INDUSTRIAL SERVICES OF AMERICA INC
Form 10-K
March 25, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2015
OR
o 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	59-0712746
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

7100 Grade Lane, Louisville, Kentucky _____________ 40213
(Address of principal executive offices) (Zip Code)
Registrant’s telephone number, including area code (502) 368-1661
Securities registered pursuant to Section 12(b) of the Act:
Common Stock, $0.0033 par value NASDAQ Capital Market
(Title of class) (Name of exchange on which registered)
Securities registered pursuant to Section 12(g) of the Act: None.
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x
Indicate by check mark 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 ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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 o	Accelerated filer o
	Non-accelerated filer o	Smaller reporting company x

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates based on the closing price per share of $3.93 for shares of the registrant's common stock as reported by the Nasdaq Capital Market as of the last business day of the registrant's most recently completed second fiscal quarter was $24,459,868. Solely for the purposes of this calculation, shares held by directors, executive officers and 10% owners of the registrant have been excluded. Such exclusion should not be deemed a determination or an admission by the registrant that such individuals are, in fact, affiliates of the registrant.

Number of shares of Common Stock, $0.0033 par value, outstanding as of the close of business on March 23, 2016: 8,018,932.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the 2016 Annual Meeting of Shareholders are incorporated by reference into Item 10 through Item 14 of Part III of this report.

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PART I

Item 1. Business.

General

Industrial Services of America, Inc. (herein “ISA,” the “Company,” “we,” “us,” “our,” or other similar terms) is a Louisville, Kentucky-based company that buys, processes and markets ferrous and non-ferrous metals and other recyclable commodities and buys, dismantles and sells used auto parts. Prior to December 4, 2015, we were also a provider of waste services through our Waste Services Segment. Our only remaining segment is our Recycling Segment. The Recycling Segment collects, purchases, processes and sells ferrous and non-ferrous scrap metal to steel mini-mills, integrated steel makers, foundries and refineries. We purchase ferrous and non-ferrous scrap metal primarily from industrial and commercial generators of steel, iron, aluminum, copper, stainless steel and other metals as well as from scrap dealers and retail customers who deliver these materials directly to our facilities. We process scrap metal through our sorting, cutting, baling, and until May 2015, our shredding operations. Our non-ferrous scrap recycling operations consist primarily of collecting, sorting and processing various grades of copper, aluminum, stainless steel and brass. Our used automobile yard primarily purchases automobiles so that retail customers can locate and remove used parts for purchase.

On December 4, 2015, the Company sold substantially all assets of its Waste Services Segment. The Waste Services Segment provided waste management services including contract negotiations with service providers, centralized billing, invoice auditing and centralized dispatching. This segment also rented, leased, sold and serviced waste handling and recycling equipment, such as trash compactors and balers, to end-use customers. The Waste Services Segment has been classified as discontinued operations in this Form 10-K in accordance with the Financial Accounting Standards Board Accounting Standards Codification 205-20-55. Results of discontinued operations are excluded from the consolidated financial information for all periods presented, unless otherwise noted. See Note 15 - Discontinued Operations in the accompanying Notes to Consolidated Financial Statements.

Our core business is focused on the recycling industry. We intend to achieve steady growth at an acceptable profit, adding to our net worth and providing positive returns for our 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 improve our results of operations. On March 2, 2016, we announced that the Company has formed a special committee of independent board members to participate in the evaluation of growth and strategic options.

Additional financial information about our segments can be found in Part II, Item 8, Notes to Consolidated Financial Statements and related notes included elsewhere in this Form 10-K.

Available Information

We make available, free of charge, through our website www.isa-inc.com, our annual reports on Form 10-K and quarterly reports on Form 10-Q and amendments to those reports as soon as reasonably practicable after we have electronically filed with the Securities and Exchange Commission. We also make available on our website our Board of Directors, committee charters, our Business Ethics Policy and Code of Conduct and our Code of Ethics for the

CEO, CFO and senior financial officers. Please note that our Internet address is included in this annual report on Form 10-K as an inactive textual reference only. Information contained on our website www.isa-inc.com is not incorporated by reference into this annual report on Form 10-K and should not be considered a part of this report.

Our Response to 2015 Commodity Markets and Liquidity Conditions

During 2015, our average selling price decreased by 49.4% and 24.9% for ferrous and nonferrous material, respectively, compared to 2014. Due to these deteriorating metal commodity market conditions during 2015, ISA took significant steps to improve liquidity and pay down debt. These steps are described below.

On February 27, 2015, the Company closed on the sale of its Seymour, Indiana property. During 2014, ISA made the decision to move its Seymour, Indiana facility from a company-owned property to a leased property. In conjunction with this decision, the Company signed an agreement to sell its Seymour facility in 2014. This property was classified as property available for sale on the December 31, 2014 consolidated balance sheet in the amount of $398.0 thousand and was held within the Recycling

Segment. Also, in conjunction with this decision, the Company signed a lease, effective December 1, 2014, to lease a facility in the Seymour area. See Note 4 - Lease Commitments and Note 10 - Related Party Transactions in the accompanying Notes to Consolidated Financial Statements for further lease information. Proceeds were used to reduce debt and improve liquidity.

On April 30, 2015, LK Property Investments, LLC (LK Property), an entity principally owned by Daniel M. Rifkin, CEO of MetalX LLC (a related party), a scrap metal recycling company headquartered in Waterloo, Indiana, and the principal owner of Recycling Capital Partners, LLC (a related party) purchased a 4.4 acre parcel of real estate located at 6709 Grade Lane, Louisville, KY from ISA Real Estate LLC., a wholly-owned subsidiary of the Company for a purchase price of $1.0 million. The Company realized a loss of $102.0 thousand from this sale. Also on April 30, 2015, the Company entered into a lease agreement with LK Property for a portion of the 4.4 acre parcel. See Note 4 - Lease Commitments in the accompanying Notes to Consolidated Financial Statements for further lease details. Proceeds were used to reduce debt and improve liquidity.

On May 13, 2015, the Company announced the warm idle of the Company’s auto shredder. This action was in response to market conditions, primarily related to ferrous price volatility and lower ferrous volumes. Management will continue to monitor and analyze market conditions and to review the Company’s long-term options for its shredder and related downstream processing operation. The costs of idling were recognized in the 2015 financial statements. As a result of the continued operating losses from the shredder operations, management reviewed the carrying cost of the shredder, including the downstream processing system. The Company recognized an asset impairment charge of approximately $636.6 thousand related to the shredder’s downstream processing system. This charge is recorded in 2015 as an impairment charge on property and equipment within the cost of goods section in the accompanying consolidated statement of operations. As of the date of this report, the shredder remains idled. Working capital, which would otherwise have been utilized in operating the shredder, was used to reduce debt and improve liquidity.

On May 18, 2015, ISA Real Estate LLC agreed to sell to SG&D Ventures, LLC, an entity owned by shareholders of Algar, Inc. ("Algar"), including Sean Garber, the Company’s Vice Chairman of the Board and President, and the President of Algar, an approximately 1-acre parcel of non-essential real estate, located at 7017 Grade Lane, Louisville, KY, for an aggregate purchase price equal to independent third-party appraisal amount of $350.0 thousand. The purchase consideration consisted of $300.0 thousand in cash from the purchaser and a credit of $50.0 thousand against bonus compensation previously accrued but not paid to Algar as described in Note 10 - Related Party Transactions in the accompanying Notes to Consolidated Financial Statements. This transaction closed on May 19, 2015. The gain on sale of this asset was $1.1 thousand. Proceeds were used to reduce debt and improve liquidity.

On November 6, 2015, the Company entered into a Forbearance Agreement and Third Amendment to Credit Agreement (the “Forbearance Agreement”) by and among the Company, certain of the Company’s subsidiaries, and Wells Fargo Bank, National Association ("Wells Fargo"). The Forbearance Agreement amended the Credit Agreement to reduce the Maximum Revolver Amount from $15 million to $5 million. The Forbearance Agreement also amended the Credit Agreement Maturity Date to March 15, 2016 from June 13, 2019. The Forbearance Agreement increased the interest rate on the outstanding indebtedness by approximately 100 basis points.

Pursuant to the terms of the Forbearance Agreement, Wells Fargo agreed that it would forbear, until the Forbearance Termination Date (as defined below), from exercising certain rights and remedies with respect to or arising out of the existence and continuation of certain stipulated events of default under the Credit Agreement between the loan parties and Wells Fargo (as amended by the First Amendment to Credit Agreement dated January 15, 2015, the Second Amendment to Credit Agreement dated January 22, 2015, and the Forbearance Agreement, the “Credit Agreement”).

Under the Forbearance Agreement, the Forbearance Termination Date was the earlier to occur of (i) Wells Fargo’s election following the failure of the Loan Parties to satisfy any of the Forbearance Conditions, and (ii) March 15, 2016.

On December 4, 2015, the Company and WESSCO, LLC, a wholly owned subsidiary of ISA ("WESSCO"), entered into an Asset Purchase Agreement (the "Asset Purchase Agreement") with Compactor Rentals of America, LLC ("Compactor Rentals") pursuant to which the Company sold its “Waste Services Segment,” consisting of substantially all of the assets used in (i) the Company’s commercial, retail and industrial waste and recycling management services business which the Company operated under the name “Computerized Waste Systems” or “CWS,” and (ii) the Company’s equipment sales, rental and maintenance business for the commercial and industrial waste and recycling industry which the Company operated under the name “Waste Equipment Sales and Service Company."

The Company received cash consideration at closing of $7.5 million, less $150,000 retained by Compactor Rentals, which will be released to the Company or retained by Compactor Rentals in connection with any working capital adjustment. Compactor Rentals assumed certain liabilities relating to the Waste Services Segment, including but not limited to, current liabilities, warranty liabilities, and post-closing liabilities incurred in connection with transferred contracts.

The sale included substantially all of the assets of the Waste Services Segment including, but not limited to, current assets, accounts receivable, tangible personal property, certain leases, inventory, intellectual property, rights under transferred contracts, rights of action and all associated goodwill and other intangible assets associated with the transferred assets.

The Asset Purchase Agreement contains a restrictive covenant under which the Company is prohibited from competing with the Waste Services Segment for five years following the closing.

In connection with the closing of the transaction, the Company entered into a transition services agreement with Compactor Rentals, pursuant to which the Company will provide certain services to Compactor Rentals for up to six months following the closing.

The Company used the proceeds from the transaction to pay transaction expenses, to repay in full the Company's outstanding indebtedness with Bank of Kentucky, Inc. ("KY Bank"), and to repay in full ISA's term loan from Wells Fargo. The Company also used the proceeds to pay all outstanding amounts on ISA's $5.0 million revolving line of credit with Wells Fargo which remained available following the closing. As of December 31, 2015, the revolving line of credit had an amount outstanding of approximately $19.7 thousand.

On February 29, 2016, the Company entered into a Loan Agreement (the "2016 Loan") with MidCap Business Credit, LLC ("MidCap"). The 2016 Loan is secured by substantially all of the assets of the Company. Proceeds from this loan were used to pay transaction expenses and to pay off and close the remaining balance on the Wells Fargo revolving line of credit. See Note 3 - Long Term Debt and Notes Payable To Bank in the accompanying Notes to Consolidated Financial Statements for further details. Following the MidCap transaction, the Company believes its liquidity is sufficient to meet projected needs for at least one year.

ISA Recycling Operating Division

Our Recycling Segment sells processed ferrous and non-ferrous scrap material, including stainless steel, to end-users such as steel mini-mills, integrated steel makers and foundries and refineries. 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 sorting, cutting and/or baling. Prior to May 2015, we also shredded material.

We also operate the ISA Pick.Pull.Save used automobile parts yard, which is considered a product line within the Recycling Segment. We purchase automobiles for the yard through auctions, automobile purchase programs with various suppliers and general scrap purchases. Retail customers locate and remove used parts for purchase from automobiles within the yard. Fuel, Freon, tires and certain core automobile parts are also sold to various resellers for additional revenue. All automobiles are sold as scrap metal after a specified time period in the yard.

Ferrous Operations

Ferrous Scrap Purchasing - We purchase ferrous scrap from two primary sources: (i) industrial and commercial generators of steel and iron; and (ii) scrap dealers, peddlers, and other generators and collectors who sell us steel and iron scrap, known as obsolete scrap. Market demand and the composition, quality, size and weight of the materials are the primary factors that determine prices paid to these material providers.

Ferrous Scrap Processing - We prepare ferrous scrap material for resale through a variety of methods including sorting, cutting, and baling. Prior to May 2015, we also shredded material. We produce a number of differently sized, shaped and graded products depending upon customer specifications and market demand.

- Sorting - After purchasing ferrous scrap material, we inspect it to determine how we should process it to maximize profitability. In some instances, we may sort scrap material and sell it without further processing. We separate scrap material for further processing according to its size, composition and grade by using conveyor systems, front-end loaders, crane-mounted electromagnets and claw-like grapples.

- Cutting - Pieces of over-sized ferrous scrap material, such as obsolete steel girders and used pipe, which are too large for other processing, are cut with hand torches.

- Baling - We process light-gauge ferrous materials such as clips, sheet iron and by-products from industrial and commercial processes, such as stampings, clippings and excess trimmings, by baling these materials into large, uniform blocks. We use cranes and conveyors to feed the material into a hydraulic press, which compresses the material into uniform blocks.

- Shredding - In May 2015, we warm idled our shredder. Prior to this date, we shredded large pieces of ferrous scrap material, such as automobiles and major appliances, in our shredder by hammer mill action into pieces of a workable size that pass through magnetic separators to separate metal from synthetic foam, fabric, rubber, stone, dirt, etc. The metal we recovered from the shredding process was sold directly to customers or reused in some other metal blend. The residue by-product is usually referred to as “automobile shredder residue” (ASR) or “shredder fluff”. We disposed of the non-metal components, which can reduce the volume of the scrap as much as 25.0%, in a landfill.

Ferrous Scrap Sales - We sell processed ferrous scrap material to end-users such as steel mini-mills, integrated steel makers and foundries, and brokers who aggregate materials for other large users. Most customers purchase processed ferrous scrap material through negotiated spot sales contracts, which establish the quantity purchased for the month and the pricing. The price we charge for ferrous scrap materials depends upon market supply and demand, as well as quality and grade of the scrap material. We deliver scrap ourselves or use third party carriers via truck, rail car, and/or barge. Some customers choose to send their own delivery trucks. These trucks are weighed and loaded at one of our sites based on the sales order.

Auto Parts Operations - We operate a single self-service retail parts location. We generate revenue from the sale of parts, cores and scrap. Our location consists of an indoor retail facility combined with a fenced outdoor storage area for autos. We operate our self-service auto parts business under the name of ISA Pick.Pull.Save.

Non-Ferrous Operations

Non-Ferrous Scrap Purchasing - We purchase non-ferrous scrap from two primary sources: (i) industrial and commercial non-ferrous scrap material providers who generate or sell waste aluminum, copper, stainless steel, other nickel-bearing metals, brass and other metals; and (ii) peddlers, scrap dealers, generators and collectors who deliver directly to our facilities material that they collect from a variety of sources. We also collect non-ferrous scrap from sources other than those that are delivered directly to our processing facilities by placing retrieval boxes at these sources. We subsequently transport the boxes to our processing facilities.

Non-Ferrous Scrap Processing - We prepare non-ferrous scrap metals, principally aluminum, copper, brass and stainless steel to sell by sorting, cutting, and baling. Prior to May 2015, we also shredded material.

- Sorting - Our sorting operations separate and identify non-ferrous scrap by using front-end loaders, grinders, hand torches and spectrometers. Our ability to identify metallurgical composition maximizes margins and profitability. We sort non-ferrous scrap material for further processing according to type, grade, size and chemical composition. Throughout the sorting process, we determine whether the material requires further processing before we sell it.

- Cutting - Pieces of over-sized non-ferrous scrap material, which are too large for other processing methods, are cut with hand torches.

- Baling - We process non-ferrous metals such as aluminum cans, sheet and siding by baling these materials into large uniform blocks. We use front-end loaders and conveyors to feed the material into a hydraulic press, which compresses the material into uniform blocks.

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- Shredding - In May 2015, we warm idled our shredder. Prior to this date, we shredded large pieces of nonferrous scrap material, such as steel drums, copper and aluminum cable, tubing, sheet metal, extrusions, and baled aluminum, in our shredder by hammer mill action into pieces of a workable size that pass through magnetic separators to separate metal from synthetic foam, fabric, rubber, stone, dirt, etc. The metal we recovered from the shredding process was sold directly to customers or reused in some other metal blend. We disposed of the non-metal components, which can reduce the volume of the scrap as much as 25.0%, in a landfill.

Non-Ferrous Scrap Sales - We sell processed non-ferrous scrap material to end-users such as foundries, aluminum sheet and ingot manufacturers, copper refineries and smelters, steel mini-mills, integrated steel makers, steel foundries and refineries, and brass and bronze ingot manufacturers. Prices for the majority of non-ferrous scrap materials change based upon the daily publication of spot and futures prices on COMEX or the London Metals Exchange. We deliver scrap ourselves or use third party carriers via truck, rail car, and/or barge. Some customers choose to send their own delivery trucks. These trucks are weighed and loaded at one of our sites based on the sales order.

Waste Services Operations (Discontinued Operations)

On December 4, 2015, we sold substantially all assets of our Waste Services Segment. Our waste services operations were in the business of commercial, retail and industrial waste and recycling management services (operating under the name “Computerized Waste Systems” or “CWS”) and commercial and industrial waste and recycling handling equipment sales, rental and maintenance (operating under the name “Waste Equipment Sales and Service Company” or “WESSCO”). CWS offered a “total package” concept to commercial, retail and industrial customers for their waste and recycling management needs. Combining waste reduction and diversion, and waste equipment technology, CWS created waste and recycling programs tailored to each customer’s needs. The services we offered included locating and contracting with a hauling company and recycler at a reasonable cost for each participating location. CWS did not own waste-transporting trucks or landfills. We designed and developed proprietary computer software that provided our personnel with relevant information on each customer’s locations, as well as pertinent information on service providers, disposal rates, costs of equipment, including installation and shipping, disposal rates and recycling prices.

Our commercial Waste Services Segment provided our customers evaluation, management, monitoring, auditing, cost reduction and containment of non-hazardous solid waste removal and recycling services. CWS had an active network of over 7,000 service companies and vendors in our database, which included haulers and recyclers, landfill and disposal facilities, and equipment manufacturers and maintenance service providers throughout the United States and Canada. Through this network, we were able to provide pricing estimates for current and potential customers. CWS customer service representatives had access to this information through the computer software designed and developed to enhance the value offered to our customers. Through this information retrieval system and database, customer service representatives reviewed and audited the accuracy of recent billings for hauling, landfill and recycling rates.

By offering competitively priced waste and recycling handling equipment from a number of different manufacturers, WESSCO was able to tailor equipment packages for individual customer needs. We did not manufacture any equipment, but we did refurbish, recondition and add options when necessary. We sold, rented and repaired all types of industrial and commercial waste and recycling handling equipment such as trash compactors, balers and containers.

Company Background

ISA was incorporated in October 1953 in Florida under the name Alson Manufacturing, Inc.

Alson Manufacturing, Inc. originally designed and manufactured various forms of electrical products.

In 1984, ISA moved into waste handling and disposal equipment sales.

In 1985, we began offering solid waste management consultations.

We began focusing on ferrous and non-ferrous scrap metal recycling in 1997 and expanded into the stainless steel and high-temperature alloys recycling business in 2009.

In 2010, we purchased certain intangibles, including the customer list and trade name, from Venture Metals, LLC, a company in the stainless steel and high-temperature alloys recycling business from which we had purchased certain inventories and fixed assets in a previous year, and entered into a non-compete agreement to protect our market position.

In 2012, we opened the ISA Pick.Pull.Save used automobile yard.

In 2013, we discontinued blending stainless steel, which is a subset of the stainless steel market.

In 2015, as previously discussed, we exited the waste services business and idled our shredder.

Competition

The metal recycling business is highly competitive and is subject to significant changes in economic and market conditions. In late 2014 and early 2015, the metal commodity market saw increased volatility. Market prices traded down significantly lower, particularly during 2015. Given the strengthening dollar, exports were reduced and steel mills were able to buy large quantities of low-cost scrap. Pricing and proximity to a metal source are the major competitive factors in the metal recycling business. We compete for the purchase and sale of scrap metal with large, well-financed recyclers of scrap metal as well as smaller metal facilities and brokers/dealers. Although we expanded our facilities and increased our processing efficiencies in prior years, certain of our competitors have greater financial, marketing and physical resources. There can be no assurance that we will be able to obtain our desired market share based on the competitive nature of this industry.

Dependence on Major Customer

In 2014, we had sales to two major customers that totaled approximately 34.3% of our net sales for the year ended December 31, 2014. These customers were part of the stainless steel blending and shredder operations of our business. As a result of our decision in the fourth quarter of 2013 to cease our activity in the stainless steel blending line of business, and due to the May 2015 warm idle of our shredder, the sales to these two customers were de minimis in 2015.

Employees

As of March 3, 2016, we had 74 full-time employees. None of our employees are members of a union.

Effect of State and Federal Environmental Regulations

Although we believe that our business model adequately protects us from potential environmental liability, we also continue to use our best efforts to be in compliance with federal, state and local environmental laws, including but not limited to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, the Hazardous Materials Transportation Act, as amended, the Resource Conservation and Recovery Act, as amended, the Clean Air Act, as amended, and the Clean Water Act. Such compliance has not historically constituted a material expense to us.

The recycling operations are subject to federal, state and local requirements, which regulate health, safety, the environment, zoning and land-use. Federal, state and local regulations vary, but generally govern hauling, disposal and recycling activities and the location and use of facilities and also impose restrictions to prohibit or minimize air and water pollution. In addition, governmental authorities have the power to enforce compliance with these regulations and to obtain injunctions or impose fines in the case of violations, including criminal penalties. The EPA and various other federal, state and local environmental, health and safety agencies and authorities, including the Occupational Safety and Health Administration of the U.S. Department of Labor administer those regulations.

We strive to conduct our operations in compliance with applicable laws and regulations. While such amounts expended in the past or that we anticipate spending in the future have not had and are not expected to have a material adverse effect on our financial condition or operations, the possibility remains that technological, regulatory or enforcement developments, the results of environmental studies or other factors could materially alter this expectation.

Each state in which we operate has its own laws and regulations governing solid waste disposal, water and air pollution and, in most cases, releases and cleanup of hazardous substances and liability for such matters. Several states have enacted laws that will require counties to adopt comprehensive plans to reduce the volume of solid waste landfills through waste planning, composting, recycling, or other programs. Several states have recently enacted these laws. Legislative and regulatory measures to mandate or encourage waste reduction at the source and waste recycling also are under consideration by Congress and the EPA.

Finally, various states have enacted, or are considering enacting, laws that restrict the disposal within the state of solid or hazardous wastes generated outside the state. While courts have declared unconstitutional laws that overtly discriminate against out of state waste, courts have upheld some laws that are less overtly discriminatory. Challenges to other such laws are pending. The outcome of pending litigation and the likelihood that jurisdictions will adopt other such laws that will survive constitutional challenge are uncertain.

Item 1A. Risk Factors

This Annual Report on Form 10-K includes "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, including, in particular, certain statements about our plans, strategies and prospects. Although we believe that our plans, intentions and expectations reflected in or suggested by such forward-looking statements are reasonable, we cannot assure you that such plans, intentions or expectations will be achieved. Important factors that could cause our actual results to differ materially from our forward-looking statements include those set forth in this Risk Factors section. All forward-looking statements attributable to us or any persons acting on our behalf are expressly qualified in their entirety by the cautionary statements set forth below. Unless the context requires otherwise, all references to the "Company," "we," "us" or "our" include Industrial Services of America, Inc. and subsidiaries.

If any of the following risks, or other risks not presently known to us or that we currently believe to not be significant, develop into actual events, then our business, financial condition, results of operations, cash flows or prospects could be materially adversely affected.

Risks Related to Our Operations

Our business has a major involvement in ferrous and non-ferrous metals. This market is extremely competitive and prices are volatile. Changes in prices, demand, including foreign demand, regulation, economic slowdowns or increased competition could result in a reduction of our revenue and consequent decrease in our common stock price.

The metal recycling business is highly competitive and is subject to significant changes in economic and market conditions. Metal prices were volatile during 2014 and especially in 2015. Pricing and proximity to a metal source are the major competitive factors in the metal recycling business. Volatility in the metals markets can adversely affect our revenues. Lower prices adversely affect revenues. Additionally, volatility can lower volumes of metal that our suppliers are willing to sell to us. Many companies offer or are engaged in the development of products or the provisions of services that may be or are competitive with our current products or services. Although we expanded our facilities and increased our processing efficiencies in previous years, certain of our competitors have greater financial, technical, manufacturing, marketing, distribution, and other resources and assets than we possess. In addition, the industry is constantly changing as a result of consolidation, which may create additional competitive pressures in our business environment. There can be no assurance that we will be able to maintain our current market share or obtain our desired market share based on the competitive nature of this industry.

Volatility in market prices of our scrap metal recycling inventory may cause us to re-assess the carrying value of our inventory and adversely affect our balance sheet.

We make certain assumptions regarding future demand and net realizable value in order to assess that we record our ferrous and non-ferrous inventory properly 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 due to the cyclicality of the business or otherwise, we would re-assess the recorded net realizable value of such inventory which could result in downward adjustments to reduce the value of such inventory (and increase cost of sales) to the lower of cost or market.

Volatility in market prices of the scrap metal recycling inventory experienced in late 2014 and through 2015 caused management to re-assess the carrying value of our inventory. In 2015 and 2014, we incurred a lower of cost or market inventory write-down of $1.3 million and $1.9 million, respectively.

We have limited liquidity and may need to arrange for additional liquidity on terms that are unfavorable to our stockholders, if we are able to obtain additional liquidity at all.

Our liquidity remains constrained such that it may not be sufficient to meet our cash operating needs in the long-term. Our ability to fund our working capital needs and capital expenditures is limited by the net cash provided by operations, cash on hand and the liquidity available under the credit facility. Additional declines in net cash provided by operations or further decreases in the availability under the credit facility could rapidly exhaust our liquidity. Our inability to increase our liquidity would adversely impact our future performance, operations and results of operations, along with constraining our ability to move forward with any possible acquisitions or other strategic alternatives.

Our ability to obtain additional liquidity will depend upon a number of factors, including our future performance and financial results and general economic and capital market conditions. We cannot be sure that we will be able to raise additional capital on commercially reasonable terms, or at all.

Due to reduced commodity prices and lower operating cash flows, we may be unable to maintain adequate liquidity and our ability to make interest payments in respect of our indebtedness could be adversely affected.

Declines in commodity prices since the beginning of 2014 have caused a reduction in our available liquidity and we may not have the ability to generate sufficient cash flows from operations and, therefore, sufficient liquidity to meet our anticipated working capital, debt service and other liquidity needs. We cannot assure you that any of our strategies will yield sufficient funds to meet our working capital or other liquidity needs, including for payments of interest and principal on our debt in the future, and any such alternative measures may be unsuccessful or may not permit us to meet scheduled debt service obligations, which could cause us to default on our obligations.

An increase in the price of fuel may adversely affect our business.

Our operations are dependent upon fuel, which we generally purchase in the open market on a daily basis. Direct fuel costs include the cost of fuel and other petroleum-based products used to operate our fleet of cranes and heavy equipment, as well as our shredder when it is not idled. We are also susceptible to increases in indirect fuel costs which include fuel surcharges from vendors. When we have experienced increases in the cost of fuel and other petroleum-based products in the past, we were able to pass a portion of these increases on to our customers. However, because of the competitive nature of the industry, there can be no assurance that we will be able to pass on current or future increases in fuel prices to our customers. According to AAA's Daily Fuel Gauge Report, the nationwide average price for one gallon of regular gasoline in 2015, 2014, and 2013 was $2.40, $3.34, and $3.49, respectively. The national average price of gas in 2015 was the second cheapest annual average of the past ten years. A significant increase in fuel costs could adversely affect our business, which adverse impact would be magnified if combined with a decrease in revenue caused by a decrease in commodity prices.

We could incur substantial costs in order to comply with, or to address any violations under, environmental laws that could significantly increase our operating expenses and reduce our operating income.

Our operations are subject to various environmental statutes and regulations, including laws and regulations addressing materials used in the processing of our products. In addition, certain of our operations are subject to federal, state and local environmental laws and regulations that impose limitations on the discharge of pollutants into the air and water and establish standards for the treatment, storage and disposal of solid and hazardous wastes. Failure to maintain or achieve compliance with these laws and regulations or with the permits required for our operations could result in substantial operating costs and capital expenditures, in addition to fines and civil or criminal sanctions, third party claims for property damage or personal injury, cleanup costs or temporary or permanent discontinuance of operations. Certain of our facilities have been in operation for many years and, over time, we and other predecessor operators of these facilities have generated, used, handled and disposed of hazardous and other regulated wastes. Material environmental liabilities could exist, including cleanup obligations at these facilities or at off-site locations where we disposed of materials from our operations, which could result in future expenditures that we cannot currently estimate and which could reduce our profits.

Our financial statements are based upon estimates and assumptions that may differ from actual results.

We have prepared our financial statements in accordance with U.S. generally accepted accounting principles and necessarily include amounts based on estimates and assumptions we made. Actual results could differ from these amounts. Significant items subject to such estimates and assumptions include the carrying value of long-lived assets, valuation allowances for accounts receivable, inventory, lower of cost or market, stock option values, liabilities for potential litigation, claims and assessments, and liabilities for environmental remediation and deferred taxes.

We depend on our senior management team and the loss of any member could prevent us from implementing our business strategy.

Our success is dependent on the management and leadership skills of our senior management team. The loss of any members of our management team or the failure to attract and retain additional qualified personnel could prevent us from implementing our business strategy and continuing to grow our business at a rate necessary to achieve and maintain future profitability.

Our exposure to credit risk could have a material adverse effect on our results of operations and financial condition.

Our business is subject to the risks of nonpayment and nonperformance by our customers. Downturns in the economy led to bankruptcy filings by many of our customers in previous years, which could occur again and cause us to recognize more allowances for doubtful accounts receivable. While we believe our allowance for doubtful accounts is adequate, changes in economic conditions or any weakness in the steel and metals industries could cause potential credit losses from our significant customers, which could adversely impact our future earnings or financial condition.

Our debt may increase our vulnerability to economic or business downturns.

We are vulnerable to higher interest rates because interest expense on our borrowing is based on margins over a variable base rate. We may experience material increases in our interest expense as a result of increases in general interest rate levels. Upon a breach of covenants in our lending facility, our lender could exercise its remedies related to any material breaches, including acceleration of our payments and taking action with respect to its loan security. From time to time, we have relied upon and will rely on borrowings under various credit facilities and from other lenders to operate our business. We may not have the ability to borrow from other lenders to operate our business.

Seasonal changes may adversely affect our business and operations.

Our operations may be adversely affected by periods of inclement weather, which could decrease the collection and shipment volume of recycling materials.

Risks Related to Our Common Stock

Future sales of our common stock could depress our market price and diminish the value of your investment.

Future sales of shares of our common stock could adversely affect the prevailing market price of our common stock. If our existing shareholders sell a large number of shares, or if we issue a large number of shares, the market price of our common stock could significantly decline. Moreover, the perception in the public market that our existing shareholders and, in particular, Kletter affiliates might sell shares of common stock could depress the market for our common stock.

The market price for our common stock may be volatile.

In recent periods, there has been volatility in the market price for our common stock. In addition, the market price of our common stock could fluctuate substantially in the future in response to a number of factors, including the following:

- Our quarterly operating results or the operating results of our operations in the ferrous, non-ferrous and used auto parts industries;

- Changes in general conditions in the economy, the financial markets or the ferrous and non-ferrous recycling industry;
- Loss of significant customers; and
- Increases in materials and other costs.

In addition, in recent years the stock market has experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market prices of securities issued by many companies for reasons unrelated to their operating performance. These broad market fluctuations may materially adversely affect our stock price, regardless of our operating results.

Item 2. Properties.

The following table outlines our principal properties as of December 31, 2015:

Property Address	Lease or own	Segment	Acreage
6709 Grade Lane, Louisville, KY	Lease (1)	Recycling & Other	1.326
7023-7103 Grade Lane, Louisville, KY	Own	Recycling	2.530
7020/7100 Grade Lane, Louisville, KY	Lease (K&R) (2)	Recycling & Other	14.230
7110 Grade Lane, Louisville, KY	Own	Recycling	10.723
7124 Grade Lane, Louisville, KY	Own	Recycling	5.120
7200-7210 Grade Lane, Louisville, KY	Own	Recycling	15.520
3409 Camp Ground Road, Louisville, KY	Own	Recycling	5.670
960 S, County Rd 900 W, North Vernon, IN	Lease (3)	Recycling	14.000
1617 State Road 111, New Albany, IN	Own	Recycling	1.300

(1) See Note 10 - Related Party Transactions in the accompanying Notes to Consolidated Financial Statements for additional information related to the 6709 Grade Lane lease.

(2) See Note 10 - Related Party Transactions in the accompanying Notes to Consolidated Financial Statements for additional information related to the K&R lease.

(3) See Note 4 - Lease Commitments in the accompanying Notes to Consolidated Financial Statements for additional information related to the Seymour/North Vernon lease.

These properties total 70.419 acres, which provides adequate space necessary to perform administrative and retail operation processes and store inventory. All facilities are insured. We do not expect any major land or building additions will be needed to increase capacity for our operations in the foreseeable future.

Item 3. Legal Proceedings.

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

Our operations are subject to various environmental statutes and regulations, including laws and regulations addressing materials used in the processing of our products. In addition, certain of our operations are subject to federal, state and local environmental laws and regulations that impose limitations on the discharge of pollutants into the air and water and establish standards for the treatment, storage and disposal of solid and hazardous wastes. Failure to maintain or achieve compliance with these laws and regulations or with the permits required for our operations could result in substantial operating costs and capital expenditures, in addition to fines and civil or criminal sanctions, third party claims for property damage or personal injury, cleanup costs or temporary or permanent discontinuance of operations. Certain of our facilities have been in operation for many years and, over time, we and other predecessor operators of these facilities have generated, used, handled and disposed of hazardous and other regulated wastes. Environmental liabilities in material amounts could exist, including cleanup obligations at these facilities or at off-site locations where we disposed of materials from our operations, which could result in future expenditures that we cannot currently estimate and which could reduce our profits. ISA records liabilities for remediation and restoration costs related to past activities when our obligation is probable and the costs can be reasonably estimated. Costs of future expenditures for environmental remediation are not discounted to their present value. Recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed probable. Costs of ongoing compliance activities related to current operations are expensed as incurred. Such compliance has not historically constituted a material expense to us.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for ISA's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

ISA common stock is traded on the NASDAQ Capital Market under the symbol "IDSA". High and low sales prices of the common stock price are summarized as follows:

	2015		2014	
Quarter Ended	High	Low	High	Low
March 31	$6.00	$4.13	$5.34	$2.81
June 30	$4.64	$3.36	$6.19	$4.27
September 30	$4.08	$3.35	$6.99	$4.95
December 31	$3.52	$1.24	$6.10	$3.80

There were approximately 140 shareholders of record as of December 31, 2015.

Our Board of Directors did not declare any dividends in 2015 or 2014.

Under our previous Wells Fargo and our current MidCap loan agreements, ISA covenants that so long as the lenders remain committed to make any advance or extend any other credit to us, or any obligations remain outstanding, ISA will not declare or pay any dividend or distribution (either in cash or any other property in respect of any stock) or redeem, retire, repurchase or otherwise acquire any stock, other than dividends and distributions by our subsidiaries to a parent.

On November 15, 2005, our Board of Directors authorized a program to repurchase up to 300.0 thousand shares of our common stock at current market prices. We did not repurchase any shares in 2015 or 2014. There are approximately 133.3 thousand shares still available for repurchase under this program.

Item 6. Selected Financial Data.

Selected Financial Data

	(Amounts in thousands, except per share data)				
Year ended December 31:	2015	2014	2013	2012	2011
Total revenue	$46,180	$110,091	$136,753	$194,232	$277,213
Net loss from continuing operations	$(9,085)	$(8,686)	$(13,816)	$(6,620)	$(3,881)
Net (loss) income from discontinued operations	$7,320	$1,413	*	*	*
Earnings (loss) per common share from continuing operations:					
Basic	$(1.14)	$(1.15)	$(1.96)	$(0.95)	$(0.56)
Diluted	$(1.14)	$(1.15)	$(1.96)	$(0.95)	$(0.56)
Earnings (loss) per common share from discontinued operations:					
Basic	0.92	0.19	*	*	*
Diluted	0.92	0.19	*	*	*
At year end:					
Total assets	$19,434	$37,790	$44,032	$63,323	$80,970
Current maturities of long-term debt	$20	$15,911	$1,597	$1,687	$1,821
Long-term debt, net of current maturities	$—	$—	$16,295	$23,369	$26,688

The recycling business is highly competitive and is subject to various market and company risks. See Item 1A. - Risk Factors for a discussion of the material risks related to our operations. Due to these risks, past performance is not necessarily indicative of future financial condition or results of operations.

* On December 4, 2015, the Company sold a majority of its Waste Services Segment assets. Years 2015 and 2014 have been adjusted to reflect discontinued operations of the Waste Services Segment. Years 2013 through 2011 have not been adjusted for discontinued operations of the Waste Services Segment.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis should be read in conjunction with the information set forth under Item 6, “Selected Financial Data” and our 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. Please see Item 1A, “Risk Factors” for items that could affect our financial predictions, forecasts and projections.

General

On December 2, 2013, we entered into a Management Services Agreement (the “Management Agreement”) with Algar, Inc. ("Algar"). Under the Management Agreement, Algar provides us with day-to-day senior executive level operating management services. Algar also provides business, financial, and organizational strategy and consulting services, as our board of directors may reasonably request from time to time.

On December 4, 2015, the Company sold substantially all assets of its Waste Services Segment. The Waste Services Segment provided waste management services including contract negotiations with service providers, centralized billing, invoice auditing and centralized dispatching. Waste services also rented, leased, sold and serviced waste handling and recycling equipment, such as trash compactors and balers, to end-user customers. The Waste Services Segment is presented as discontinued operations in this Form 10-K.

Our core business is focused on the recycling industry. We intend to achieve steady growth at an acceptable profit, adding to our net worth and providing positive returns for our 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. On March 2, 2016, we announced that the Company has formed a special committee of independent board members to participate in the evaluation of growth and strategic options.

Our future success depends upon our ability to execute our business plan and our ongoing review of growth and strategic options. We are primarily focusing our attention in two key areas. First, we are focused on returning our Recycling Segment to profitability. Second, we are focused on the evaluation of growth and strategic options.

We have operating locations in Louisville, Kentucky, and Seymour and New Albany, Indiana. We do not have operating locations outside the United States. Seymour is used interchangeably with North Vernon herein.

Liquidity and Capital Resources

Our cash requirements generally consist of working capital, capital expenditures and debt service. Our primary sources of liquidity are cash flows generated from operations and the various borrowing arrangements described below, including our revolving credit facility. We have also been able to manage liquidity by deferring certain rent payments made to related parties. See Note 10 - Related Party Transactions in the accompanying Notes to Consolidated Financial Statements for additional information. We actively manage our working capital and associated cash requirements and continually seek more effective use of cash. As of December 31, 2015, we held cash and cash equivalents of $0.6 million.

During 2015, the Company experienced significant liquidity challenges related to the severe metal market downturn and associated ISA loan defaults with our lenders. Management took the below steps. See Our Response to 2015 Commodity Markets and Liquidity Conditions in Item 1 of this Form 10-K for further discussion of these actions.

In February 2015, the Company sold its Seymour, Indiana property and relocated its Seymour operations to a leased facility in the same general geographic area. The proceeds from the sale of this property were used to reduce debt and improve liquidity.
In April 2015, the Company sold its property located at 6709 Grade Lane, Louisville, KY to a related party. The proceeds from the sale of this property were used to reduce debt and improve liquidity.

In May 2015, the Company warm idled its auto shredder. The proceeds associated with working capital reductions were used to reduce debt and improve liquidity.
Also, in May 2015, the Company sold its property located at 7017 Grade Lane, Louisville, KY to a related party. The proceeds from the sale of this property were used to reduce debt and improve liquidity.
In November 2015, the Company entered into a forbearance agreement with Wells Fargo, which required certain actions by the Company.
In December 2015, the Company sold substantially all assets of the Company's Waste Services Segment. Proceeds from the sale of this segment were used to reduce debt and improve liquidity.
During 2015, the Company paid down debt by $16.3 million and favorably improved borrowing availability, primarily as a result of the above actions. As more fully described in Note 15 - Discontinued Operations in the accompanying Notes to Consolidated Financial Statements, the Waste Services Segment provided positive operating cash flow that will no longer be available to the Company.

Subsequent to December 31, 2015, the Company refinanced its Wells Fargo debt with a new lender, MidCap, which provides improved liquidity.

Credit facilities and notes payable

During 2015, the Company had certain loans with KY Bank and Wells Fargo (hereinafter "Wells Fargo"). As of December 31, 2014, the Company was in default under the Wells Fargo loans and during the second half of 2015 entered into a Forbearance Agreement with Wells Fargo whereby the due dates on the loans were accelerated and the Company was required to take certain actions.

During 2015, as more fully described above, the Company took steps to pay down debt and increase liquidity.

On December 4, 2015, in conjunction with the sale of substantially all assets of the Company's Waste Services Segment, the Company paid off the KY Bank loans and certain Wells Fargo loans. As of December 31, 2015, the Company had an outstanding balance of $19.7 thousand to Wells Fargo. Subsequent to December 31, 2015, the Company closed on new financing with MidCap and paid off in full remaining amounts due to Wells Fargo.

See Note 1 - Summary of Significant Accounting Policies and Note 3 - Long Term Debt and Notes Payable to Bank in the accompanying Notes to Consolidated Financial Statements for further details on long term debt and notes payable.

Swap agreements

In October 2013, the Company entered into an interest rate swap agreement with KY Bank swapping a variable rate based on LIBOR for a fixed rate. This swap agreement covered approximately $2.4 million in debt, commenced October 17, 2013 and was scheduled to mature on October 1, 2018. The swap agreement fixed our interest rate at 4.74%. The swap was settled for $15.0 thousand during 2015.

Critical Accounting Policies

In preparing financial statements in conformity with accounting principles generally accepted in the United States ("GAAP"), we make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. We believe that we consistently apply judgments and estimates and that such consistent application results in financial statements and accompanying notes that fairly represent all periods presented. However, any errors in these judgments and estimates may have a material impact on our statement of operations and financial condition. Our significant accounting policies are described in Note 1 - Summary of Significant Accounting Policies in the accompanying Notes to Consolidated Financial Statements. Critical accounting policies, as defined by the Securities and Exchange Commission, are those that are most important to the portrayal of our financial condition and results of operations and require our most difficult and subjective judgments and estimates of matters that are inherently uncertain. We consider the following policies to be the most critical in understanding the judgments that are involved in preparing the consolidated financial statements.

Revenue recognition

We recognize revenues from processed ferrous and non-ferrous scrap metal sales when title passes to the customer, which generally is upon delivery of the related materials. We recognize revenues from services as the service is performed. We recognize revenue on auto parts when title passes to the customer. We accrue sales adjustments related to price and weight differences and allowances for uncollectible receivables against revenues as incurred.

Inventory

Our inventories primarily consist of ferrous and non-ferrous, including stainless steel, and scrap metals and are valued at the lower of average purchased cost or market using the specific identification method based on individual scrap commodities. 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 inventory. We record the loss in cost of sales in the period during which we identified the loss. Prices of commodities we own may be volatile. We are exposed to risks associated with fluctuations in the market price for both ferrous and non-ferrous metals, which are at times volatile. We attempt to mitigate this risk by seeking to rapidly turn our inventories.

We make certain assumptions regarding future demand and net realizable value in order to assess whether 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 sales) to the lower of cost or market.

Valuation of long-lived assets

We regularly review the carrying value of certain long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be realizable. If an evaluation is required, we compare the estimated future undiscounted cash flows associated with the asset to the asset's carrying amount to determine if an impairment of such asset is necessary. The effect of any impairment would be to expense the difference between the fair value of such asset and its carrying value.

Income Taxes

We account for income taxes under the asset and liability method. We recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. We measure deferred tax assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which we expect to recover or settle those temporary differences. We recognize the effect on deferred tax assets and liabilities of a change in tax rates in income in the period that includes the enactment date. We recognize interest accrued related to unrecognized tax positions in interest expense and penalties in operating expenses, if appropriate. We use the deferral method of accounting for the available state tax credits relating to the purchase of the shredder equipment.

We recognize uncertain income tax positions using the "more-likely-than-not" approach as defined in the ASC. The amount recognized is subject to estimate and management's judgment with respect to the most likely outcome for each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. We have no liability for uncertain tax positions recognized as of December 31, 2015 and 2014.

See also Note 7 - Income Taxes in the accompanying Notes to Consolidated Financial Statements for additional information regarding income taxes and related assets.

Stock Incentive Plan

We have a Long Term incentive Plan adopted in 2009 under which we may grant equity awards for up to 2.4 million shares of common stock, which are reserved by the board of directors for issuance of equity awards. We account for this plan based on FASB's authoritative guidance titled "ASC Topic 718 - Compensation - Stock Compensation." We recognize share-based compensation expense for the fair value of the awards, as estimated using the Modified Black-Scholes-Merton Model, on the date granted on a straight-line basis over their vesting term. Compensation expense is recognized only for share-based payments expected to vest. We estimate forfeitures at the date of grant based on our historical experience and future expectations. Under the plan, the maximum term of an option is five years.

Results of Operations

Prior year balances have been recast to reflect the sale of the Company's Waste Services Segment in the fourth quarter of 2015 in accordance with the Financial Accounting Standards Board Accounting Standards Codification 205-20-55 within discontinued operations. Results of discontinued operations are excluded from the accompanying results of operations for all periods presented, unless otherwise noted. See Note 15 - Discontinued Operations in the accompanying Notes to Consolidated Financial Statements.

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:

Year ended December 31,	2015		2014	
Consolidated Statements of Operations Data:				
Total revenue	100.0	%	100.0	%
Total cost of sales	110.5	%	101.3	%
Selling, general and administrative expenses	8.4	%	5.8	%
Loss before other income (expense)	(18.9	)%	(7.2	)%

The 9.2% increase in cost of sales as a percentage of revenue in 2015 as compared to 2014 is partially due to a fixed asset impairment charge of $0.6 million recorded in 2015 due to the May 2015 warm idle of the shredder. However, the primary driver of the increase relates to margin compression the Company faced in 2015 as the ferrous market, and to a lesser extent the nonferrous market, prices declined substantially during 2015.

Selling, general and administration expenses decreased by $2.6 million in 2015 as compared to 2014, mainly due to a decrease in stock option expense of $2.3 million. However, selling, general and administrative expenses as a percentage of revenue in 2015 as compared to 2014 increased 2.6%. This increase is mainly due to substantially lower revenues associated with falling metal prices and the May 2015 warm idle of the shredder.

Accumulated Other Comprehensive Income (Loss)

Comprehensive income is net income plus certain other items that are recorded directly to shareholders' equity. Amounts included in other accumulated comprehensive loss for our derivative instruments are recorded net of the related income tax effects. Refer to Note 1 – Summary of Significant Accounting Policies - Derivative and Hedging Activities in the accompanying Notes to Consolidated Financial Statements for additional information about our derivative instruments.

The following table gives further detail regarding the composition of other accumulated comprehensive income (loss) at December 31, 2015 and 2014.

Total accumulated other comprehensive loss as of 12/31/14	$(10)
Unrealized loss on derivative instruments during 2015	(5)
Amounts reclassified from accumulated other comprehensive income during 2015	15
Total accumulated other comprehensive loss as of 12/31/15	$—

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Total revenue decreased $63.9 million or 58.0% to $46.2 million in 2015 compared to $110.1 million in 2014. This decrease was primarily due to the May 2015 warm idling of the Company's shredder operations and the significant decrease in metal commodity prices. Disruptions during late 2014 and early 2015 in the worldwide demand for finished goods metals led to a significant decline in metal commodity prices. This decrease in metal commodity prices also led to significantly lower scrap metal volumes, thereby further reducing revenue. Revenue from the Company's shredder operations were $11.9 million for the year ended December 31, 2015 and $53.6 million for the year ended December 31, 2014, a decrease of $41.7 million. The remaining decrease was primarily due to lower commodity prices and lower sales volume.

The Company experienced a decrease in nonferrous material shipments of 9.2 million pounds, or 22.0%, along with a decrease in the average selling price of nonferrous material of $0.28 per pound, or 24.9%, for the year ended December 31, 2015 compared to the year ended December 31, 2014. This was partially offset by an increase in ferrous material shipments of 11,410 tons, or 30.2%, from 2014 to 2015. This increase in ferrous material shipments was primarily a result of the May 2015 warm idle of the Company's shredder operations which led to materials previously sold and classified as shredder shipments being accounted for through the ferrous operations. For the year ended December 31, 2015 compared to the year ended December 31, 2014, the Company experienced a decrease in the average selling price of ferrous material of $179.63 per gross ton, or 49.4%.

Total cost of sales decreased $60.5 million or 54.3% to $51.0 million in 2015 compared to $111.5 million in 2014. This decrease was primarily due to a decrease in the volume of shipments and the overall price for all commodities shipped for ferrous and nonferrous in 2015 compared to 2014, as well as the May 2015 warm idle of the shredder.

Other notable decreases in the cost of sales include the following:

- a decrease of $1.5 million in direct labor costs, employment taxes and fees, and insurance due to fewer average employees on the weekly payroll in 2015 as compared to 2014;
- a decrease of $0.3 million in repairs and maintenance expense; and
- a decrease of $0.5 million in fuel and lubricants.

In 2015, we incurred a lower of cost or market inventory write-down of $1.3 million, or 2.8% of revenue. In 2014, we incurred a lower of cost or market inventory write-down of $1.9 million, or 1.7% of revenue. Additionally, in 2015, we incurred a $0.6 million lower-of-cost fixed asset write down. Management spent much of 2014 and early 2015 working to assess the Company's automobile shredder residue ("ASR") process. Significant process and strategy changes associated with the ASR process have been made. These changes, combined with the significant metals market decrease experienced in late 2014 and through 2015, caused management to also perform a lower of cost-or-market assessment on fixed assets, which led to the above noted fixed asset write down. See Note 1 - Summary of Significant Accounting Policies - Inventories in the accompanying Notes to Consolidated Financial Statements for additional information.

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Selling, general and administrative ("SG&A") expenses decreased $2.6 million or 39.7% to $3.9 million in 2015 compared to $6.4 million in 2014. The decrease in SG&A expenses was primarily due to the following:

- a decrease in stock option expense of $2.3 million primarily relating to the Algar stock option agreement entered into in 2013; and

- a decrease in bonus expense to Algar of $0.4 million.

These decreases were partially offset by an increase in management fee, directors' fees and consulting fees of $0.2 million.

As a percentage of total revenue, selling, general and administrative expenses were 8.4% in 2015 compared to 5.8% in 2014. This increase is a result of the significant revenue decrease from 2014 to 2015.

Interest expense decreased $0.2 million or 18.1% to $0.7 million in 2015 compared to $0.8 million in 2014 due to lower levels of debt held in 2015 as compared to 2014. The decrease in debt relates to principal payments made on existing debt in 2015 and holding a lower balance on the revolving credit facility with lenders in 2015 as compared to 2014.

Other income was $27.0 thousand in 2015 compared to $8.6 thousand in 2014, an increase of $18.4 thousand, as outlined in the table below describing the significant components for each year.

Significant components of other income (expense), in thousands, were as follows:

	Fiscal Year Ended December 31,	
Description Other Income (Expense)	2015	2014
Income from settlements	$34.0	$—
Other	(7.0)	8.6
Total other income, net	$27.0	$8.6

The income tax expense decreased $25.0 thousand to a tax provision of $13.0 thousand in 2015 compared to a tax expense of $38.0 thousand in 2014. The effective tax rates, including the intangible impairment losses and the deferred tax asset valuation allowance, in 2015 and 2014 were (0.1)% and (0.4)%, respectively, based on federal and state statutory rates.

Financial Condition at December 31, 2015 compared to December 31, 2014

Cash and cash equivalents decreased $0.4 million to $0.6 million as of December 31, 2015 compared to $1.1 million as of December 31, 2014.

We generated net cash from operating activities of $5.0 million for the year ended December 31, 2015. The change in net cash from operating activities is adversely impacted by a net loss of $9.1 million. The change in net cash from operating activities is positively impacted by the Company's depreciation and amortization of $2.4 million, inventory write-down of $1.3 million, along with changes in accounts receivable and inventory of $7.3 million and $2.0 million, respectively.

Inventory balances are affected additionally by the timing of shipments, receipts and payments throughout the period. Accounts receivable and payable balances are also affected by the timing of shipments, receipts and payments throughout the period. Further, the significant metals market price decrease experienced in late 2014 and through 2015 resulted in a decrease in the Company's volume as noted above, which in turn, led to a decrease in accounts receivable and inventory.

We generated net cash from investing activities of $2.1 million for the year ended December 31, 2015 primarily a result of $2.1 million in proceeds from the sale of property and equipment during 2015.

Net cash used in financing activities was $16.0 million in the year ended December 31, 2015. During 2015, we made payments on debt obligations of $16.3 million and received $0.4 million in new borrowings. There were no cash dividends paid or common stock repurchases in 2015 or 2014.

The results of the sale of the Waste Services Segment are shown in the cash flows from discontinued operations section of the statement of cash flows. The net cash provided by operating activities included net income from discontinued operations of $7.3 million offset by a gain on the sale of the business in the amount of $6.0 million. We generated net cash from investing activities of $6.6 million, which was primarily a result of proceeds from the sale of the Waste Services Segment of $7.0 million, offset by purchases of property and equipment of $432.0 thousand.

Trade accounts receivable after allowances for doubtful accounts decreased $7.3 million or 81.3% to $1.7 million as of December 31, 2015 compared to $8.9 million as of December 31, 2014 due to the receipt of customer payments and a decrease in the volume of shipments of ferrous, nonferrous, and stainless steel material during 2015. In general, the accounts receivable balance fluctuates due to the timing of shipments and receipt of customer payments.

Inventories at 2015 consist principally of ferrous and nonferrous scrap materials. We value inventory at the lower of cost or market. Inventory decreased $4.3 million or 64.2% to $2.4 million as of December 31, 2015 compared to $6.7 million as of December 31, 2014. This decrease was primarily due to the May 2015 warm idling of the Company's shredder operations and a lower of cost or market write-down of $1.3 million primarily related to shredder operations inventory items.

Inventories, in thousands, as of December 31, 2015 and December 31, 2014 consisted of the following:

	2015	2014
Ferrous, and non-ferrous materials	$2,407	$5,347
Other	3	11
Total inventories for sale	2,410	5,358
Replacement parts	—	1,371
Total inventories	$2,410	$6,729

As of December 31, 2015, ferrous inventory consisted of 7.4 thousand gross tons at a unit cost, including processing costs, of $85.06 per gross ton. As of December 31, 2014, ferrous inventory consisted of 20.3 thousand gross tons at a unit cost, including processing costs, of $154.75 per gross ton. As of December 31, 2015, nonferrous inventory consisted of 2.2 million pounds with a unit cost, including processing costs, of $0.66 per pound. As of December 31, 2014, nonferrous inventory consisted of 2.3 million pounds at a unit cost, including processing costs, of $0.96 per pound.

For the year ended December 31, 2014, replacement parts included in inventory were expensed over a one-year life when placed in service and were used by the Company within the one-year period as these parts wear out quickly due to the high-volume and intensity of the shredder function. As of December 31, 2015, due to the idling of the shredder the Company has reclassified the replacement parts inventory to long term property and equipment. Other inventory includes fuel.

We make certain assumptions regarding future demand and net realizable value in order to assess whether 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. Management spent much of 2014 and early 2015 working to assess the Company's automobile shredder residue ("ASR") process. Significant process and strategy changes associated with the ASR process have been made, including the May 2015 warm idle of the shredder. These changes, combined with the significant metals market reduction in demand and prices experienced in late 2014 and through 2015, caused management to perform a lower of cost-or-market assessment which resulted in inventory write-downs of $1.3 million and $1.9 million for the years of December 31, 2015 and 2014, respectively.

Inventory aging for the period ended December 31, 2015 (Days Outstanding):

	(in thousands)				
Description	1 - 30	31 - 60	61 - 90	Over 90	Total
Ferrous and non-ferrous materials	$2,014	$107	$74	$212	$2,407
Other	3	—	—	—	3
Total	$2,017	$107	$74	$212	$2,410

Inventory aging for the period ended December 31, 2014 (Days Outstanding):

	(in thousands)				
Description	1 - 30	31 - 60	61 - 90	Over 90	Total
Ferrous and non-ferrous materials	$3,804	$250	$394	$899	$5,347
Replacement parts	1,371	—	—	—	1,371
Other		—	1	10	11
Total	$5,175	$250	$395	$909	$6,729

Inventory in the "Over 90 days" category decreased by $0.7 million from December 31, 2014 to December 31, 2015. This decrease was primarily due to the May 2015 warm idling of the Company's shredder operations and a lower of cost or market write-down of $1.3 million primarily related to shredder operations inventory items. The December 31, 2015 balance of $0.2 million is spread across various small items.

Accounts payable trade decreased $0.5 million or 17.9% to $2.2 million as of December 31, 2015 compared to $2.6 million as of December 31, 2014. This decrease was primarily due to the significant metals market decrease experienced in late 2014 and through 2015. Our accounts payable payment policy in the Recycling Segment is consistent between years. In general, the timing of payments made to our vendors will also affect the accounts payable balance.

Working capital increased $3.2 million to $0.8 million as of December 31, 2015 compared to $(2.4) million as of December 31, 2014. The following positive contributors were noted:

- a decrease in current maturities of long-term debt of $15.9 million; and
- a decrease in accounts payable of $0.5 million.

Offset by the following:

- a decrease in cash of $0.4 million;
- a decrease in net accounts receivable of $7.3 million;
- a decrease in related party receivable of $0.2 million;
- a decrease in inventories of $4.3 million;
- a decrease of $0.4 million in prepaid expenses and other current assets; and
- an increase in related party payables of $0.3 million.

Contractual Obligations

The following table provides information with respect to our known contractual obligations for the year ended December 31, 2015:

	Payments due by period (in thousands)				
	Total	Less than 1 year	1 - 2 years	3 - 5 years	More than 5 years
Obligation Description					
Long-term debt obligations	$20	$20	$—	$—	$—
Operating lease obligations	3,000	1,168	1,546	286	—
Deposit from related party	500	500	—	—	—
Total	$3,520	$1,688	$1,546	$286	$—

Inflation and Prevailing Economic Conditions

To date, inflation has not and is not expected to have a significant impact on our operation in the near term. We have no long-term fixed-price contracts and we believe we will be able to pass through most cost increases resulting from inflation to our customers. We are susceptible to the cyclical nature of the commodity business. In late 2014 and during 2015, the metal commodity markets experienced significant disruptions. The Company addressed these conditions through actions that are described Part 1, Item 1. in this Form 10-K.

Fluctuating commodity prices affect market risk in our Recycling Segment. We mitigate the 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 stainless steel, ferrous and nonferrous metal, and other commodities. The timing and magnitude of industry cycles are difficult to predict and general economic conditions impact the cycles. 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, an adverse impact on our financial results may occur if selling prices fall more quickly than we can adjust purchase prices or if levels of inventory have an anticipated net realizable value that is below average cost.

Impact of Recently Issued Accounting Standards

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The amendments in ASU 2014-09 affect any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early application is not permitted. The Company has not yet assessed the impact of the adoption of ASU 2014-09 on its Consolidated Financial Statements.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40). The amendments in ASU 2014-15 are intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. The amendments are effective for annual periods ending after December 15, 2016, including interim periods within that reporting period. Early application is permitted for annual or interim reporting periods for which the financial statements have not previously been issued. The Company expects no impact from the adoption of ASU 2014-15 on its Consolidated Financial Statements.

In April 2015, the FASB issued ASU 2015-03, Interest-Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs. The guidance requires an entity to present debt issuance costs in the balance sheet as a direct reduction from the carrying amount of the debt liability, consistent with debt discounts, rather than as an asset. Amortization of debt issuance costs will continue to be reported as interest expense. Debt issuance costs related to revolving credit arrangements, however, will continue to be presented as an asset and amortized ratably over the term of the arrangement. ASU 2015-03 is effective for reporting periods beginning after December 15, 2015 including interim periods within those annual periods. Early application is permitted, and upon adoption, ASU 2015-03 should be applied on a retrospective basis. The Company does not expect the standard to have a material impact on its Consolidated Financial Statements.

In July 2015, the FASB issued ASU 2015-11, Inventory, which simplifies the measurement principle of inventories valued under the First-In, First-Out ("FIFO") or weighted average methods from the lower of cost or market to the lower of cost and net realizable value. ASU 2015-11 is effective for reporting periods beginning after December 15, 2016 including interim periods within those annual periods. The Company does not expect the standard to have a material impact on its Consolidated Financial Statements.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes, which requires that deferred tax assets and liabilities be classified as noncurrent on the consolidated balance sheet. ASU 2015-17 is effective for annual periods beginning after December 15, 2016, including interim periods within those annual periods. Early adoption is permitted as of the beginning of an interim or annual reporting period. Upon adoption, ASU 2015-17 may be applied either prospectively or retrospectively. The Company does not expect the standard to have a material impact on its Consolidated Financial Statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases, to improve financial reporting about leasing transactions. This ASU will require organizations that lease assets (“lessees”) to recognize a lease liability and a right-of-use asset on its balance sheet for all leases with terms of more than twelve months. A lease liability is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis and a right-of-use asset represents the lessee’s right to use, or control use of, a specified asset for the lease term. The amendments in this ASU simplify the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. This ASU leaves the accounting for the organizations that own the assets leased to the lessee (“lessor”) largely unchanged except for targeted improvements to align it with the lessee accounting model and Topic 606, Revenue from Contracts with Customers.

The amendments in ASU 2016-02 are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Company is evaluating the potential impact of ASU 2016-02 on its Consolidated Financial Statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

N/A - Not required for smaller reporting companies.

Item 8. Financial Statements and Supplementary Data.

Our consolidated financial statements required to be included in this Item 8 are set forth in Item 15 of this report and incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. 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 December 31, 2015, 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) Internal controls over financial reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act). Our internal control over financial reporting includes the process designed by, or under the supervision of, our CEO and CFO, and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of our assets;
- provide reasonable assurance that our transactions are recorded as necessary to permit preparation of our financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting cannot prevent or detect every potential misstatement. Therefore, even those systems determined to be effective can provide only reasonable assurances with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may decline.

Our management conducted an evaluation of the effectiveness of our internal control over financial reporting, based on the framework and criteria established in Internal Control -- Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management assessed the effectiveness of our internal control over financial reporting for the year ended December 31, 2015, and concluded that such internal control over financial reporting was effective as of December 31, 2015.

This Annual Report on Form 10-K does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to rules of the SEC that require only management's report in this Annual Report on Form 10-K.

(c) Changes to internal control over financial reporting.

There were no changes in ISA’s internal control over financial reporting during the year ended December 31, 2015 that have materially affected, or are reasonably likely to affect ISA’s internal control over financial reporting.

Item 9B. Other Information.

On March 25, 2016, our Compensation Committee granted 32.0 thousand restricted stock units ("RSUs") to Todd L. Phillips, the Company's Chief Financial Officer (the "CFO"), under the Industrial Services of America, Inc. 2009 Long Term Incentive Plan (the "Plan") pursuant to a Restricted Stock Unit Grant Agreement (the "RSU Agreement"). Each RSU vests on March 31, 2016 and represents the right to receive one share of the Company's common stock upon the vesting of the RSU, subject to the terms and conditions set forth in the RSU Agreement and the Plan. The RSUs were granted to the CFO in lieu of other compensation and as partial payment of the CFO's bonus related to certain milestone accomplishments during 2015 and early 2016. The RSU Agreement is attached to this Annual Report on Form 10-K as Exhibit 10.39. The RSUs have been, and the shares of common stock underlying the RSUs will be, issued in reliance on the exemption from registration provided under Section 4(a)(2) of the Securities Act of 1933, as amended, for transactions not involving any public offering. In addition, the securities were not offered pursuant to a general solicitation, no underwriter participated in the offer and sale of these securities, and no commission or other remuneration was paid or given directly or indirectly in connection therewith.

Further, on March 25, 2016, the Company entered into a Retention Agreement with the CFO whereby the CFO will receive a cash retention bonus of $100.0 thousand if he remains employed with the Company as of December 31, 2016, and a cash retention bonus of $125.0 thousand if he remains employed with the Company as of December 31, 2017, subject to the terms and conditions set forth in the Retention Agreement. The Retention Agreement is attached to this Annual Report on Form 10-K as Exhibit 10.40.

Additionally, the Company plans to submit a proposal to the shareholders to approve a one-time stock option exchange for the CFO as an alternative to a direct repricing of options previously granted to the CFO. The stock option exchange, if approved by the shareholders, would allow the Company to cancel 170.0 thousand stock options previously granted to the CFO in exchange for the grant of 90.0 thousand RSUs to the CFO. The Company expects to seek shareholder approval for the stock option exchange (repricing) of the CFO's options at the Company's next annual meeting of shareholders.

PART III

Item 10. Directors, Executive Officers and Corporate Governance. *

Item 11. Executive Compensation *

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters. *

Item 13. Certain Relationships and Related Transactions, and Director Independence. *

Item 14. Principal Accountant Fees and Services. *

* The information required by Items 10, 11, 12, 13 and 14 is or will be set forth in the definitive proxy statement relating to the 2016 Annual Meeting of Shareholders of ISA which is to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after ISA’s year end for the year covered by this report under the Securities Exchange Act of 1934, as amended. Such definitive proxy statement relates to an annual meeting of shareholders and the portions therefrom required to be set forth in this Form 10-K by Items 10, 11, 12, 13 and 14 are incorporated herein by reference pursuant to General Instruction G(3) to Form 10-K.

PART IV

Item 15. Exhibits and Consolidated Financial Statement Schedules.

(a)(1) The following consolidated financial statements of Industrial Services of America, Inc. are filed as a part of this report:

(a)(3) List of Exhibits

Exhibits filed with, or incorporated by reference herein, this report are identified in the Index to Exhibits appearing in this report. Each management agreement or compensatory plan required to be filed as exhibits to this Form 10-K pursuant to Item 15(b) is noted by an asterisk (*) in the Index to Exhibits.

(b) Exhibits.

The exhibits listed on the Index to Exhibits are filed as a part of this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Dated:	March 25, 2016	By :	/s/ Orson Oliver
			Orson Oliver, Chairman of the Board and Interim Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ Orson Oliver Orson Oliver	Chairman of the Board and Interim Chief Executive Officer (Principal Executive Officer)	March 25, 2016
/s/ Todd Phillips Todd Phillips	Chief Financial Officer (Principal Financial and Accounting Officer)	March 25, 2016
/s/ Albert Cozzi Albert Cozzi	Director	March 25, 2016
/s/ Sean Garber Sean Garber	Director, President	March 25, 2016
/s/ Ronald Strecker Ronald Strecker	Director	March 25, 2016
/s/ Vince Tyra Vince Tyra	Director	March 25, 2016
/s/ William Yarmuth William Yarmuth	Director	March 25, 2016

INDEX TO EXHIBITS

Exhibit Number		Description of Exhibits
2.1	**	Asset Purchase Agreement dated as of December 4, 2015, by and among Industrial Services of America, Inc., WESSCO, LLC, and Compactor Rentals of America, LLC. (Attachments and schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. Industrial Services of America, Inc. hereby undertakes to furnish supplementally copies of any of the omitted attachments and schedules upon request by the U.S. Securities and Exchange Commission.) (incorporated herein by reference to Exhibit 2.1 to the Company’s Current Report on Form 8-K dated December 4, 2015) (File No. 0-20979).
3.1	**	Industrial Services of America, Inc. Amended and Restated Articles of Incorporation are incorporated herein by reference to Exhibit 3.1 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2013 (File No. 0-20979).
3.2	**	Amended and Restated By-laws of ISA, dated March 3, 2016. (incorporated herein by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K dated March 3, 2016) (File No. 0-20979).
4.1	**	Securities Purchase Agreement dated as of June 13, 2014 between the Company and Recycling Capital Partners, LLC. (incorporated by reference to Exhibit 4.1 of the Company’s Report on Form 8-K as filed on June 19, 2014) (File No. 0-20979).
4.2	**	Registration Rights Agreement dated as of June 13, 2014 between the Company and Recycling Capital Partners, LLC. (incorporated by reference to Exhibit 4.2 of the Company’s Report on Form 8-K as filed on June 19, 2014) (File No. 0-20979).
4.3	**	Common Stock Purchase Warrant dated as of June 13, 2014 by the Company to Recycling Capital Partners, LLC. (incorporated by reference to Exhibit 4.3 of the Company’s Report on Form 8-K as filed on June 19, 2014) (File No. 0-20979).
10.1	**	Lease Agreement, dated January 1, 1998, by and between ISA and K&R, is incorporated by reference herein, to Exhibit 10.10 on Form 8-K of ISA, filed March 3, 1998 (File No. 0-20979).
10.2	**	Industrial Services of America, Inc. 2009 Long Term Incentive Plan (incorporated by reference to Exhibit 10.57 to the Company's proxy statement on Form DEF 14A filed on April 30, 2009) (File No. 0-20979).*
10.3	**	Form of Stock Option Agreement issued in connection with the 2009 Long Term Incentive Plan is incorporated by reference herein to Exhibit 10.57 of ISA's Report on Form 10-K, as filed on April 1, 2013 (File No. 0-20979).*
10.4	**	Promissory Note, dated October 15, 2013, by and between WESSCO, LLC and The Bank of Kentucky, Inc. in the amount of $3,000,000 payable to The Bank of Kentucky, Inc. is incorporated by reference herein to Exhibit 10.1 of the Company's Report on Form 8-K, as filed on October 21, 2013 (File No. 0-20979).

10.5	**	Promissory Note, dated October 15, 2013, by and between WESSCO, LLC and The Bank of Kentucky, Inc. in the amount of $1,000,000 payable to The Bank of Kentucky, Inc. is incorporated by reference herein to Exhibit 10.2 of the Company's Report on Form 8-K, as filed on October 21, 2013 (File No. 0-20979).
10.6	**	Security Agreement, dated as of October 15, 2013, by and among WESSCO, LLC and The Bank of Kentucky, Inc. is incorporated by reference herein to Exhibit 10.3 of the Company's Report on Form 8-K, as filed on October 21, 2013 (File No. 0-20979).

Exhibit Number		Description of Exhibits
10.7	**	Guaranty of Payment, dated as of October 15, 2013, by and among Industrial Services of America, Inc. and The Bank of Kentucky, Inc. is incorporated by reference herein to Exhibit 10.4 of the Company's Report on Form 8-K, as filed on October 21, 2013 (File No. 0-20979).
10.8	**	Assignment of Promissory Note, dated as of October 15, 2013, by and among Industrial Services of America, Inc. and The Bank of Kentucky, Inc. is incorporated by reference herein to Exhibit 10.5 of the Company's Report on Form 8-K, as filed on October 21, 2013 (File No. 0-20979).
10.9	**	Promissory Note, dated October 15, 2013, by and between Industrial Services of America, Inc., and WESSCO, LLC, in the amount of $3,000,000 payable to WESSCO, LLC is incorporated by reference herein to Exhibit 10.6 of the Company's Report on Form 8-K, as filed on October 21, 2013 (File No. 0-20979).
10.10	**	Management Services Agreement dated as of December 1, 2013, between the Company and Algar, Inc., including the Stock Option Agreement attached thereto as Attachment A is incorporated by reference herein to Exhibit 10.1 of the Company's Report on Form 8-K, as filed on December 4, 2013 (File No. 0-20979).*
10.11	**	Swap Confirmation, dated October 17, 2013, between WESSCO, LLC and The Bank of Kentucky, Inc. in the notional amount of $3,000,000 (incorporated by reference to Exhibit 10.68 to the Company's Annual Report on Form 10-K, for the year ended December 31, 2013) ((File No. 0-20979).
10.12	**	Director Designation Agreement dated as of June 13, 2014 between the Company and Recycling Capital Partners, LLC. (incorporated by reference to Exhibit 10.1 of the Company’s Report on Form 8-K as filed on June 19, 2014) (File No. 0-20979).
10.13	**	Credit Agreement dated as of June 13, 2014 between the Company and Wells Fargo Bank, National Association. (incorporated by reference to Exhibit 10.2 of the Company’s Report on Form 8-K as filed on June 19, 2014) (File No. 0-20979).
10.14	**	Revolving Promissory Note dated as of June 13, 2014 by Industrial Services of America, Inc. in favor of Wells Fargo Bank, National Association. (incorporated by reference to Exhibit 10.3 of the Company’s Report on Form 8-K as filed on June 19, 2014) (File No. 0-20979).
10.15	**	Term Promissory Note dated as of June 13, 2014 by Industrial Services of America, Inc. in favor of Wells Fargo Bank, National Association. (incorporated by reference to Exhibit 10.4 of the Company’s Report on Form 8-K as filed on June 19, 2014) (File No. 0-20979).
10.16	**	Security Agreement dated as of June 13, 2014 between the Company, its subsidiaries and Wells Fargo Bank, National Association. (incorporated by reference to Exhibit 10.5 of the Company’s Report on Form 8-K as filed on June 19, 2014) (File No. 0-20979).

10.17	**	Continuing Guaranty dated as of June 13, 2014 issued by the Company's subsidiaries to Wells Fargo Bank, National Association. (incorporated by reference to Exhibit 10.6 of the Company's Report on Form 8-K as filed on June 19, 2014) (File No. 0-20979).
10.18	**	Securities Purchase Agreement dated December 31, 2014 between the Company and Todd L. Phillips. (incorporated herein by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K dated December 31, 2014) (File No. 0-20979). *
10.19	**	Executive Employment Agreement dated December 31, 2014 between the Company and Todd L. Phillips. (incorporated herein by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K dated December 31, 2014) (File No. 0-20979). *

Exhibit Number		Description of Exhibits
10.20	**	Stock Option Agreement dated December 31, 2014 between the Company and Todd L. Phillips. (incorporated herein by reference to Exhibit 10.4 to the Company’s Current Report on Form 8-K dated December 31, 2014) (File No. 0-20979). *
10.21	**	Stock Option Agreement dated January 2, 2015 between the Company and Todd L. Phillips. (incorporated herein by reference to Exhibit 10.4 to the Company’s Current Report on Form 8-K dated December 31, 2014) (File No. 0-20979). *
10.22	**	Promissory Note, dated January 15, 2015, between WESSCO, LLC and The Bank of Kentucky, Inc. (incorporated herein by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K dated January 15, 2015) (File No. 0-20979).
10.23	**	First Amendment to Credit Agreement, dated January 15, 2015 among the Company, its subsidiaries, and Wells Fargo Bank. (incorporated herein by reference to Exhibit 10.2 to the Company’s Current Report on Form 8-K dated January 15, 2015) (File No. 0-20979).
10.24	**	Amended and Restated Subordination Agreement, dated January 15, 2015, between WESSCO, LLC and The Bank of Kentucky. (incorporated herein by reference to Exhibit 10.3 to the Company’s Current Report on Form 8-K dated January 15, 2015) (File No. 0-20979).
10.25	**	Security Agreement, dated January 15, 2015 between WESSCO, LLC and The Bank of Kentucky, Inc. (incorporated herein by reference to Exhibit 10.4 to the Company’s Current Report on Form 8-K dated January 15, 2015) (File No. 0-20979).
10.26	**	Guaranty of Payment, dated January 15, 2015, between the Company and The Bank of Kentucky, Inc. (incorporated herein by reference to Exhibit 10.5 to the Company’s Current Report on Form 8-K dated January 15, 2015) (File No. 0-20979).
10.27	**	Offer to Purchase Real Estate dated April 30, 2015 from LK Property Investments, LLC to ISA Real Estate LLC. (incorporated herein by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K dated April 30, 2015) (File No. 0-20979).
10.28	**	Lease Agreement dated April 30, 2015 by and between Industrial Services of America, Inc. and LK Property Investments, LLC. (incorporated herein by reference to Exhibit 10.2 to the Company’s Current Report on Form 8-K dated April 30, 2015) (File No. 0-20979).
10.29	**	Stock Purchase Agreement, dated as of August 5, 2015, between Industrial Services of America, Inc. and Algar, Inc. (incorporated herein by reference to Exhibit 99.1 to the Company’s Current Report on Form 8-K dated August 5, 2015) (File No. 0-20979). *
10.30	**	Forbearance Agreement and Third Amendment to Credit Agreement, dated November 6, 2015, between the Company, certain of its subsidiaries and Wells Fargo Bank, National Association. (incorporated herein by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K dated

		November 6, 2015) (File No. 0-20979).
10.31	**	Loan and Security Agreement dated as of February 29, 2016 between the Company, its subsidiaries and MidCap Business Credit LLC. (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated February 29, 2016) (File No. 0-20979).
10.32	**	Revolving Note made by the Company to the order of MidCap Business Credit LLC in face principal amount of $6,000,000. (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated February 29, 2016) (File No. 0-20979).
10.33	**	Pledge and Security Agreement dated as of February 29, 2016 between the Company, its subsidiaries and MidCap Business Credit LLC. (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K dated February 29, 2016) (File No. 0-20979).

Exhibit Number		Description of Exhibits
10.34	**	Guaranty and Suretyship Agreement of the Company's subsidiaries as guarantors for the benefit of MidCap Business Credit LLC. (incorporated herein by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K dated February 29, 2016) (File No. 0-20979).
10.35		Term Note, date February 29, 2016, issued by the Company to K&R, LLC.
10.36		Term Note, date February 29, 2016, issued by the Company to 7100 Grade Lane, LLC.
10.37		Intercreditor and Subordination Agreement, dated February 29, 2016, among the Company and K&R, LLC for the benefit of MidCap Business Credit LLC.
10.38		Intercreditor and Subordination Agreement, dated February 29, 2016, among the Company and 7100 Grade Lane, LLC for the benefit of MidCap Business Credit LLC.
10.39		Restricted Stock Unit Grant Agreement, dated March 25, 2016, between the Company and Todd L. Phillips.*
10.40		Retention Agreement, dated March 25, 2016, between the Company and Todd L. Phillips.*
11		Statement of Computation of Earnings Per Share (See Note 9 in the accompanying Notes to Consolidated Financial Statements).
21		List of subsidiaries of Industrial Services of America, Inc.
31.1		Rule 13a-14(a) Certification of Orson Oliver for the Form 10-K for the year ended December 31, 2015.
31.2		Rule 13a-14(a) Certification of Todd Phillips for the Form 10-K for the year ended December 31, 2015.
32.1		Section 1350 Certification of Orson Oliver and Todd Phillips for the Form 10-K for the year ended December 31, 2015.
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

*Denotes a management contract of ISA required to be filed as an exhibit pursuant to Item 601(b)(10)(iii) of Regulation S-K.
**Previously filed.

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INDUSTRIAL SERVICES OF AMERICA, INC.
AND SUBSIDIARIES
Louisville, Kentucky

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

CONTENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Industrial Services of America, Inc. and Subsidiaries
Louisville, Kentucky

We have audited the accompanying consolidated balance sheets of Industrial Services of America, Inc. and Subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Industrial Services of America, Inc. and Subsidiaries as of December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Mountjoy Chilton Medley LLP
/s/ Mountjoy Chilton Medley LLP
Louisville, Kentucky
March 25, 2016

INDUSTRIAL SERVICES OF AMERICA, INC.
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2015 and 2014

	2015	2014
ASSETS	(in thousands)	
Current assets		
Cash and cash equivalents	$642	$1,059
Income tax receivable	14	—
Accounts receivable – trade (after allowance for doubtful accounts of $35.0 thousand and $100.0 thousand in 2015 and 2014, respectively) (Note 1)	1,669	8,947
Receivables from related parties (Note 10)	208	409
Inventories (Note 1)	2,410	6,729
Prepaid expenses and other current assets	160	535
Assets held for sale, current (Note 15)	—	1,183
Total current assets	5,103	18,862
Net property and equipment (Note 1)	14,152	17,563
Other assets		
Deferred income taxes (Note 7)	97	97
Assets held for sale, non-current (Note 15)	—	1,191
Other non-current assets	82	77
Total other assets	179	1,365
Total assets	$19,434	$37,790

See accompanying notes to consolidated financial statements. F-2

INDUSTRIAL SERVICES OF AMERICA, INC.
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2015 and 2014

	2015	2014
LIABILITIES AND SHAREHOLDERS’ EQUITY	(in thousands)	
Current liabilities		
Current maturities of long-term debt (Note 3)	$20	