and/or baling. We will also continue to focus on initiating growth in our waste services business segment, which includes management services and waste and recycling equipment sales, service and leasing.

We continue to pursue a growth strategy in the waste management services arena by adding new locations of existing customers as well as marketing our services to potential customers. Currently, we service approximately 900 customer locations throughout the United States and we utilize an active database of over 7,000 vendors to provide timely, thorough and cost-effective service to our customers. Along with positioning ourselves to efficiently service our customers, our management services division methods of competition include offering our clients competitive pricing, superior customer service and industry expertise.

Although our focus is on the recycling industry, our goal is to remain dedicated to the management services and equipment industries as well, while sustaining steady growth at an acceptable profit, adding to our net worth, and providing positive returns for stockholders. We intend to increase efficiencies and productivity in our core business while remaining alert for possible acquisitions, strategic partnerships, mergers and joint-ventures that would enhance our profitability.

We have operating locations in Louisville, Kentucky, Seymour and New Albany, Indiana. We do not have operating locations outside the United States.

**Liquidity and Capital Resources**

As of September 30, 2011 we held cash and cash equivalents of \$3,036.7 million. We maintain a cash account on deposit with BB&T which serves as collateral for our swap agreements. As of September 30, 2011, the balance in this account was \$653.1 thousand.

On August 9, 2011, we entered into a Loan and Security Agreement (the August Agreement ) with Fifth Third Bank (the Bank ) pursuant to which the Bank agreed to loan the Company funds pursuant to a Promissory Note (the August Note ) in the amount of \$115.0 thousand for the purpose of purchasing operating equipment. The interest rate is 5.95%. Principal and interest is payable in 48 equal monthly installments of \$2.7 thousand. The first such payment commenced on September 12, 2011, and the entire unpaid principal amount, together with all accrued and unpaid interest, charges, fees or other advances, if any, becomes due no later than August 12, 2015. As security for the Note, we have granted the Bank a first priority security interest in the equipment purchased with the proceeds of the Note. As of September 30, 2011, the outstanding balance of this loan was \$112.9 thousand.

In our Credit Agreement with Fifth Third Bank, we agreed to certain covenants, including (i) maintenance of a ratio of debt to adjusted EBITDA for the preceding 12 months of not more than 3.5 to 1 (or, if measured as of December 31 of any fiscal year, 4.0 to 1), (ii) maintenance of a ratio of adjusted EBITDA for the preceding twelve months to aggregate cash payments of interest expense and scheduled payment of principal in the preceding 12 months of not less than 1.20 to 1, and (iii) a limitation on capital expenditures of \$4.0 million in any fiscal year. As of September 30, 2011, we were not in compliance with all covenants. We received a waiver from the Bank for failing to meet the ratio requirements for covenants (i) and (ii) above. As of September 30, 2011, our ratio of debt to adjusted EBITDA was 8.7; our ratio of adjusted EBITDA to aggregate cash payments of interest expense and scheduled principal payments was (0.6), and our capital expenditures totaled \$1.9 million, which includes \$0.4 million in deposits on equipment. As of September 30, 2011, we have \$7.3 million under our existing credit facilities that we can use based on the bank waiver received.

We have long term debt comprised of the following:

	<b>September 30, 2011 (unaudited)</b>	<b>December 31, 2010</b>
	(in thousands)	
Non-revolving line of credit	\$	\$
Revolving line of credit	37,705	35,489
Notes payable	7,024	8,134
	<b>\$ 44,729</b>	<b>\$ 43,623</b>

We expect that existing cash flow from operations and available credit under our existing credit facilities will be sufficient to meet our cash needs for the next year and beyond, assuming compliance with the covenants in our Credit Agreement or continued waivers thereof. As of September 30, 2011, we do not have any material commitments for capital expenditures.

**Results of Operations**

The following table presents, for the years indicated, the percentage relationship that certain captioned items in our Consolidated Statements of Operations bear to total revenues and other pertinent data:

	Nine months ended September 30,	
	2011	2010
<b>Statements of Operations Data:</b>		
Total Revenue	100.0%	100.0%
Cost of goods sold	97.0%	91.2%
Selling, general and administrative expenses	4.0%	4.4%
Income (loss) before other expenses	-1.0%	4.4%

**Nine months ended September 30, 2011 compared to nine months ended September 30, 2010**

Total revenue decreased \$16.6 million or 6.8% to \$226.9 million in 2011 compared to \$243.5 million in 2010. Recycling revenue decreased \$15.9 million or 6.7% to \$221.2 million in 2011 compared to \$237.1 million in 2010. This is primarily due to a decrease of 63.2 million pounds, or 41.7%, in the volume of stainless steel materials shipments due to a decrease in worldwide stainless steel demand beginning in the second quarter. Substantially all of our stainless steel sales are to one customer. In response to the overall decrease in demand for stainless steel, this customer decreased our sales orders received in both the second and third quarters. The volume of other nonferrous materials shipments also decreased by 1.9 million pounds, or 8.1%. In 2011, sales to existing Recycling dealers decreased by approximately \$25.2 million, or 17.9%. New dealer sales totaled approximately \$25.7 million, while lost dealer sales totaled only \$7.3 million in 2010. In addition to the reduction in volume, total revenue was also affected by the decrease in overall average price for all commodities shipped by \$5.04 per gross ton, or 0.6%. Specifically in September, nickel prices on the London Metal Exchange decreased 40% since the first quarter, falling to their lowest level since December 2009. Nickel is a key commodity used in stainless steel blends. These decreases were partially offset by an increase of 25.2 thousand gross tons, or 17.9%, in the volume of ferrous materials shipments. Waste Services revenue decreased \$0.7 million or 11.3% to \$5.7 million in 2011 compared to \$6.4 million in 2010 primarily due to the loss of several large customers in the first and second quarters. The decrease was partially offset by the gain of one large customer in the third quarter.

Total cost of goods sold decreased \$2.6 million or 1.2% to \$219.5 million in 2011 compared to \$222.1 million in 2010. Recycling cost of goods sold decreased \$1.8 million or 0.9% to \$215.2 million in 2011 compared to \$217.0 million in 2010. This decrease is primarily due to the decrease in the volume of stainless steel and nonferrous materials shipments along with a decrease in the volume of stainless steel materials purchases of 77.6 million pounds, or 50.6%. Overall average price for all commodities purchased decreased \$77.93, or 9.43%. Processing costs decreased \$0.5 million in 2011 as compared to 2010 as well. This decrease is partially offset by the increase in the volume of ferrous materials shipments as noted above and increases in the volumes of ferrous and nonferrous materials purchases of 41.2 gross tons, or 25.1%, and 5.1 million pounds, or 20.2%, respectively. Additional offsets to the decrease were as follows:

- A \$3.4 million write-down of the value of stainless steel inventory to lower of cost or market due to the recent decreases in stainless steel demand and commodity prices, especially nickel;
- A \$1.1 million increase in direct labor costs;
- A \$0.8 million increase in repair and maintenance expense; and
- A \$0.4 million increase in depreciation expense.

## Edgar Filing: INDUSTRIAL SERVICES OF AMERICA INC /FL - Form 10-Q

Waste Services cost of goods sold decreased \$0.7 million or 14.7% to \$4.4 million in 2011 compared to \$5.1 million in 2010 primarily due to the loss of the customers mentioned above.

Selling, general and administrative expenses decreased \$1.6 million or 15.1% to \$9.0 million in the first nine months of 2011 compared to \$10.6 million in the same period in 2010. As a percentage of revenue, selling, general and administrative expenses were 4.0% in 2011 compared to 4.4% in 2010. The primary driver of the decrease in total expenses was a decrease in labor and bonus expense of \$2.7 million.

This decrease was partially offset by the following:

- An increase in depreciation and amortization of \$0.4 million;
- An increase in fuel, lubricant, and hauling expenses of \$0.3 million; and
- An increase in legal expenses of \$0.2 million.

Other expense increased \$1.3 million to other expense of \$2.0 million in 2011 compared to other expense of \$0.7 million in 2010. This was primarily due to an increase in interest expense of \$0.6 million due to higher debt levels in 2011, a decrease in the gain on sale of assets and interest income of \$0.2 million, and an increase in other expense of \$0.5 million. This \$0.5 million increase in other expense resulted from the need to cancel purchase contracts due to the decrease in demand for stainless steel in the second quarter of 2011. These contracts required the Company to pay \$0.5 million in termination fees. The Company chose to terminate these purchase contracts because the purchase contracts cancelled were valued at approximately \$2.4 million, an amount well above the prevailing market price of the underlying commodities. Because the Company can purchase these commodities in the market at lower cost when needed to fill new shipment orders, management determined that the Company could benefit from market volatility by cancelling these contracts, even after paying the termination fees.

The income tax provision decreased \$5.6 million to a credit of \$1.6 million in 2011 compared to a provision of \$4.0 million in 2010 due to the loss reported in 2011, which included the inventory write-down of \$3.4 million. The effective tax rates in 2011 and 2010 were 43.8% and 40.0%, respectively, based on federal and state statutory rates. In 2011, we were able to take advantage of the Domestic Production Activities Deduction available to US-based manufacturing companies; however, these credits were offset by an adjustment made relating to the bonus depreciation taken on our shredder system in 2009 due to preliminary results from an IRS audit received in the third quarter of 2011.

### Three months ended September 30, 2011 compared to three months ended September 30, 2010

Total revenue decreased \$20.8 million or 27.2% to \$55.8 million for the three month period ending September 30, 2011 as compared to \$76.6 million during the same period in 2010. Recycling revenue decreased \$20.4 million or 27.5% to \$53.9 million during this period in 2011 compared to \$74.3 million during the same period in 2010. This was primarily due to the drop in worldwide demand in stainless steel beginning in the second quarter, causing a decrease of 31.8 million pounds, or 70.9%, in the volume of stainless steel materials shipments in the third quarter as compared to the same period in 2010. Substantially all of our stainless steel sales are to one customer. In response to the overall decrease in demand for stainless steel, this customer decreased sales orders in the third quarter. The volume of other nonferrous materials shipments also decreased

## Edgar Filing: INDUSTRIAL SERVICES OF AMERICA INC /FL - Form 10-Q

by 1.4 million pounds, or 16.2%. In the third quarter of 2011, sales to existing Recycling dealers decreased by approximately \$20.4 million, or 33.7%. New dealer sales in the third quarter of 2011 totaled approximately \$11.5 million, while lost dealer sales totaled only \$7.9 million in the third quarter of 2010. Overall average price for commodities shipped also decreased by \$64.42 per gross ton, or 7.7%, in the third quarter of 2011 as compared to the third quarter of 2010. These decreases were partially offset by an increase in the volume of ferrous materials shipments of 4.5 thousand gross tons, or 8.7%. Waste Services revenue decreased \$0.4 million or 16.5% to \$1.9 million in 2011 compared to \$2.3 million in 2010 primarily due to the loss of several large customers in the first and second quarters of 2011, partially offset by the gain of one large customer at the beginning of the third quarter in 2011.

Total cost of goods sold decreased \$9.0 million or 12.9% to \$60.2 million for the three month period ending September 30, 2011 as compared to \$69.2 million during the same period in 2010. Recycling cost of goods sold decreased \$8.5 million or 12.7% to \$58.8 million during this period in 2011 as compared to \$67.3 million during the same period in 2010. This decrease was primarily due to the decrease in the volume of stainless steel and nonferrous materials shipments as well as a 38.0 million pound, or 84.0%, decrease in the volume of stainless steel materials purchases. Overall average cost per gross ton decreased by \$191.70, or 26.0% in the third quarter of 2011 as compared to the same period in 2010. Freight expense also decreased by \$0.4 million and insurance expense decreased \$0.1 million during the third quarter in 2011 as compared to the same quarter in 2010. These decreases were partially offset by the increase in the volume of ferrous materials shipments noted above along with an increase in the volume of ferrous materials purchases of 3.4 gross tons, or 5.1% and an increase in the volume of nonferrous materials purchases of 1.7 million pounds, or 17.6%. Labor expense increased by \$0.3 million, and depreciation expense increased by \$0.1 million. Management also determined that due to recent decreases in stainless steel demand and certain commodity prices, a \$3.4 million write-down of the value of stainless steel inventory to lower of cost or market was necessary, which partially offset the decrease in cost of goods sold. Waste Services cost of goods sold decreased \$0.4 million or 21.2% to \$1.5 million in 2011 compared to \$1.9 million in 2010 primarily due to the loss of the customers noted above.

Selling, general and administrative expenses decreased \$1.2 million or 30.6% to \$2.7 million for the three month period ending September 30, 2011 compared to \$3.9 million for the same period in 2010. As a percentage of revenue, selling, general and administrative expenses were 4.8% in 2011 compared to 5.1% in 2010. The primary driver of the decrease in total expense was a decrease in labor and bonus expense of \$1.5 million. This decrease was partially offset by an increase in legal expense of \$0.1 million.

Other expense increased \$0.1 million to other expense of \$0.4 million for the three month period ending September 30, 2011 compared to other expense of \$0.3 million as compared to the same period in 2010 primarily due to the increase of \$0.1 million in interest expense due to increased debt levels in the third quarter of 2011.

Income tax provision decreased \$4.4 million to a credit of \$3.1 million for the three month period ending September 30, 2011 compared to a provision of \$1.3 million for the same period in 2010 due to the loss reported in 2011, which included the inventory write-down of \$3.4 million. The effective tax rates in 2011 and 2010 were 40.3% and 40.0%, respectively, based on federal and state statutory rates. In 2011, we were able to take advantage of the Domestic Production Activities Deduction available to US-based manufacturing companies; however, these credits were offset by an adjustment made relating to the bonus depreciation taken on our shredder system in 2009 due to preliminary results from an IRS audit received in the third quarter of 2011.

## Edgar Filing: INDUSTRIAL SERVICES OF AMERICA INC /FL - Form 10-Q

### Financial condition at September 30, 2011 compared to December 31, 2010

Cash and cash equivalents increased \$0.5 million to \$3.0 million as of September 30, 2011 compared to \$2.5 million as of December 31, 2010.

Net cash from operating activities was \$1.4 million for the nine month period ended September 30, 2011 compared to net cash used in operating activities of \$11.4 million for same period in 2010. The increase in net cash from operating activities is primarily due to a decrease in inventories of \$9.8 million, partially offset by a decrease in accounts payable of \$5.8 million. These decreases relate to the decrease in demand for stainless steel and other nickel-based scrap metal beginning in the second quarter, thus lowering both sales and purchasing activity. We also paid \$0.5 million in termination fees to cancel several purchase contracts in the second quarter of 2011 and made timely payments to our vendors, which decreased our outstanding accounts payable balance in 2011.

We used net cash from investing activities of \$2.0 million and \$2.1 million for the nine month periods ended September 30, 2011 and 2010, respectively. In 2011, we used \$0.2 million for road and building improvements. We purchased recycling and rental fleet equipment, shredder system equipment, and office equipment of \$1.4 million. The rental fleet equipment consists of solid waste handling and recycling equipment such as compactors, waste edge monitors, and balers. It is our intention to continue to pursue this market. We also purchased two trucks and upgraded two others for \$0.2 million. We received \$0.2 million from sales of our rental fleet compactors, balers, and containers. We paid deposits of \$0.4 million on machinery and equipment.

Net cash from financing activities was \$1.2 million and \$14.8 million for the nine month periods ended September 30, 2011 and 2010, respectively. In 2011, we made payments on debt obligations of \$4.0 million, and received \$5.2 million in proceeds from debt.

Accounts receivable trade increased \$1.0 million to \$28.4 million as of September 30, 2011 compared to \$27.4 million as of December 31, 2010. Although the volume of shipments decreased overall in the second and third quarters of 2011, a large shipment near the end of the quarter increased our accounts receivable balance as of September 30, 2011. In general, the accounts receivable balance fluctuates due to the timing of shipments and receipt of customer payments.

Inventories consist principally of stainless steel, ferrous and nonferrous scrap materials and waste equipment machinery held for resale. We value inventory at the lower of cost or market. Inventory decreased \$13.3 million or 38.7% to \$21.0 million as of September 30, 2011 compared to \$34.3 million as of December 31, 2010. With lower demand for stainless steel causing fewer sales orders in the second quarter, we decreased purchasing activity and cancelled several purchase contracts, thus lowering inventory. Lower demand also put downward pressure on metal prices as well. We made an adjustment of approximately \$3.4 million to lower our stainless steel inventory value to the market value.



**Inventory aging for the period ended September 30, 2011 (Days Outstanding):**

Description	(in thousands)				
	1 - 30	31 - 60	61 - 90	Over 90	Total
Stainless steel, ferrous and non-ferrous materials	\$ 11,177	\$ 2,665	\$ 299	\$ 5,629	\$ 19,770
Replacement parts	1,131				1,131
Waste equipment machinery				39	39
Other	87				87
<b>Total</b>	<b>\$ 12,395</b>	<b>\$ 2,665</b>	<b>\$ 299</b>	<b>\$ 5,668</b>	<b>\$ 21,027</b>

**Inventory aging for the period ended December 31, 2010 (Days Outstanding):**

Description	(in thousands)				
	1 - 30	31 - 60	61 - 90	Over 90	Total
Stainless steel, ferrous and non-ferrous materials	\$ 25,062	\$ 5,450	\$ 1,184	\$ 1,168	\$ 32,864
Replacement parts	1,313				1,313
Waste equipment machinery				75	75
Other	59				59
<b>Total</b>	<b>\$ 26,434</b>	<b>\$ 5,450</b>	<b>\$ 1,184</b>	<b>\$ 1,243</b>	<b>\$ 34,311</b>

Inventory in the Over 90 days category as of September 30, 2011 includes several materials that are bought in bulk for pricing and used sparingly in between blends. We purchased these materials prior to the decrease in demand for stainless steel and other nickel-based scrap. We adjusted the value of several of these materials to lower of cost or market in the third quarter due to the recent drop in market prices. We have not used much of these materials in the second or third quarter due to decreased demand for stainless steel and other nickel-based scrap metals beginning in the second quarter. We cannot assure that global demand will improve in the near term.

Accounts payable trade decreased \$5.8 million or 50.5% to \$5.6 million as of September 30, 2011 compared to \$11.4 million as of December 31, 2010, primarily due to decreasing purchasing activity in response to lower demand for metals beginning in the second quarter and the timing of payments made to our vendors.

Working capital increased \$0.9 million to \$48.2 million as of September 30, 2011 compared to \$47.3 million as of December 31, 2010. The increase was primarily driven by the \$3.2 million increase in income tax receivable, the \$1.0 million increase in accounts receivable, the \$0.5 million increase in cash, the \$5.8 million decrease in accounts payable, the \$2.9 million decrease in income tax payable, and the \$1.2 million decrease in accrued bonuses. These increases in working capital were partially offset by the \$13.3 million decrease in inventories, which includes the write-down of stainless steel inventory of \$3.4 million, and a \$0.4 decrease in deferred income tax.

## Edgar Filing: INDUSTRIAL SERVICES OF AMERICA INC /FL - Form 10-Q

### Contractual Obligations

The following table provides information with respect to our known contractual obligations for the quarter ended September 30, 2011.

Obligation Description (2)	Payments due by period (in thousands)				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Long-term debt obligations	\$ 46,601	\$ 1,872	\$ 44,640	\$ 89	\$
Operating lease obligations (1)	1,358	764	411	183	
Total	\$ 47,959	\$ 2,636	\$ 45,051	\$ 272	\$

- (1) We lease the Louisville, Kentucky facility from K&R, LLC, the sole member of which is Harry Kletter, our chief executive officer, under an operating lease expiring December 2012. We have monthly rental payments of \$48.5 thousand through December 2012. In the event of a change of control, the monthly payments become \$62.5 thousand.

We also lease equipment from K&R, LLC for which monthly payments of \$5.5 thousand are due through October 2015 and monthly payments of \$5.0 thousand are due through April 2016.

We have subleased the Lexington property to an unaffiliated third party for a term which commenced on March 1, 2007 and ends December 31, 2012 for \$4.5 thousand per month. We currently lease this property from an unrelated party for \$4.5 thousand per month; the lease terminates December 31, 2012. If for any reason the sub-lessee defaults, we remain liable for the remainder of the lease payments through December 31, 2012.

We also lease office space in Dallas, Texas for which monthly payments of \$1.0 thousand are due through September 2012.

- (2) All interest commitments under interest-bearing debt are included in this table, excluding the interest rate swaps, for which changes in value are accounted for in other comprehensive income.

Long-term debt, including the current portions thereof, increased \$1.2 million to \$46.6 million as of September 30, 2011 compared to \$45.4 million as of December 31, 2010.

### Impact of Recently Issued Accounting Standards

In September 2011, the FASB issued ASU No. 2011-08, an amendment to Topic 350, Intangibles - Goodwill and Other, which simplifies how entities test goodwill for impairment. Previous guidance under Topic 350 required an entity to test goodwill for impairment using a two-step process on at least an annual basis. First, the fair value of a reporting unit was calculated and compared to its carrying amount, including goodwill. Second, if the fair value of a reporting unit was less than its carrying amount, the amount of impairment loss, if any, was required to be measured. Under the amendments in this update, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads the entity to determine that it is more likely than not that its fair value is less than its carrying amount. If after assessing the totality of events or circumstances, an entity determines that it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, then the two-step impairment test is unnecessary. If the entity concludes otherwise, then it is required to test goodwill for impairment under the two-step process as described.

## Edgar Filing: INDUSTRIAL SERVICES OF AMERICA INC /FL - Form 10-Q

under paragraphs 350-20-35-4 and 350-20-35-9 under Topic 350. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, the quarter ending March 31, 2012 for us, and early adoption is permitted. We do not expect the adoption of ASU 2011-08 will have a material impact on our Condensed Consolidated Financial Statements.

In June 2011, the FASB issued ASU No. 2011-05, which is an update to Topic 220, *Comprehensive Income*. This update eliminates the option of presenting the components of other comprehensive income as part of the statement of changes in stockholders' equity, requires consecutive presentation of the statement of net income and other comprehensive income and requires reclassification adjustments from other comprehensive income to net income to be shown on the financial statements. ASU 2011-05 is effective for all interim and annual reporting periods beginning after December 15, 2011, the quarter ending March 31, 2012 for us. We do not expect the adoption of ASU 2011-05 will have a material impact on our Condensed Consolidated Financial Statements.

In May 2011, the FASB issued ASU No. 2011-04, which is an update to Topic 820, *Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS)*. The amendments in this ASU generally represent clarification of Topic 820, but also include instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This update results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP and IFRS. The amendments are effective for interim and annual periods beginning after December 15, 2011, the quarter ending March 31, 2012 for us, and are to be applied prospectively. Early application is not permitted. We do not expect the adoption of ASU 2011-04 will have a material impact on our Condensed Consolidated Financial Statements.

### ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Fluctuating commodity prices affect market risk in our recycling segment. We mitigate this risk by selling our product on a monthly contract basis. Each month we negotiate selling prices for all commodities. Based on these monthly agreements, we determine purchase prices based on a margin needed to cover processing and administrative expenses.

We are exposed to commodity price risk, mainly associated with variations in the market price for ferrous and nonferrous metal, and other commodities. The timing and magnitude of industry cycles are difficult to predict and are impacted by general economic conditions. We respond to changes in recycled metal selling prices by adjusting purchase prices on a timely basis and by turning rather than holding inventory in expectation of higher prices. However, financial results may be negatively impacted where selling prices fall more quickly than purchase price adjustments can be made or when levels of inventory have an anticipated net realizable value that is below average cost.

We are exposed to interest rate risk on our floating rate borrowings.

Based on our average anticipated borrowings under our credit agreements in fiscal 2011, a hypothetical increase or decrease in the LIBOR rate by 1% would increase or decrease interest expense on our variable borrowings by 1% of the outstanding balance, with a corresponding change in cash flows.

We entered into three interest rate swap agreements with BB&T swapping variable rates for fixed rates in a previous year. The first swap agreement covers \$4.9 million in debt and commenced April 7, 2009 and matures on April 7, 2014. The second swap agreement covers approximately \$2.2 million in debt and commenced October 15, 2008 and matures on May 7, 2013. The third swap agreement covers approximately \$470.8 thousand in debt and commenced October 22, 2008 and matures on October 22, 2013. The three swap agreements fix our interest rate at approximately 5.8%. At September 30, 2011, we recorded the estimated fair value of the liability related to the three swaps as approximately \$558.4 thousand. We entered into the swap agreements for the purpose of hedging the interest rate market risk for the respective notional amounts. These swap agreements were not affected by the debt restructuring with Fifth Third Bank in 2010. We maintain a cash account on deposit with BB&T which serves as collateral for the swap agreements. As of September 30, 2011, the balance in this account was \$653.1 thousand.

We are exposed to market risk from changes in interest rates in the normal course of business. Our interest income and expense are most sensitive to changes in the general level of U.S. interest rates and the LIBOR rate. In order to manage this exposure, we use a combination of debt instruments, including the use of derivatives in the form of interest rate swap agreements. We do not enter into any derivatives for trading purposes. The use of the interest rate swap agreement is intended to convert the variable rate to a fixed rate.

#### ITEM 4: CONTROLS AND PROCEDURES

(a) Disclosure controls and procedures.

ISA's management, including ISA's principal executive officer and principal financial officer, have evaluated the effectiveness of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934. Based upon their evaluation, our principal executive officer and principal financial officer concluded that, as of September 30, 2011, ISA's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that ISA files under the Exchange Act with the Securities and Exchange Commission (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to ISA's management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding the required disclosure.

(b) Changes to internal control over financial reporting

There were no changes in ISA's internal control over financial reporting during the three months ended September 30, 2011 that have materially affected, or are reasonably likely to affect ISA's internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

On January 4, 2007, Lennox Industries, Inc., a commercial heating and air-conditioning manufacturer, filed a suit against us captioned Lennox Industries, Inc. v. Industrial Services of America, Inc., Case No. CV-2007-004, in the Arkansas County, Arkansas Circuit Court in Stuttgart, Arkansas. Lennox in its Second Amended Complaint alleged breach of contract, negligence, and breach of fiduciary duty arising from our alleged miscategorization of Lennox's scrap metal and mismanagement of the scrap metal recycling operations at three Lennox plants during the contract period April 18, 2001 through termination on November 17, 2005. Both compensatory and punitive damages were sought by Lennox.

A jury trial was held from June 20-24, 2011. The punitive damage claim was withdrawn by Lennox at the conclusion of its case, and Lennox claimed over \$1 million in compensatory damages. On June 24, the jury found in ISA's favor on five of the six claims. Lennox was awarded \$175,000 on the remaining claim, which we have accrued.

Following the trial, both Lennox and ISA filed motions with the court seeking an award of attorney fees against each other. Lennox also filed a motion requesting an award of pre-judgment interest on the \$175,000 verdict. On October 7, 2011, the Court denied both of Lennox's motions and granted ISA's motion for attorney fees in the amount of \$98,000 against Lennox. Under Arkansas law, both parties have a right to appeal within 30 days of the date a final judgment is signed and entered by the Court. In the event the judgment becomes final and unappealable, the net liability to ISA will be reduced to \$77,000.

We have litigation from time to time, including employment-related claims, none of which we currently believe to be material.

Item 1A. Risk Factors

We have had no material changes from the risk factors reported in our Form 10-K for the year ended December 31, 2010, as filed with the Securities and Exchange Commission on March 28, 2011.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

There were no unregistered sales of equity securities in the third quarter of 2011.

On November 15, 2005, our Board of Directors authorized a program to repurchase up to 300,000 shares of our common stock at current market prices. No shares were repurchased in 2011, 2010, or 2009. In 2008, we repurchased 83,411 shares. Prior to 2008, we repurchased 83,264 shares.

**Issuer Purchases of Equity Securities**

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as part of Publicly Announced Plans or Programs	Maximum Number of Shares that may yet be Purchased Under the Plans or Programs
Mar-08	29,630	\$ 5.5215	112,893	187,107
Jun-08	14,781	\$ 7.6113	127,674	172,326
Sept-08	39,000	\$ 6.5268	166,674	133,326

**Item 3. Defaults upon Senior Securities**

None.

**Item 4. Removed and Reserved****Item 5. Other Information**

None.

**Item 6. Exhibits**

See exhibit index.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INDUSTRIAL SERVICES OF AMERICA, INC.

Date: November 14, 2011

/s/ Harry Kletter

---

Chairman and Chief Executive Officer  
(Principal Executive Officer)

Date: November 14, 2011

/s/ Alan Schroering

---

Chief Financial Officer

INDEX TO EXHIBITS

<u>Exhibit Number</u>	<u>Description of Exhibits</u>
10.1	Loan and Security Agreement, dated August 9, 2011, by and between Industrial Services of America, Inc. and Fifth Third Bank.
10.2	Exhibit A to the Loan and Security Agreement: Promissory Note, including Schedule A, dated August 9, 2011, in the amount of \$115,010 payable to Fifth Third Bank.
31.1	Rule 13a-14(a) Certification of Harry Kletter for the Form 10-Q for the quarter ended September 30, 2011.
31.2	Rule 13a-14(a) Certification of Alan Schroering for the Form 10-Q for the quarter ended September 30, 2011.
32.1	Section 1350 Certification of Harry Kletter and Alan Schroering for the Form 10-Q for the quarter ended September 30, 2011.
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Document*
101.DEF	XBRL Taxonomy Extension Definitions Document*
101.LAB	XBRL Taxonomy Extension Labels Document*
101.PRE	XBRL Taxonomy Extension Presentation Document*

\*Pursuant to Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.