

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

INDUSTRIAL SERVICES OF AMERICA INC

Form 10-Q

November 13, 2018

33.33333 33.33333 33.33333 33.33333 P6Y4M --12-31 Non-accelerated Filer false Q3 2018 INDUSTRIAL SERVICES OF AMERICA INC /FL 0000004187 true false 0000004187 2017-06-01 2018-09-30 0000004187 us-gaap:PerformanceSharesMember 2009-12-31 0000004187 us-gaap:EmployeeStockOptionMember 2009-01-01 2009-12-31 0000004187 idsa:DirectorDesignationAgreementMember 2014-06-13 0000004187 us-gaap:RestrictedStockUnitsRSUMember 2016-03-29 2016-03-29 0000004187 us-gaap:RestrictedStockUnitsRSUMember 2016-03-29 0000004187 2018-01-01 2018-09-30 0000004187 idsa:AffiliatedEntityLkPropertyInvestmentsLlcMember 2015-04-30 2015-04-30 0000004187 2018-07-01 2018-09-30 0000004187 us-gaap:EmployeeStockOptionMember 2016-01-01 2016-12-31 0000004187 us-gaap:EmployeeStockOptionMember 2016-12-31 0000004187 idsa:PresidentAndChiefExecutiveOfficerMember 2016-12-31 0000004187 2018-09-30 0000004187 2018-11-06 0000004187 idsa:FacilityMember idsa:SeymourIndianaMember 2014-12-01 2014-12-01 0000004187 idsa:PropertyMember idsa:LouisvilleKentuckyMember 2012-03-01 2014-02-28 0000004187 idsa:PropertyMember idsa:LouisvilleKentuckyMember 2014-03-01 2014-03-02 0000004187 idsa:KAndRLlcMember srt:AffiliatedEntityMember idsa:LouisvilleKentuckyMember 2013-09-13 0000004187 idsa:KAndRLlcMember srt:AffiliatedEntityMember 2016-02-29 0000004187 idsa:KAndRLlcMember srt:AffiliatedEntityMember idsa:PrepaidExpensesMember 2017-01-01 2017-12-31 0000004187 idsa:KAndRLlcMember idsa:HandlerAgreementMember 2017-06-22 2017-06-23 0000004187 idsa:KAndRLlcMember idsa:HandlerAgreementMember 2017-06-23 0000004187 idsa:KAndRLlcMember idsa:CraneAgreementMember 2017-06-22 2017-06-23 0000004187 idsa:KAndRLlcMember idsa:CraneAgreementMember 2017-06-23 0000004187 idsa:KAndRLlcMember idsa:RelatedPartyTransactionRentExpensePropertyMember srt:AffiliatedEntityMember 2017-01-01 2017-09-30 0000004187 idsa:FacilityMember idsa:LouisvilleKentuckyMember idsa:GradeLane7100LlcMember 2017-10-01 2017-10-01 0000004187 idsa:KAndRLlcMember srt:AffiliatedEntityMember idsa:RelatedPartyInterestExpenseMember 2017-01-01 2017-09-30 0000004187 2018-07-09 2018-07-09 0000004187 2018-06-14 2018-06-15 0000004187 srt:AffiliatedEntityMember idsa:AffiliatedEntityLkPropertyInvestmentsLlcMember 2017-09-30 0000004187 srt:AffiliatedEntityMember idsa:MetalsLlcMember 2017-01-01 2017-09-30 0000004187 2018-04-01 2018-06-30 0000004187 us-gaap:ShareBasedCompensationAwardTrancheOneMember us-gaap:EmployeeStockOptionMember us-gaap:ChiefExecutiveOfficerMember 2018-03-26 2018-03-26 0000004187 us-gaap:DirectorMember 2017-01-01 2017-09-30 0000004187 idsa:IsaRealEstateLlcMember idsa:AffiliatedEntityLkPropertyInvestmentsLlcMember 2015-04-30 0000004187 2018-03-02 2018-03-03 0000004187 idsa:NoteOneMember 2017-12-31 0000004187 idsa:KAndRLlcMember 2017-12-31 0000004187 idsa:GradeLane7100LlcMember 2017-12-31 0000004187 idsa:KAndRLlcMember srt:AffiliatedEntityMember 2017-12-31 0000004187 idsa:KAndRLlcMember idsa:RelatedPartyTransactionAccruedRentPropertyMember srt:AffiliatedEntityMember 2017-12-31 0000004187 us-gaap:LineOfCreditMember us-gaap:DebtInstrumentRedemptionPeriodTwoMember idsa:Midcap2016LoanMember 2016-02-19 2016-02-29 0000004187 idsa:KletterNotesMember us-gaap:UnsecuredDebtMember idsa:GradeLane7100LlcMember srt:AffiliatedEntityMember 2016-02-29 0000004187 idsa:KletterNotesMember us-gaap:UnsecuredDebtMember idsa:KletterEstateMember srt:AffiliatedEntityMember 2016-02-29 0000004187 idsa:KletterNotesMember us-gaap:UnsecuredDebtMember idsa:KAndRLlcMember srt:AffiliatedEntityMember 2016-02-29 0000004187 srt:AffiliatedEntityMember idsa:AffiliatedEntityLkPropertyInvestmentsLlcMember 2017-12-31 0000004187 srt:AffiliatedEntityMember idsa:MetalsLlcMember 2017-12-31 0000004187 us-gaap:DirectorMember 2017-12-31 0000004187 us-gaap:SecuredDebtMember us-gaap:LineOfCreditMember idsa:Midcap2016LoanMember 2016-02-29 0000004187 idsa:EquipmentSublimitMember us-gaap:LineOfCreditMember idsa:Midcap2016LoanMember 2016-02-19 2016-02-29 0000004187 idsa:EquipmentSublimitMember us-gaap:LineOfCreditMember idsa:Midcap2016LoanMember 2016-02-29 0000004187 us-gaap:EmployeeStockOptionMember 2017-01-01 2017-12-31 0000004187 us-gaap:EmployeeStockOptionMember 2017-12-31 0000004187 us-gaap:RestrictedStockUnitsRSUMember 2017-12-31 0000004187 us-gaap:RestrictedStockUnitsRSUMember 2017-01-01 2017-12-31 0000004187 idsa:FacilityMember idsa:LouisvilleKentuckyMember idsa:GradeLane7100LlcMember 2017-10-01 0000004187

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

idsa:KAndRLlcMember srt:AffiliatedEntityMember idsa:PrepaidExpensesMember 2018-01-01 2018-09-30  
0000004187 idsa:PresidentAndChiefExecutiveOfficerMember 2017-12-31 0000004187 idsa:StaffMember  
2017-12-31 0000004187 us-gaap:CommonStockMember 2017-12-31 0000004187  
us-gaap:AdditionalPaidInCapitalMember 2017-12-31 0000004187 us-gaap:WarrantMember 2017-12-31 0000004187  
us-gaap:RetainedEarningsMember 2017-12-31 0000004187 us-gaap:TreasuryStockMember 2017-12-31 0000004187  
2017-12-31 0000004187 us-gaap:SecuredDebtMember us-gaap:LineOfCreditMember us-gaap:PrimeRateMember  
idsa:Midcap2016LoanMember 2016-02-19 2016-02-29 0000004187  
us-gaap:DebtInstrumentRedemptionPeriodOneMember us-gaap:LineOfCreditMember idsa:Midcap2016LoanMember  
2016-02-19 2016-02-29 0000004187 us-gaap:SecuredDebtMember us-gaap:LineOfCreditMember  
idsa:Midcap2016LoanMember 2016-02-19 2016-02-29 0000004187 us-gaap:LineOfCreditMember  
idsa:Midcap2016LoanMember 2016-12-31 0000004187 us-gaap:FairValueMeasurementsRecurringMember  
us-gaap:FairValueInputsLevel1Member 2017-12-31 0000004187 us-gaap:FairValueMeasurementsRecurringMember  
us-gaap:FairValueInputsLevel2Member 2017-12-31 0000004187 us-gaap:FairValueMeasurementsRecurringMember  
us-gaap:EstimateOfFairValueFairValueDisclosureMember 2017-12-31 0000004187  
us-gaap:RestrictedStockUnitsRSUMember us-gaap:ChiefExecutiveOfficerMember 2018-03-26 0000004187  
us-gaap:EmployeeStockOptionMember us-gaap:ChiefExecutiveOfficerMember 2018-03-26 0000004187  
us-gaap:RestrictedStockUnitsRSUMember us-gaap:ChiefExecutiveOfficerMember 2018-03-26 2018-03-26  
0000004187 us-gaap:ChiefExecutiveOfficerMember 2018-03-26 2018-03-26 0000004187  
us-gaap:ChiefExecutiveOfficerMember 2018-03-26 0000004187 us-gaap:EmployeeStockOptionMember  
us-gaap:ChiefExecutiveOfficerMember 2018-03-26 2018-03-26 0000004187 us-gaap:EmployeeStockOptionMember  
us-gaap:ChiefExecutiveOfficerMember 2018-03-28 2018-03-28 0000004187  
us-gaap:RestrictedStockUnitsRSUMember us-gaap:ChiefExecutiveOfficerMember 2018-03-28 2018-03-28  
0000004187 us-gaap:RestrictedStockUnitsRSUMember us-gaap:ChiefExecutiveOfficerMember 2018-03-28  
0000004187 idsa:GradeLane7100LlcMember idsa:KAndRLlcMember 2017-11-01 0000004187  
idsa:SecuritiesPurchaseAgreementMember idsa:RecyclingCapitalPartnersLlcMember 2014-06-13 2014-06-13  
0000004187 us-gaap:ShareBasedCompensationAwardTrancheOneMember us-gaap:EmployeeStockOptionMember  
us-gaap:ChiefExecutiveOfficerMember 2018-01-01 2018-09-30 0000004187  
us-gaap:RestrictedStockUnitsRSUMember 2018-03-28 2018-03-28 0000004187  
us-gaap:RestrictedStockUnitsRSUMember 2018-03-28 0000004187 idsa:GradeLane7100LlcMember  
idsa:KAndRLlcMember 2017-10-31 2017-11-01 0000004187 2017-04-26 0000004187  
us-gaap:RestrictedStockUnitsRSUMember us-gaap:ChiefFinancialOfficerMember 2015-01-01 2015-01-31  
0000004187 us-gaap:ChiefFinancialOfficerMember 2015-01-01 2015-01-31 0000004187  
us-gaap:ChiefFinancialOfficerMember 2016-06-14 2016-06-15 0000004187 2016-04-30 2016-05-01 0000004187  
2016-12-31 0000004187 idsa:AffiliatedEntityLkPropertyInvestmentsLlcMember srt:AffiliatedEntityMember  
idsa:RelatedPartyTransactionRentExpensePropertyMember 2017-01-01 2017-09-30 0000004187  
us-gaap:LineOfCreditMember idsa:Midcap2016LoanMember 2018-06-30 0000004187  
idsa:AffiliatedEntityLkPropertyInvestmentsLlcMember srt:AffiliatedEntityMember idsa:PrepaidExpensesMember  
2017-01-01 2017-12-31 0000004187 us-gaap:ShareBasedCompensationAwardTrancheTwoMember  
us-gaap:EmployeeStockOptionMember us-gaap:ChiefExecutiveOfficerMember 2018-01-01 2018-09-30 0000004187  
us-gaap:LineOfCreditMember idsa:Midcap2016LoanMember 2018-06-03 0000004187 us-gaap:DirectorMember  
us-gaap:RestrictedStockUnitsRSUMember 2017-10-01 2017-10-01 0000004187  
idsa:CapitalLeaseObligationsMay2018Member 2018-05-01 2018-05-31 0000004187  
idsa:CapitalLeaseObligationsMay2018Member 2018-05-31 0000004187  
idsa:CapitalLeaseObligationsJune2018Member 2018-06-01 2018-06-30 0000004187  
idsa:CapitalLeaseObligationsJune2018Member 2018-06-30 0000004187  
idsa:NonEmployeeBoardOfDirectorsMember 2017-10-01 2017-10-01 0000004187  
idsa:ChairmanOfAuditCommitteeMember 2017-10-01 2017-10-01 0000004187  
idsa:ChairmanOfOtherStandingCommitteesMember 2017-10-01 2017-10-01 0000004187 us-gaap:DirectorMember  
us-gaap:RestrictedStockUnitsRSUMember srt:MaximumMember 2017-10-01 2017-10-01 0000004187  
us-gaap:LineOfCreditMember idsa:Midcap2016LoanMember srt:MaximumMember 2018-06-01 2018-06-30  
0000004187 2017-06-23 0000004187 idsa:EquipmentNoteMember 2018-06-30 0000004187

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

idsa:EquipmentNoteMember 2018-06-01 2018-06-30 0000004187 idsa:EquipmentNoteMember 2017-12-31  
0000004187 us-gaap:LineOfCreditMember idsa:Midcap2016LoanMember 2018-06-04 0000004187  
us-gaap:FairValueInputsLevel1Member us-gaap:FairValueMeasurementsRecurringMember 2018-09-30 0000004187  
2017-01-01 2017-09-30 0000004187 2017-09-30 0000004187 2017-07-01 2017-09-30 0000004187  
us-gaap:CommonStockMember 2018-01-01 2018-09-30 0000004187 us-gaap:AdditionalPaidInCapitalMember  
2018-01-01 2018-09-30 0000004187 us-gaap:RetainedEarningsMember 2018-01-01 2018-09-30 0000004187  
us-gaap:CommonStockMember 2018-09-30 0000004187 us-gaap:AdditionalPaidInCapitalMember 2018-09-30  
0000004187 us-gaap:WarrantMember 2018-09-30 0000004187 us-gaap:RetainedEarningsMember 2018-09-30  
0000004187 us-gaap:TreasuryStockMember 2018-09-30 0000004187 us-gaap:FairValueInputsLevel2Member  
us-gaap:FairValueMeasurementsRecurringMember 2018-09-30 0000004187  
us-gaap:EstimateOfFairValueFairValueDisclosureMember us-gaap:FairValueMeasurementsRecurringMember  
2018-09-30 0000004187 us-gaap:LineOfCreditMember idsa:Midcap2016LoanMember 2018-09-30 0000004187  
us-gaap:RestrictedStockUnitsRSUMember 2018-01-01 2018-09-30 0000004187 us-gaap:LineOfCreditMember  
idsa:Midcap2016LoanMember 2018-01-01 2018-09-30 0000004187 idsa:EquipmentSublimitMember  
us-gaap:LineOfCreditMember idsa:Midcap2016LoanMember 2018-09-30 0000004187  
idsa:EquipmentSublimitMember us-gaap:LineOfCreditMember idsa:Midcap2016LoanMember 2018-01-01  
2018-09-30 0000004187 us-gaap:SecuredDebtMember us-gaap:LineOfCreditMember idsa:Midcap2016LoanMember  
2018-09-30 0000004187 idsa:FacilityMember idsa:KAndRllcMember idsa:LouisvilleKentuckyMember 2018-01-01  
2018-09-30 0000004187 idsa:NoteOneMember 2018-09-30 0000004187 idsa:KAndRllcMember 2018-09-30  
0000004187 idsa:GradeLane7100LlcMember 2018-09-30 0000004187 idsa:EquipmentNoteMember 2018-09-30  
0000004187 us-gaap:ShareBasedCompensationAwardTrancheThreeMember us-gaap:EmployeeStockOptionMember  
us-gaap:ChiefExecutiveOfficerMember 2018-01-01 2018-09-30 0000004187 idsa:RelatedPartyMember 2018-09-30  
0000004187 idsa:OtherMember 2018-09-30 0000004187 idsa:CapitalLeaseObligationsMay2016Member 2018-09-30  
0000004187 idsa:CraneLeaseMember 2018-09-30 0000004187 idsa:CapitalLeaseObligationsJune2017Member  
2018-09-30 0000004187 idsa:ForkliftLeaseMember 2018-09-30 0000004187  
idsa:FormerChairmanAndChiefExecutiveOfficerMember 2018-09-30 0000004187 idsa:KAndRllcMember  
srt:AffiliatedEntityMember 2018-09-30 0000004187 idsa:KAndRllcMember  
idsa:RelatedPartyTransactionAccruedRentPropertyMember srt:AffiliatedEntityMember 2018-09-30 0000004187  
idsa:KAndRllcMember idsa:RelatedPartyTransactionRentExpensePropertyMember srt:AffiliatedEntityMember  
2018-01-01 2018-09-30 0000004187 idsa:KAndRllcMember srt:AffiliatedEntityMember  
idsa:RelatedPartyInterestExpenseMember 2018-01-01 2018-09-30 0000004187 us-gaap:DirectorMember 2018-09-30  
0000004187 us-gaap:DirectorMember 2018-01-01 2018-09-30 0000004187 srt:AffiliatedEntityMember  
idsa:AffiliatedEntityLkPropertyInvestmentsLlcMember 2018-09-30 0000004187 srt:AffiliatedEntityMember  
idsa:MetalexLlcMember 2018-09-30 0000004187 srt:AffiliatedEntityMember idsa:MetalexLlcMember 2018-01-01  
2018-09-30 0000004187 us-gaap:EmployeeStockOptionMember 2018-01-01 2018-09-30 0000004187  
us-gaap:EmployeeStockOptionMember 2018-09-30 0000004187  
idsa:AffiliatedEntityLkPropertyInvestmentsLlcMember srt:AffiliatedEntityMember idsa:PrepaidExpensesMember  
2018-01-01 2018-09-30 0000004187 idsa:AffiliatedEntityLkPropertyInvestmentsLlcMember  
srt:AffiliatedEntityMember idsa:RelatedPartyTransactionRentExpensePropertyMember 2018-01-01 2018-09-30  
0000004187 us-gaap:RestrictedStockUnitsRSUMember us-gaap:ChiefFinancialOfficerMember 2018-01-01  
2018-09-30 0000004187 us-gaap:RestrictedStockUnitsRSUMember 2018-09-30 0000004187  
us-gaap:RestrictedStockUnitsRSUMember us-gaap:ChiefFinancialOfficerMember 2016-07-01 2018-09-30  
0000004187 idsa:Midcap2016LoanMember us-gaap:LineOfCreditMember 2018-07-01 0000004187  
us-gaap:LineOfCreditMember idsa:Midcap2016LoanMember 2018-06-04 2018-06-04 0000004187 2018-07-01  
2018-07-31 0000004187 2018-07-31 0000004187 idsa:CapitalLeaseObligationsJuly2018Member 2018-07-01  
2018-07-31 0000004187 idsa:CapitalLeaseObligationsJuly2018Member 2018-07-31 0000004187  
us-gaap:RestrictedStockUnitsRSUMember 2018-07-09 2018-07-09 0000004187  
us-gaap:RestrictedStockUnitsRSUMember 2018-07-09 0000004187 2018-03-03 0000004187 2018-06-15  
0000004187 idsa:FacilityMember idsa:SeymourIndianaMember 2014-12-01 0000004187  
idsa:FerrousOperationsMember 2018-07-01 2018-09-30 0000004187 idsa:FerrousOperationsMember 2017-07-01  
2017-09-30 0000004187 idsa:FerrousOperationsMember 2018-01-01 2018-09-30 0000004187



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

Commission File Number 0-20979

## INDUSTRIAL SERVICES OF AMERICA, INC.

---

(Exact Name of Registrant as specified in its Charter)

Florida  
(State or other jurisdiction of Incorporation or Organization)  
7100 Grade Lane

59-0712746  
(IRS Employer Identification No.)

Louisville, Kentucky 40213

(Address of principal executive offices)

(502) 366-3452

(Registrant's Telephone Number, Including Area Code)

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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

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

(Check one):

Large accelerated filer  
Non-accelerated filer  
Emerging growth company

Accelerated filer  
Smaller reporting company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares issued and outstanding of each of the issuer's classes of common stock, as of November 9, 2018: 8,107,865.

---

INDUSTRIAL SERVICES OF AMERICA, INC. AND SUBSIDIARIES

	<b>Page No.</b>
TABLE OF CONTENTS	
Part I <u>FINANCIAL INFORMATION</u>	3
Item 1. <u>Condensed Consolidated Financial Statements</u>	3
<u>Condensed Consolidated Balance Sheets - September 30, 2018 (Unaudited) and December 31, 2017</u>	3
<u>Condensed Consolidated Statements of Operations - Three and Nine Months Ended September 30, 2018 and 2017 (Unaudited)</u>	5
<u>Condensed Consolidated Statement of Shareholders' Equity - Nine Months Ended September 30, 2018 (Unaudited)</u>	6
<u>Condensed Consolidated Statements of Cash Flows - Nine Months Ended September 30, 2018 and 2017 (Unaudited)</u>	7
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	8
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	30
Item 4. <u>Controls and Procedures</u>	30
Part II <u>OTHER INFORMATION</u>	31
Item 1. <u>Legal Proceedings</u>	31
Item 1A. <u>Risk Factors</u>	31
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	31
Item 3. <u>Defaults upon Senior Securities</u>	31
Item 4. <u>Mine Safety Disclosures</u>	31
Item 5. <u>Other Information</u>	31
Item 6. <u>Exhibits</u>	31

---

## PART I – FINANCIAL INFORMATION

**ITEM 1: CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

## INDUSTRIAL SERVICES OF AMERICA, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	<b>September 30, 2018 (Unaudited)</b>	<b>December 31, 2017</b>
		<b>(in thousands)</b>
Current assets		
Cash and cash equivalents	\$ 736	\$ 841
Income tax receivable	13	—
Accounts receivable – trade after allowance for doubtful accounts of \$60.0 thousand in 2018 and 2017	6,502	4,220
Receivables and other assets from related parties (Note 6)	48	92
Inventories (Note 2)	5,775	5,106
Prepaid expenses and other current assets	312	182
Total current assets	13,386	10,441
Net property and equipment	10,047	11,212
Other assets		
Deferred income taxes	27	27
Other non-current assets	162	187
Total other assets	189	214
Total assets	\$ 23,622	\$ 21,867

See accompanying notes to condensed consolidated financial statements.



## INDUSTRIAL SERVICES OF AMERICA, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

CONTINUED

LIABILITIES AND SHAREHOLDERS' EQUITY

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
	<b>(Unaudited)</b>	
	<b>(in thousands, except par value and share information)</b>	
Current liabilities		
Current maturities of long-term debt (Note 3)	\$ 6,134	\$ 5,018
Current maturities of long-term debt, related parties (Notes 3 and 6)	48	64
Current maturities of capital lease obligations (Note 4)	344	300
Checks in excess of bank	141	148
Accounts payable	2,406	1,784
Payables and accrued expenses to related parties (Note 6)	13	173
Income tax payable	—	2
Other current liabilities	620	765
Total current liabilities	9,706	8,254
Long-term liabilities		
Long-term debt, net of current maturities	54	—
Long-term debt, net of current maturities, related parties (Notes 3 and 6)	1,504	1,536
Capital lease obligations, net of current maturities (Note 4)	680	819
Total long-term liabilities	2,238	2,355
Shareholders' equity		
Common stock, \$0.0033 par value: 20.0 million shares authorized in 2018 and 2017; 8,107,865 and 8,089,129 shares issued and outstanding in 2018 and 2017		27
Additional paid-in capital	24,092	24,028
Stock warrants outstanding	1,025	1,025
Retained losses	(13,422)	(13,778)
Treasury stock at cost, 30,690 shares in 2018 and 2017	(44)	(44)
Total shareholders' equity	11,678	11,258
Total liabilities and shareholders' equity	\$ 23,622	\$ 21,867

See accompanying notes to condensed consolidated financial statements.



## INDUSTRIAL SERVICES OF AMERICA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

(IN THOUSANDS, EXCEPT PER SHARE DATA)

(UNAUDITED)

	<b>For the three months ended</b>		<b>For the nine months ended</b>	
	<b>September</b>	<b>September</b>	<b>September</b>	<b>September</b>
	<b>30, 2018</b>	<b>30, 2017</b>	<b>30, 2018</b>	<b>30, 2017</b>
Revenue from product sales				
Revenue from ferrous operations	\$ 7,738	\$ 6,649	\$ 22,786	\$ 16,461
Revenue from non-ferrous operations	8,806	7,936	24,413	23,891
Revenue from auto parts operations and other revenue	254	324	857	1,128
<b>Total revenue from product sales</b>	<b>16,798</b>	<b>14,909</b>	<b>48,056</b>	<b>41,480</b>
Cost of sales for product sales	16,114	13,968	44,662	38,928
<b>Gross profit</b>	<b>684</b>	<b>941</b>	<b>3,394</b>	<b>2,552</b>
Selling, general and administrative expenses	891	859	2,710	2,757
<b>(Loss) income before other income (expense)</b>	<b>(207 )</b>	<b>82</b>	<b>684</b>	<b>(205 )</b>
Other income (expense)				
Interest expense, including loan fee amortization	(292 )	(240 )	(817 )	(625 )
Gain on sale of assets	—	—	—	28
Gain on insurance proceeds	—	—	487	—
Other income (expense), net	15	(17 )	15	(14 )
Total other income (expense), net	(277 )	(257 )	(315 )	(611 )
<b>(Loss) income before income taxes</b>	<b>(484 )</b>	<b>(175 )</b>	<b>369</b>	<b>(816 )</b>
Income tax provision	(7 )	2	13	9
<b>Net (loss) income</b>	<b>\$ (477 )</b>	<b>\$ (177 )</b>	<b>\$ 356</b>	<b>\$ (825 )</b>
Basic (loss) earnings per share	\$ (0.06 )	\$ (0.02 )	\$ 0.04	\$ (0.10 )
Diluted (loss) earnings per share	\$ (0.06 )	\$ (0.02 )	\$ 0.04	\$ (0.10 )
Weighted average shares outstanding:				
Basic	8,108	8,082	8,100	8,077
Diluted	8,108	8,082	8,166	8,077

See accompanying notes to condensed consolidated financial statements.



## INDUSTRIAL SERVICES OF AMERICA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY  
NINE MONTHS ENDED SEPTEMBER 30, 2018

(UNAUDITED)

	Common Stock			Stock Warrants	Retained Losses	Treasury Stock		Total Shareholders' Equity
	Shares	Amount	Additional Paid-in Capital			Shares	Cost	
	(in thousands, except share information)							
<b>Balance as of December 31, 2017</b>	8,119,819	\$ 27	\$ 24,028	\$ 1,025	\$ (13,778 )	(30,690 )	\$ (44 )	\$ 11,258
Common stock	18,736	—	—	—	—	—	—	—
Share-based compensation	—	—	64	—	—	—	—	64
Net income	—	—	—	—	356	—	—	356
<b>Balance as of September 30, 2018</b>	8,138,555	\$ 27	\$ 24,092	\$ 1,025	\$ (13,422 )	(30,690 )	\$ (44 )	\$ 11,678

See accompanying notes to condensed consolidated financial statements.

## INDUSTRIAL SERVICES OF AMERICA, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

(UNAUDITED)

	<b>For the nine months ended</b>	
	<b>September</b>	<b>September 30,</b>
	<b>30, 2018</b>	<b>2017</b>
	<b>(in thousands)</b>	
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ 356	\$ (825 )
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Bad debt expense	—	25
Depreciation and amortization	1,571	1,669
Share-based compensation expense	64	90
Gain on sale of assets	—	(28 )
Gain from insurance proceeds	(487 )	—
Amortization of loan fees included in interest expense	113	94
Change in assets and liabilities		
Receivables	(2,282 )	(2,231 )
Receivables from related parties	44	59
Inventories	(669 )	(310 )
Income tax receivable/payable	(15 )	11
Other assets	(82 )	(181 )
Accounts payable	622	92
Payables and accrued expenses to related parties	(160 )	(170 )
Other current liabilities	(145 )	192
Net cash used in operating activities	(1,070 )	(1,513 )
<b>Cash flows from investing activities</b>		
Proceeds from insurance claim, net	487	—
Proceeds from sale of property and equipment	—	28
Purchases of property and equipment	(203 )	(75 )
Net cash from (used in) investing activities	284	(47 )
<b>Cash flows from financing activities</b>		
Loan fees capitalized	(136 )	(125 )
Change in checks in excess of bank	(7 )	(79 )
Payments on related party debt	(48 )	(16 )
Payments on capital lease obligations	(229 )	(133 )
Proceeds from revolving line of credit, net	1,101	2,239

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

Net cash from financing activities	681	1,886
Net change in cash and cash equivalents	(105 )	326
Cash and cash equivalents at beginning of period	841	526
<b>Cash and cash equivalents at end of period</b>	<b>\$ 736</b>	<b>\$ 852</b>

Supplemental disclosure of cash flow information:

Cash paid for interest	\$ 690	\$ 498
Cash paid for taxes	29	2
Tax refunds received	1	5

Supplemental disclosure of noncash investing and financing activities:

Equipment additions financed by debt	69	—
Equipment additions financed by capital lease obligations	134	75
Equipment additions financed by related party debt	—	129

See accompanying notes to condensed consolidated financial statements.

INDUSTRIAL SERVICES OF AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL

Industrial Services of America, Inc. (herein “ISA,” the “Company,” 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 used autos in order to sell used auto parts. The Company purchases, processes and sells ferrous and non-ferrous scrap metal to steel mini-mills, integrated steel makers, foundries, refineries and processors. The Company purchases ferrous and non-ferrous scrap metal primarily from industrial and commercial generators of steel, aluminum, copper, brass, stainless steel and other metals as well as from scrap dealers and retail customers who deliver these materials directly to ISA facilities. The Company processes scrap metal through sorting, cutting, baling, and shredding operations. The shredding operations were restarted in May 2017, which had previously been idled in May 2015. The Company operates the auto shredder in the normal course of business subject to market conditions and operating needs. The non-ferrous scrap recycling operations consist primarily of collecting, sorting and processing various grades of copper, aluminum, stainless steel and brass. The used automobile yard primarily purchases automobiles so that retail customers can locate and remove used parts for purchase.

The Company's core business is focused on the metal recycling industry. The Company is focused on returning the core recycling business to profitability. The Company intends to do this by increasing efficiencies and productivity, which included the commercial restart of its auto shredder in the second quarter of 2017. ISA will also evaluate other various options and remain alert for possible strategic partnerships, joint ventures and mergers/acquisitions.

On March 26, 2018, the Board appointed Todd L. Phillips as Chief Executive Officer. See Note 7 – Share-Based Compensation and Other Compensation Agreements. Mr. Phillips has been the Company's Chief Financial Officer since December 31, 2014 and President since September 30, 2016 and will continue to serve in these roles.

**Liquidity**

During the first quarter of 2017, the Company amended and extended its working capital line of credit which extended the contractual maturity date to February 28, 2020 and increased the borrowing availability. On June 4, 2018, the Company entered into an amendment to further increase the borrowing availability of its working capital line of credit. See Note 3 – Long-Term Debt and Notes Payable to Bank for discussion of loan arrangements with MidCap Business Credit LLC ("MidCap"). The Company expects operating cash flow and borrowings under its working



capital line of credit to be sufficient to meet its ongoing obligations.

The borrowings under the working capital line of credit are classified as short-term obligations under GAAP as the agreement with the lender contains a subjective acceleration clause and requires the Company to maintain a lockbox arrangement with the lender. However, the contractual maturity date of the revolver is February 28, 2020.

## **Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. The Accounting Standards Codification ("ASC") as produced by the Financial Accounting Standards Board ("FASB") is the sole source of authoritative GAAP. In the opinion of management of the Company, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) necessary to present fairly the financial position at September 30, 2018, and the results of operations and changes in cash flows for the quarters ended September 30, 2018 and 2017. Results of operations for the period ended September 30, 2018 are not necessarily indicative of the results that may be expected for the entire year. Additional information, including the audited December 31, 2017 consolidated financial statements and the Summary of Significant Accounting Policies, is included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, on file with the Securities and Exchange Commission.

## **Estimates**

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL, Continued**

**Principles of Consolidation**

The Condensed Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries. Upon consolidation, all inter-company accounts, transactions and profits have been eliminated.

**Revenue Recognition**

The Company's revenue is primarily generated from contracts with customers. The Company notes there have been no credit losses recorded on any receivables or contract assets arising from contracts with customers for the three and nine months periods ended September 30, 2018 and 2017. The Company elects to use the practical expedient as it relates to significant financing components as the Company expects, at the contract inception, that the period between when the Company transfers a promised good and when the customer pays for that good will be one year or less.

*Ferrous and nonferrous revenue*

Ferrous and non-ferrous contracts contain one performance obligation which consists of the shipment of a stated quantity of a stated product to be delivered within a stated time frame. Ferrous and non-ferrous revenue contracts are primarily short term contracts, typically completed within 30 days. Ferrous and non-ferrous transaction prices are stated in the contract with no variable considerations present. As ferrous and non-ferrous contracts contain one performance obligation, the total transaction price is allocated to the shipment of materials. When multiple loads are included in one contract, the stated price per gross ton is applied to the shipment weight in order to determine transaction price. Ferrous and non-ferrous revenue is recognized when the Company satisfies the shipment of materials per the contract. The shipment and delivery of material typically occurs on the same day. No contract assets or contract liabilities were recognized as of September 30, 2018 and 2017.

*Revenue from auto parts operations and other revenue*

Revenue from auto parts primarily consists of individual transactions by customers who enter the Company's premises and purchase auto parts by cash or credit card. Related to these sales, a customer may be charged a core charge. The customer has 30 days to return the core and receive a refund of the core charge. Additionally, customers have the option to separately purchase a warranty related to certain goods purchased. Total core charges and warranty sales are immaterial, in aggregate accounting for less than 1% of revenue from auto parts operations and other revenue. Sale prices, core charges and warranties are tracked separately and recognized as revenue when the purchase is

completed. No contract assets or contract liabilities were recognized as of September 30, 2018 and 2017.

## **Fair Value**

The Company carries certain of its financial assets and liabilities at fair value on a recurring basis. These financial assets and liabilities are composed of cash and cash equivalents. Long-term debt is carried at cost, and the fair value is disclosed herein. In addition, the Company measures certain assets, such as long-lived assets, at fair value on a non-recurring basis to evaluate those assets for potential impairment. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In accordance with applicable accounting standards, the Company categorizes its financial assets and liabilities into the following fair value hierarchy:

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

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL, Continued**

Level 3 – Financial assets and liabilities with values based on prices or valuation techniques that require inputs that are both unobservable in the market and significant to the overall fair value measurement. These inputs reflect management’s judgment about the assumptions that a market participant would use in pricing the asset or liability, and are based on the best available information, some of which is internally developed.

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

The Company uses the fair value methodology outlined in the related accounting standards to value the assets and liabilities for cash and debt. All of our cash is defined as Level 1 and all our debt is defined as Level 2.

In accordance with this guidance, the following table represents our fair value hierarchy for Level 1 and Level 2 financial instruments at September 30, 2018 and December 31, 2017 (in thousands):

<b>September 30, 2018: unaudited</b>	<b>Fair Value at Reporting Date Using Quoted Prices in</b>		
	<b>Active Markets for Identical Assets</b>	<b>Significant Other Observable Inputs</b>	
	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
<b>Assets:</b>			
Cash and cash equivalents	\$ 736	\$ —	\$ 736
<b>Liabilities:</b>			
Long-term debt	\$ —	\$ (6,173 )	\$ (6,173 )
Long-term debt, related parties	—	(1,344 )	(1,344 )

<b>December 31, 2017:</b>	<b>Fair Value at Reporting Date Using Quoted Prices in</b>		
	<b>Active Markets for Identical Assets</b>	<b>Significant Other Observable Inputs</b>	
	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
<b>Assets:</b>			
Cash and cash equivalents	\$ 841	\$ —	\$ 841

**Liabilities:**

Current maturities of long-term debt	\$	—	\$	(5,018 )	\$	(5,018 )
Long-term debt, related parties		—		(1,331 )		(1,331 )

The Company had no transfers in or out of Levels 1 or 2 fair value measurements, and no activity in Level 3 fair value measurements for the nine month periods ended September 30, 2018 or 2017.

**Common Stock and Share-based Compensation Arrangements**

The Company has a Long Term Incentive Plan adopted in 2009 ("LTIP") under which it 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. The Company provides compensation benefits by granting stock options and other share-based awards to employees and directors. The exercise price of each option is equal to the market price of the Company's stock on the date of grant. The maximum term of the option is five years. The plan is accounted for based on FASB's authoritative guidance titled "ASC 718 - Compensation - Stock Compensation." The Company recognizes share-based compensation expense for the fair value of the awards, on the date granted, on a straight-line basis over their vesting term (service period). Compensation expense is recognized only for share-based payments expected to vest. The Company estimates forfeitures at the date of grant based on the Company's historical experience and future expectations.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL, Continued

The Company uses the grant date stock price to value the Company's restricted stock units. The fair value of each restricted stock unit is estimated on the date of grant.

The Company uses the Modified Black-Scholes-Merton option-pricing model to value the Company's stock options for each employee stock option award. See Note 7 – Share-Based Compensation and Other Compensation Agreements. Using these option pricing models, the fair value of each stock option award is estimated on the date of grant.

There are two significant inputs into the stock option pricing models: expected volatility and expected term. The Company estimates expected volatility based on traded option volatility of the Company's stock over a term equal to the expected term of the option granted. The expected term of stock option awards granted is derived from historical exercise experience under the Company's stock option plans and represents the period of time that stock option awards granted are expected to be outstanding.

The expected term assumption incorporates the contractual term of an option grant, as well as the vesting period of an award. The risk-free interest rate is based on the implied yield on a U.S. Treasury constant maturity with a remaining term equal to the expected term of the option granted. The assumptions used in calculating the fair value of stock-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management's judgment. As a result, if factors change and different assumptions are used, stock-based compensation expense could be materially different in the future. In addition, the Company is required to estimate the expected forfeiture rate, and only recognize expense for those shares expected to vest. If the actual forfeiture rate is materially different from the estimate, the stock-based compensation expense could be significantly different from what was recorded in the current period.

Treasury shares or new shares are issued for exercised options. The Company does not expect to repurchase any additional shares within the following annual period to accommodate the exercise of outstanding stock options.

Under the LTIP, the Company may grant any of these types of awards: non-qualified and incentive stock options; stock appreciation rights; and other stock awards including stock units, restricted stock units, performance shares, performance units and restricted stock. The performance goals that the Company may use for such awards will be based on any one or more of the following performance measures: cash flow; earnings; earnings per share; market value added or economic value added; profits; return on assets; return on equity; return on investment; revenues; stock price; or total shareholder return.

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

### **Gain on Insurance Proceeds**

The Company filed an insurance claim related to six roofs on certain of its buildings due to weather related damage. In 2016, the Company received insurance proceeds and recorded a gain net of impairment write-downs of the related roofs and consulting fees related to the claim. In the second quarter of 2018, the Company received additional insurance proceeds in the amount of \$744.9 thousand and recorded a gain, net of expenses and consulting fees related to the claim, of \$487.4 thousand.

### **Subsequent Events**

The Company has evaluated the period from September 30, 2018 through the date the financial statements herein were issued for subsequent events requiring recognition or disclosure in the financial statements and identified the following:

On November 9, 2018, the Company entered into a loan and security agreement with Bank of America, N.A. ("BofA" and the "BofA Loan Agreement") that provides for (i) a revolving line of credit in the aggregate principal amount of \$10.0 million (subject to a borrowing base), which includes a \$1.0 million letter of credit subline ("Revolving Loan"), and (ii) a term loan in the amount of \$2.5 million ("Term Loan"). The interest rate on the Revolving Loan is equal to LIBOR plus 2.25% to 2.75% depending on financial performance. The interest rate on the Term Loan is equal to LIBOR plus 2.75% to 3.25% depending on financial performance. The BofA Loan Agreement will terminate on the earlier of: (i) September 30, 2020, with an option to extend such date to September 30, 2023 upon certain conditions, (ii) the date on which the Borrowers terminate the Revolving Loan pursuant to the BofA Loan Agreement, or (iii) the date on which BofA terminates the Revolving Loan as a result of an event of default. The BofA Loan Agreement also requires a certain fixed charge coverage ratio. Proceeds from the BofA Loan Agreement were used to satisfy the Company's existing credit facility. See Note 3 – Long-Term Debt and Notes Payable to Bank.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL, Continued**

**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. On January 1, 2018, the Company adopted ASU 2014-09 using the retrospective approach. The Company noted no financial impact on the Condensed Consolidated Financial Statements as a result of the adoption of this amended guidance. In addition, the adoption of this new accounting standard resulted in increased disclosure, including qualitative and quantitative disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. See the Revenue Recognition section of Note 1 – Summary of Significant Accounting Policies and General for additional information.

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 was effective for annual periods beginning after December 15, 2016, including interim periods within those annual periods. Upon adoption, ASU 2015-17 may be applied either prospectively or retrospectively. The Company adopted the standard in the first quarter of 2017 and noted no material impact from the adoption on the Condensed 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. This ASU leaves the accounting for the organizations that own the leased assets 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. Early adoption is permitted. 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 the Condensed Consolidated Financial Statements. As of January 1, 2019, the Company expects to record a right-of-use asset and a lease liability of approximately \$7.0 million on the Condensed Consolidated Balance Sheet. The Company does not expect the changes to have a material impact on the Condensed Consolidated Statement of Operations and the Condensed Consolidated Statement of Cash Flows. Upon adoption, the Company expects that its financial statement disclosures will be expanded to present additional details of its leasing arrangements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses*, which provides guidance to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. ASU 2016-13 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019. The Company is evaluating the potential impact of ASU 2016-13 on the Condensed Consolidated Financial Statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows, Classification of Certain Cash Receipts and Cash Payments*, which provides guidance on eight specific cash flow issues. ASU 2016-15 is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. Upon adoption, ASU 2016-15 should be applied retrospectively. The Company adopted the standard in the first quarter of 2018 and noted no material impact from the adoption of ASU 2016-15 on the Condensed Consolidated Financial Statements.

No other new accounting pronouncements issued or effective during the reporting period had, or is expected to have, a material impact on our Condensed Consolidated Financial Statements.

## NOTE 2 – INVENTORIES

The Company's inventories primarily consist of ferrous and non-ferrous scrap metals, and are valued at the lower of average purchased cost or net realizable value ("NRV") based on the specific scrap commodity. Quantities of inventories are determined based on the Company's inventory systems and are subject to periodic physical verification using estimation techniques including observation, weighing and other industry methods. The Company recognizes inventory impairment and related adjustments when the NRV, based upon current market pricing, falls below recorded value or when the estimated volume is less than the recorded volume of the inventory. The Company records the loss in cost of sales in the period during which the loss is identified.

Certain assumptions are made regarding future demand and net realizable value in order to assess whether inventory is properly recorded at the lower of cost or NRV. Assumptions are based on historical experience, current market conditions and remaining costs of processing (if any) and disposal. If the anticipated future selling prices of scrap metal and finished steel products should decline, the Company would re-assess the recorded NRV of the inventory and make any adjustments believed necessary in order to reduce the value of the inventory (and increase cost of sales) to the lower of cost or NRV.

The Company did not have a lower of cost or NRV inventory write-down in the nine month periods ended September 30, 2018 and 2017.

Some commodities are in saleable condition at acquisition. The Company purchases these commodities in small amounts until it has a truckload of material available for shipment. Some commodities are not in saleable condition at acquisition. These commodities must be sorted, shredded, cut or baled. ISA does not have work-in-process inventory that needs to be manufactured to become finished goods. The Company includes processing costs in inventory for all commodities by weight.

Inventories for ferrous and non-ferrous materials as of September 30, 2018 and December 31, 2017 consist of the following:

	<b>September 30, 2018</b> <b>(unaudited)</b> <b>(in thousands)</b>	<b>December 31, 2017</b>
Raw materials	\$ 4,191	\$ 3,046
Finished goods	843	1,366
Processing costs	741	694
Total inventories for sale	\$ 5,775	\$ 5,106



### **NOTE 3 – LONG-TERM DEBT AND NOTES PAYABLE TO BANK**

#### Summary:

On February 29, 2016, the Company closed on new financings with MidCap and paid off all remaining amounts due to the Company's previous lender Wells Fargo. Additionally, on February 29, 2016, the Company converted certain amounts payable to related parties into unsecured term notes payable to the same related parties as more fully described in Note 6 – Related Party Transactions. On March 31, 2017, the Company entered into an amendment to increase the line of credit, subject to the satisfaction of certain borrowing base restrictions (which have been satisfied), and extend the maturity date more fully described below. On June 23, 2017, in connection with the purchase of equipment to be used in the operation of the Company's business, the Company issued notes totaling \$129.0 thousand principal amount due to a related party. See Note 6 – Related Party Transactions.

#### MidCap:

On February 29, 2016, the Company entered into the 2016 Loan, which, as initially entered into, provided a \$6.0 million senior, secured asset-based line of credit with MidCap. The Company could borrow up to the sum of (a) 85% of the value of its eligible domestic accounts receivable; (b) the lesser of (i) \$2.5 million and (ii) 75% of the net orderly liquidation value of eligible inventory; and (c) the lesser of (i) \$500,000 and (ii) 40% of appraised net forced liquidation value of eligible fixed assets (the "Equipment Sublimit"). The Equipment Sublimit amortizes monthly on a straight line basis over sixty (60) months with no reduction to the overall line of credit availability. As described below, the 2016 Loan was amended on March 31, 2017 and June 4, 2018.

Proceeds from this loan were used to pay transaction expenses, pay off and close the remaining balance on the Wells Fargo revolving line of credit and fund working capital requirements.

The interest rate on the 2016 Loan is equal to the prime rate (5.25% as of September 30, 2018) plus 250 basis points (2.50%). In the Event of a Default (as defined in the 2016 Loan Agreement), the interest rate will increase by 300 basis points (3.00%). The 2016 Loan also has a monthly collateral-monitoring fee equal to 27.5 basis points (0.275%) of the average daily balance outstanding, an annual facility fee of 100 basis points (1.00%) and an unused line fee equal to an annual rate of 50 basis points (0.50%) of the average undrawn portion of the 2016 Loan.

The 2016 Loan has a maturity date of February 28, 2020 based on the amendment described below. The borrowings under the revolving credit agreement are classified as short-term obligations under GAAP as the agreement with MidCap contains a subjective acceleration clause and requires the Company to maintain a lockbox arrangement with the lender.

The Company was subject to a prepayment fee of \$120.0 thousand if the 2016 Loan was terminated or prepaid prior to the one year anniversary of the loan. The Company is subject to a prepayment fee of \$60.0 thousand if the 2016 Loan is terminated or prepaid subsequent to the one year anniversary of the loan, but prior to the maturity date. After 18 months subsequent to the loan origination date, no termination fee shall be owed by the Company in the event the Company pays the obligation with initial proceeds of loans made under a loan facility provided to the Company by a financial institution insured under the Federal Deposit Insurance Corporation.

Interest and monthly fees under the 2016 Loan are payable monthly in arrears.

The 2016 Loan Agreement contains a minimum line availability covenant equal to \$350.0 thousand. This covenant may be replaced by a Fixed Charge Coverage Ratio ("FCCR") covenant once the Company has achieved a FCCR of 1.0x on an annualized basis.

The Company granted MidCap a first priority security interest in all of the assets of ISA pursuant to the terms of a Security Agreement.

The Company is allowed to sell or refinance up to \$3.0 million in fair market value of real property provided (i) the proceeds from such refinance or sale remain with the Company; and (ii) no event of default exists at the time of such refinance or sale.

On March 31, 2017, the Company and each of its wholly-owned subsidiaries entered into an amendment to the 2016 Loan with MidCap ("First Amendment"). The First Amendment increased the line of credit from \$6.0 million to \$8.0 million and extended the maturity date to February 28, 2020. As amended, the line of credit permits the Company to borrow an amount under the 2016 Loan equal to the lesser of (A) \$8.0 million and (B)(i) 85% of the value of the Company's eligible domestic accounts receivable, plus (ii) the lesser of (x) \$2.5 million and (y) 75% of the net orderly liquidation value of eligible inventory, plus (iii) the lesser of (x) \$400,000 and (y) 40% of appraised net forced liquidation value of eligible fixed assets, plus (iv) the lesser of (x) \$1.75 million and (y) 45% of the appraised value of certain properties owned by the Company (subject to MidCap's receipt of any third-party or internal approvals it may require in its discretion), minus (v) any amount which MidCap may require from time to time, pursuant to terms of the agreement, in order to secure amounts owed to MidCap under the agreement. The First Amendment contains a minimum line availability covenant equal to \$350.0 thousand, the same as the original 2016 Loan. This covenant may be replaced by a FCCR covenant once the Company has achieved an FCCR of 1.1x on an annualized basis. The Company paid underwriting fees of \$20.0 thousand at closing.

**NOTE 3 – LONG-TERM DEBT AND NOTES PAYABLE TO BANK, Continued**

On April 26, 2017, certain borrowing base restrictions were satisfied with MidCap which resulted in an increase in availability of \$1.75 million.

On June 4, 2018, the Company and each of its wholly-owned subsidiaries entered into an amendment to the 2016 Loan with MidCap ("Second Amendment"). The Second Amendment, among other things, increased the Company's line of credit from \$8.0 million to \$10.0 million. The Company also entered into a Second Amended and Restated Revolving Note to evidence amounts borrowed from MidCap under the 2016 Loan. The Company paid fees of \$15.0 thousand at closing.

In June 2018, the Company achieved an FCCR greater than 1.1x on an annual basis. Beginning July 1, 2018 the minimum line covenant equal to \$350.0 thousand was replaced by an FCCR covenant with a result of an increase in availability of \$350.0 thousand.

The amended 2016 Loan had availability of \$3.0 million as of September 30, 2018.

Other Debt:

Amounts owed to K&R, LLC and 7100 Grade Lane LLC are more fully described in Note 6 – Related Party Transactions.

In June 2018, the Company executed a note for \$68.9 thousand to purchase equipment to be used in the operation of the Company's business. The note is for a period of five years at an interest rate of 6.0% with a monthly payment of \$1.3 thousand.

Debt as of September 30, 2018 and December 31, 2017 consisted of the following:

<b>September 30, 2018 (unaudited)</b>	<b>December 31, 2017</b>
---	----------------------------------

	<b>(in thousands)</b>	
Revolving credit facility with MidCap, see above description for additional details	\$ 6,121	\$ 5,018
K&R, LLC related party notes (See Note 6 - Related Party Transactions)	668	716
7100 Grade Lane LLC related party note (See Note 6 - Related Party Transactions)	884	884
Equipment note, see above description for additional details	67	—
	7,740	6,618
Less amounts classified as current maturities	6,182	5,082
	\$ 1,558	\$ 1,536

The annual contractual maturities of long-term debt (in thousands) for the next five twelve-month periods and thereafter ending September 30 are as follows:

2019	\$	61
2020	6,134	
2021	1,518	
2022	15	
2023	12	
Total	\$	7,740

The Company paid and capitalized loan fees in the amount of \$136.3 thousand during the nine month period ended September 30, 2018. The Company recognized loan amortization expense of \$113.0 thousand during the nine month period ended September 30, 2018.

#### NOTE 4 – LEASE COMMITMENTS

##### Operating Leases:

The Company leased a portion of its Louisville, Kentucky facility from a related party (see Note 6 - Related Party Transactions) under an operating lease that was due to expire December 31, 2017 (the "7100 Prior Lease"). The lease amount was \$53.8 thousand per month. Effective October 1, 2017, the Company entered into a new lease agreement with a related party for the same property (the "7100 Lease") that terminates and replaces the 7100 Prior Lease. The lease is for a period of seven years with rent payments of \$37.5 thousand per month for the first five years. For each of the following one year periods, the annual rent increases the lesser of (a) the percentage change in the CPI over the preceding twelve months, or (b) 2% of the previous year's annual rent. The Company has the option to extend the lease for two additional consecutive terms, each such extended term to be for a period of five years. In addition, the Company is responsible for real estate taxes, insurance, utilities and maintenance expense.

The Company signed a lease, effective December 1, 2014, to lease a facility in the Seymour, Indiana area. This lease was for an initial period of three years, with the option to extend the lease for three (3) additional three (3) year periods. Rent is \$8.0 thousand per month and increases each year by \$0.2 thousand per month. The Company exercised the first option to extend the lease. Because ISA exercised the option to renew the lease for a second three year term, at the end of the second three year term, ISA has the option to purchase the property.

The Company leased a lot in Louisville, Kentucky for a term that commenced in March 2012 and ended in February 2016. The monthly payment amount from March 2012 through February 2014 was \$3.5 thousand. Beginning March 2014, the monthly payment amount increased to \$3.8 thousand for the remaining term. As of August 31, 2015, the Company entered into a settlement to abandon the leased property and paid the remaining balance of scheduled payments over a 19 month period, ending March 31, 2017.

On April 30, 2015, the Company entered into a lease agreement with LK Property Investments LLC ("LK Property") (see Note 6 - Related Party Transactions), for a portion of the 4.4 acre parcel of real estate located at 6709 Grade Lane, Louisville, Kentucky in the amount of \$3.0 thousand per month. The lease terminates on April 14, 2019, but the Company has the right to terminate the lease and vacate the leased premises upon 90 days notice. The Company is required to reimburse the lessor for 40% of the property taxes on the parcel during the term.

On March 3, 2018, the Company entered into a lease agreement to lease a piece of equipment for \$0.6 thousand per month. The lease is for a period of five years.



On June 15, 2018, the Company entered into a lease agreement to lease a piece of equipment for \$0.6 thousand per month. The lease is for a period of four years.

Future minimum lease payments for operating leases for the next five twelve-month periods ending September 30 of each year and thereafter, in thousands, as of September 30, 2018, reflective of the new lease agreement, are as follows:

	<b>Related Party</b>	<b>Other</b>	<b>Total</b>
2019	\$ 470	\$ 110	\$ 580
2020	450	110	560
2021	450	38	488
2022	450	11	461
2023	450	3	453
2024 and thereafter	450	—	450
Future minimum lease payments	\$ 2,720	\$ 272	\$ 2,992

Total lease expense for the nine months ended September 30, 2018 and 2017 was \$472.9 thousand and \$614.3 thousand, respectively.

**NOTE 4 – LEASE COMMITMENTS, Continued**

Capital Leases:

On May 1, 2016, the Company entered into an amended agreement to lease three cranes (the "Crane Lease"). The Crane Lease expires April 30, 2021. Payments are \$14.5 thousand per month for the first twelve months following the amendment date, followed by monthly payments of \$31.3 thousand thereafter for the remainder of the lease term. There is no bargain purchase option associated with the Crane Lease. Based on the new lease terms, the Company classified the Crane Lease as a capital lease. At inception, the Company recorded a capital lease obligation of \$1.3 million. The Company used a weighted average cost of capital of 9.3% to calculate the capital lease obligation.

The Company entered into a capital lease, effective June 2017, to lease two pieces of equipment for use in the Company's operations. The lease is for a period of six years and the payments are \$1.4 thousand per month. The Company has the option to purchase the equipment for a purchase price of \$1.00 per item of equipment upon the expiration of the lease. At inception, the Company recorded a capital lease obligation of \$75.2 thousand. The Company used a weighted average cost of capital of 10.0% to calculate the capital lease obligation.

The Company entered into a capital lease, effective May 2018, to lease a piece of equipment for use in the Company's operations. The lease is for a period of four years and the payments are \$0.6 thousand per month with an interest rate of 5.8% per year. At inception, the Company recorded a capital lease obligation of \$24.7 thousand.

The Company entered into a capital lease, effective June 2018, to lease a piece of equipment for use in the Company's operations. The lease is for a period of four years and the payments are \$0.7 thousand per month with an interest rate of 5.8% per year. At inception, the Company recorded a capital lease obligation of \$29.0 thousand.

The Company entered into a capital lease, effective July 2018, to lease two pieces of equipment for use in the Company's operations. The lease is for a period of 6 years and 4 months and the payments are \$1.4 thousand per month. The Company has the option to purchase the equipment for a purchase price of \$1.00 per item of equipment upon the expiration of the lease. At inception, the Company recorded a capital lease obligation of \$79.9 thousand. The Company used a weighted average cost of capital of 10.0% to calculate the capital lease obligation.

Depreciation and interest expense for capital leases, in thousands, are as follows:

	<b>For the three months ended</b>		<b>For the nine months ended</b>	
	<b>September 30, 2018</b>	<b>2017</b>	<b>September 30, 2018</b>	<b>2017</b>
Depreciation expense	\$ 74	\$ 67	\$ 210	\$ 197
Interest expense	26	29	76	87

Accumulated depreciation and net book value for capital leases, in thousands, are as follows:

	<b>September 30, 2018</b>	<b>2017</b>
Accumulated depreciation	\$ 645	\$ 368
Net book value	848	992

Future minimum lease payments for capital leases for the next five twelve-months periods ending September 30 of each year, in thousands, as of September 30, 2018 are as follows:

	<b>Total</b>	<b>Principal</b>	<b>Interest</b>	
2019	\$ 424	\$ 344	\$ 80	
2020	424	377	47	
2021	236	222	14	
2022	43	37	6	
2023	28		25	3
2024 and thereafter	20		19	1
	\$ 1,175	\$ 1,024	\$ 151	

## NOTE 5 – PER SHARE DATA

The computation for basic and diluted income (loss) per share is as follows:

Nine months ended September 30, 2018 compared to nine months ended September 30, 2017:

	<b>2018</b>	<b>2017</b>
	<b>(in thousands, except per share information)</b>	
<b>Basic income (loss) per share</b>		
Net income (loss)	\$ 356	\$ (825 )
Weighted average shares outstanding	8,100	8,077
Basic income (loss) per share	\$ 0.04	\$ (0.10 )
<b>Diluted income (loss) per share</b>		
Net income (loss)	\$ 356	\$ (825 )
Weighted average shares outstanding	8,100	8,077
Add dilutive effect of assumed exercising of stock options, RSUs and warrants	66	—
Diluted weighted average shares outstanding	8,166	8,077
Diluted income (loss) per share	\$ 0.04	\$ (0.10 )

Three months ended September 30, 2018 compared to three months ended September 30, 2017:

	<b>2018</b>	<b>2017</b>
	<b>(in thousands, except per share information)</b>	
<b>Basic loss per share</b>		
Net loss	\$ (477 )	\$ (177 )
Weighted average shares outstanding	8,108	8,082
Basic loss per share	\$ (0.06 )	\$ (0.02 )
<b>Diluted loss per share</b>		
Net loss	\$ (477 )	\$ (177 )
Weighted average shares outstanding	8,108	8,082
Add dilutive effect of assumed exercising of stock options, RSUs and warrants	—	—
Diluted weighted average shares outstanding	8,108	8,082
Diluted loss per share	\$ (0.06 )	\$ (0.02 )

## NOTE 6 – RELATED PARTY TRANSACTIONS

During the periods ended September 30, 2018 and 2017, the Company was involved in various transactions with related parties. A summary of transactions and related balances are as follows. The table at the end of this note should be used in referencing all below paragraphs.

### K&R, LLC ("K&R") and 7100 Grade Lane, LLC ("7100 LLC"):

The Company is involved in various transactions with K&R and 7100 LLC, which are wholly-owned by Kletter Holdings LLC, the sole member of which was Harry Kletter, the Company's founder and former Chief Executive Officer. After Mr. Kletter's passing in January 2014, Orson Oliver assumed the roles of executor of Mr. Kletter's estate and President of Kletter Holdings LLC. Mr. Oliver was the Company's Chairman of the Board and interim Chief Executive Officer from 2014 until his resignation on March 26, 2018. Mr. Oliver continues to be a member of the Company's Board of Directors. As of September 30, 2018, Mr. Kletter's estate, K&R and the Harry Kletter Family Limited Partnership, collectively, beneficially own in excess of 20% of the Company's issued and outstanding shares.

The Company leased a portion of the Louisville, Kentucky facility from 7100 LLC (previously from K&R) under an operating lease, the "7100 Prior Lease," expiring December 2017. Effective October 1, 2017, the Company entered into a new lease agreement with 7100 LLC for the same property (the "7100 Lease") that terminates and replaces the 7100 Prior Lease. See Note 4 – Lease Commitments for additional information relating to the rent and lease agreements with K&R.

During 2015 and continuing into 2017, the Company deferred a portion of these lease payments. A portion of this deferral was converted into a term note during 2016 as described below. The remaining portion of this deferral was converted into a promissory note effective October 1, 2017 as described below.

On September 13, 2013, K&R made a \$500.0 thousand refundable, non-interest bearing deposit with the Company related to K&R's potential purchase of the Company's formerly owned real property located at 1565 East 4th Street in Seymour, Indiana. The Company was permitted and used the deposited funds for general corporate purposes. K&R did not acquire the property. Under the Company's lending arrangements, a refund of the deposit to K&R would have to be approved by the Company's lenders. This amount was converted into a term note during 2016 as described below.

As of September 30, 2018 and 2017, the Company had balances related to K&R and 7100 LLC pertaining to refundable lease and property deposits due to and from the Company, rents payable from the Company, notes payable due from the Company, accrued interest due from the Company, interest expense, and rent expense.

On February 29, 2016, K&R assigned its interest in the 7100 Lease to another entity, 7100 LLC, also controlled by Mr. Kletter's estate. At that time, the total amount due to the estate's various entities, which amounted to approximately \$1.5 million and is inclusive of the \$500.0 thousand noted above, became a subordinated, unsecured debt (the "Kletter Notes") owed by the Company. A portion of the amount, approximately \$620.3 thousand, is owed to K&R, with the remaining amount, approximating \$883.8 thousand, owed to 7100 LLC. Interest will accrue monthly at a per annum rate of 5.0%. Interest accrued until April 30, 2017, at which time interest is paid as due. Until maturity on December 31, 2020, the Kletter Notes are subject to intercreditor agreements between the respective Note holder and MidCap. This amount of \$1.5 million represents all net amounts due to Kletter estate entities as of February 29, 2016 with the exception of a \$32.0 thousand deposit owed by K&R to the Company. If the Company sells property it owns at 7110 Grade Lane in Louisville, Kentucky, the Company shall make a principal payment to K&R of \$500.0 thousand. Otherwise, all remaining principal is due at maturity.

On June 23, 2017, the Company entered into two agreements (referred to as the "Handler Agreement" and the "Crane Agreement") with K&R, each for the purchase of equipment to be used in the operation of the Company's business.

Under the Handler Agreement, the Company purchased a hydraulic scrap handler from K&R for a purchase price of \$90.0, thousand, with a \$9.0 thousand down payment and a 24-month promissory note ("Handler Note") in the face principal amount of the remaining \$81.0 thousand. The Handler Note is interest free and provides for payments in equal monthly installments of \$3.4 thousand. Under the Handler Note, payments commenced on July 1, 2017. Upon a default, the Handler Note will bear interest at 1% per annum.

Under the Crane Agreement, the Company purchased a 2011 Komatsu crane from K&R for a purchase price of \$60.0 thousand, with a \$12.0 thousand down payment and a 24-month promissory note ("Crane Note") in the face principal amount of the remaining \$48.0 thousand. The Crane Note is interest free and provides for payments in equal monthly installments of \$2.0 thousand. Under the Crane Note, payments commenced on July 1, 2017. Upon a default, the Crane Note will bear interest at 1% per annum.

The Crane Note and the Handler Note are each secured by a security interest in the subject equipment and proceeds the Company derives from the equipment.

The Company entered into an agreement and promissory note (the "Back Rent Agreement"), effective October 1, 2017, to pay 7100 LLC \$345.8 thousand for back rent past due and owed under the 7100 Prior Lease with an initial payment of \$100.0 thousand paid at the signing of the Back Rent Agreement with six consecutive monthly payments of \$41.0 thousand each, beginning November 1, 2017.



**NOTE 6 – RELATED PARTY TRANSACTIONS, Continued**Board of Directors' fees:

The Company pays board and committee fees to non-employee directors. Effective October 1, 2017, the Company revised its Board compensation policy to provide an annual retainer of \$50.0 thousand per Board member, an additional \$10.0 thousand annual retainer to the chairman of the audit committee, and an additional \$5.0 thousand annual retainer to the chairman, if any, of other standing committees. Additional fees may be paid to directors for service on non-standing committees. Director fees are to be paid in quarterly installments, in advance upon the first day of each quarter. No additional fees are to be paid for individual meeting attendance. In addition, each director will receive an annual grant of RSUs equal to \$25.0 thousand that vest over one year.

LK Property Investments LLC ("LK Property"):

On April 30, 2015, the Company entered into a lease agreement with LK Property, for a portion of the 4.4 acre parcel of real estate located at 6709 Grade Lane, Louisville, Kentucky in the amount of \$3.0 thousand per month. The lease terminates on April 14, 2019, but the Company has the right to terminate the lease and vacate the leased premises upon 90 days notice. The Company is required to reimburse the lessor for 40% of the property taxes on the parcel during the term. LK Property is an entity principally owned by Daniel M. Rifkin, CEO of MetalX LLC ("MetalX"), a scrap metal recycling company headquartered in Waterloo, Indiana, and the principal owner of Recycling Capital Partners, LLC ("RCP").

MetalX:

During 2017, the Company held accounts receivables balances from MetalX related to scrap sales. For additional information regarding MetalX, see Note 9 – Financing and Related Matters.

Related party balances are as follows, in thousands:

		<b>2018</b>	<b>2017</b>
<b><u>K&amp;R and 7100 LLC:</u></b>			
Deposit amounts owed to the Company by related parties	(1)	\$ 42	\$ 42
Prepaid expenses to related parties	(1)	—	43
Notes payable to related parties	(3)	1,552	1,600



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

Accrued interest	(2)	6	—
Facility rent payable to related parties	(2)	—	123
Facility rent expense to related parties	(4)	338	484
Interest expense to related parties	(4)	56	56

**Board of Directors: \***

Accounts payable to the Board of Directors for fees	(2)	\$ 6	\$ 50
Board of director fee expense	(4)	171	160
Board of director share-based compensation expense	(4)	25	—

**LK Property:**

Lease deposit to LK Property	(1)	\$ 3	\$ 3
Prepaid expenses to related parties	(1)	3	3
Accounts payable to LK Property	(2)	1	—
Rent expense to LK Property**	(4)	27	27

**MetalX:**

Accounts receivable from MetalX	(1)	\$ —	\$ 1
Revenue from product sales to MetalX	(4)	—	188

\* Excludes insignificant amount of travel reimbursement.

\*\*Excludes amounts reimbursed to LK Property for utilities and property tax.

(1) Included in receivable and other assets from related parties on the Condensed Consolidated Balance Sheets; balances are as of September 30, 2018 and December 31, 2017.

(2) Included in payable and accrued expenses to related parties on the Condensed Consolidated Balance Sheets; balances are as of September 30, 2018 and December 31, 2017.

(3) Included in current maturities of long-term debt, related parties and long-term debt, related parties on the Condensed Consolidated Balance Sheets; balance is as of September 30, 2018 and December 31, 2017.

(4) Included in the Condensed Consolidated Statements of Operations; amounts are for the nine months ended September 30, 2018 and September 30, 2017.

## NOTE 7 – SHARE-BASED COMPENSATION AND OTHER COMPENSATION AGREEMENTS

Following is a summary of stock option activity and number of shares reserved for outstanding options:

<b>Options</b>	<b>Number of shares (in thousands)</b>	<b>Weighted Average Exercise Price per Share</b>	<b>Weighted Average Remaining Contractual Term</b>	<b>Weighted Average Grant Date Fair Value</b>
<b>Outstanding at December 31, 2016</b>	502	\$ 4.78	2.07 years	\$ 2.43
Cancelled	(30 )	5.40	—	2.85
Expired	(90 )	4.94	—	1.71
<b>Outstanding at December 31, 2017</b>	382	\$ 4.70	1.41 years	\$ 2.57
Issued	31	2.46	4.50 years	1.61
<b>Outstanding at September 30, 2018</b>	413	\$ 4.53	0.95 years	\$ 2.49
Exercisable at September 30, 2018	382	\$ 4.70	0.66 years	\$ 2.57
Securities available for grant at September 30, 2018*	1,645			

\*Securities available for grant include securities available for stock option grants and RSUs.

Option Grants:

On March 28, 2018, the Company awarded options to purchase 31.0 thousand shares of the Company's common stock to its Chief Executive Officer. These options are scheduled to vest over a three year period, with 1/3 vesting on the first anniversary of the grant date and 1/3 every twelve months thereafter until the three year anniversary of the grant date. The exercise price per share of the options is \$2.46, the fair value of the underlying common stock as of the grant date. The options expire March 26, 2023.

The weighted average assumptions relating to the valuation of the Company's stock options awarded in 2018 are shown below.

Weighted average grant-date fair value of grants per option	\$	<b>2018</b> 1.61	
Volatility		80.40	%
Risk-free interest rate		2.59	%
Expected life (in years)		5.00	
Expected dividend yield		—	%

Restricted Stock Unit Grants:

On March 29, 2016, the Compensation Committee granted 11.4 thousand RSUs to an employee under the LTIP pursuant to an RSU agreement. The grant date fair value is based on the Company's closing common stock price on the day immediately prior to the date of grant. The grant date fair value was \$32.0 thousand and the expense was recognized beginning in the second quarter of 2016. Each RSU vested on March 29, 2018 and represented 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.

On June 15, 2016, at the Company's annual meeting, the Company's shareholders approved 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 allowed the Company to cancel 170.0 thousand stock options, including 20.0 thousand granted in January 2015, previously granted to the CFO in exchange for the grant of 90.0 thousand RSUs to the CFO. The RSUs vested over a period ending June 15, 2018. Each RSU 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 CFO continued his employment with the Company through the end of the agreement and the related 90.0 thousand RSUs vested and became nonforfeitable.

## NOTE 7 – SHARE-BASED COMPENSATION AND OTHER COMPENSATION AGREEMENTS, Continued

On March 28, 2018, the Company granted an aggregate of 18.0 thousand RSUs to six employees under the LTIP pursuant to RSU agreements. The grant date fair value is based on the Company's closing common stock price on the date one day prior to grant. The grant date fair value was \$44.3 thousand and was recognized as expensed beginning in the second quarter of 2018. Each RSU vests on March 26, 2021 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 agreements and the LTIP.

On March 28, 2018, the Company granted 40.6 thousand RSUs to the CEO under the LTIP pursuant to an RSU agreement. The grant date fair value is based on the Company's closing common stock price on the date one day prior to grant. The grant date fair value was \$100.0 thousand and was recognized as expensed beginning in the second quarter of 2018. Each RSU vests on March 26, 2021 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 LTIP.

On July 9, 2018, the Compensation Committee of the Board of Directors of the Company granted each of the four non-employee directors 13,228 RSUs in accordance with a RSU Grant Agreement pursuant to the Company's 2009 LTIP, as amended. The grants followed the election of the non-employee directors at the annual meeting of shareholders of the Company on July 9, 2018. The grant date fair value is based on the Company's closing common stock price on the date one day prior to grant. The grant date fair value was \$100.0 thousand and was recognized as expense beginning in the third quarter of 2018. Each RSU vests on July 9, 2019 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 LTIP.

Following is a summary of RSU activity:

<b>Restricted Stock Units</b>	<b>Number of shares (in thousands)</b>	<b>Weighted Average Remaining Contractual Term</b>	<b>Weighted Average Grant Date Fair Value</b>
<b>Outstanding at December 31, 2017</b>	22.6	0.35 years	\$ 2.37
Granted	111.6	1.68 years	2.19
Vested	(22.6 )	—	2.37
<b>Outstanding at September 30, 2018</b>	111.6	1.68 years	\$ 2.19

*Non-Equity Transactions:*

Under a retention agreement with the Company's CFO dated March 25, 2016, the Company agreed to pay the CFO bonuses of \$100.0 thousand and \$125.0 thousand on each of December 31, 2016 and December 31, 2017, respectively, as long as he remained employed with the Company on those dates. The December 31, 2016 bonus of \$100.0 thousand was paid during the three month period ended March 31, 2017. The December 31, 2017 bonus of \$125.0 thousand was paid during the three month period ended March 31, 2018.

On September 30, 2016, the Company entered into retention agreements ("Retention Agreements") with certain management employees (individually "Staff Member"). Under the Retention Agreements, if the Staff Member remained continuously employed by the Company through and including the date which is the first to occur of: (a) the date of a change in control of the Company; (b) the date the Staff Member is terminated without cause; and (c) December 31, 2017, the Company agreed to pay the Staff Member a bonus in an amount equal to 25% of the Staff Member's then-current annual base salary. The Company paid the retention amounts of \$135.9 thousand during the three month period ended March 31, 2018.

On March 26, 2018, the Board appointed Todd L. Phillips as CEO of the Company. In connection with Mr. Phillips' appointment as CEO, the Company entered into an Amended and Restated Employment Agreement with Mr. Phillips on March 26, 2018 (the "Employment Agreement"). The Employment Agreement is effective as of January 1, 2018, with the one year initial term ending on December 31, 2018. After expiration of the initial term, the term will be automatically extended for additional 12-month periods thereafter if neither party gives written notice to the other within 30 days before expiration of the original 12-month period or any renewal period thereafter of that party's desire to terminate the Employment Agreement. Pursuant to the Employment Agreement, Mr. Phillips will earn an annual base salary of \$300,000, subject to adjustment by the Board. Mr. Phillips will be eligible to receive an annual performance-based bonus that provides him an opportunity to earn a target bonus equal to 50% of his then-current base salary. Pursuant to the Employment Agreement, Mr. Phillips is also entitled to receive annual equity compensation awards, consisting of RSUs and Options. Each award will consist of (A) that number of RSUs equal in Value (as defined in the Employment Agreement) on the date of the grant to 33.33% of Mr. Phillips' base salary, and (B) that number of Options equal in Value (as defined in the Employment Agreement) on the date of the grant to 16.67% of Mr. Phillips' base salary. The RSUs will be subject to three year cliff vesting, with the entire award vesting 36 months from the grant date. The Options will vest over a three year period, with 1/3 vesting on each annual anniversary of the grant date. The exercise price per share of the Options will be equal to the fair market value of the Company's common stock on the grant date.

## **NOTE 8 – LEGAL PROCEEDINGS**

The Company has litigation from time to time, including employment-related claims, none of which the Company currently believes 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 the Company's facilities have been in operation for many years and, over time, the Company 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 the Company disposed of materials from its operations, which could result in future expenditures that the Company cannot currently estimate and which could reduce its profits. The Company records liabilities for remediation and restoration costs related to past activities when its 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 the Company.

## **NOTE 9 – FINANCING AND RELATED MATTERS**

### *Securities Purchase Agreement*

On June 13, 2014, the Company issued 857,143 shares of the Company's common stock pursuant to a Securities Purchase Agreement (the "Securities Purchase Agreement") to RCP, an investment entity principally owned by Daniel M. Rifkin, the founder and CEO of MetalX, for an aggregate purchase price of \$3.0 million. Pursuant to the Securities Purchase Agreement, the Company also issued to RCP a five year warrant to purchase 857,143 additional shares of the Company's common stock, exercisable 6 months after the date of the Securities Purchase Agreement for an exercise price of \$5.00 per share and expiring June 13, 2019. The net proceeds were allocated between common stock and warrants based on the relative fair value of the common stock and the warrants. The Securities Purchase Agreement provides RCP with preemptive rights and a right of first refusal with respect to future securities offerings by the Company. The Company used the proceeds from the Securities Purchase Agreement for general corporate purposes including debt reduction, growth initiatives, capital expenditures, and review of potential acquisitions.

On June 13, 2014, in connection with the Securities Purchase Agreement, the Company and the Investor entered into a Registration Rights Agreement (the "Registration Rights Agreement"), under which the Company (a) prepared and filed a registration statement no later than December 12, 2014 and (b) caused the registration statement to be declared effective by the Securities and Exchange Commission no later than February 1, 2015 for (i) agreed to resales of the common stock issued to the Investor under the Securities Purchase Agreement, and (ii) agreed to resales of any shares of common stock issuable upon exercise of the warrant.

The Registration Rights Agreement requires the Company to pay the Investor a loss of liquidity fee for certain periods after February 1, 2015 when the registration statement is not effective or its use is suspended. The Registration Rights Agreement contains customary representations, warranties and covenants, and customary provisions regarding rights of indemnification between the parties with respect to certain applicable securities law liabilities.

### *Director Designation Agreement*

On June 13, 2014, in connection with the Securities Purchase Agreement, the Company and RCP entered into a Director Designation Agreement (the "Director Designation Agreement") pursuant to which RCP will have the right to designate, and require the Company's Board to appoint, up to two directors (each, a "Designated Director"). As of the date of this report, RCP had the right to designate one director. A Designated Director will hold office until (i) his or her term expires and such Designated Director's successor designated by RCP has been appointed or (ii) such Designated Director's earlier death, disability, disqualification, resignation or removal, and RCP shall have the right to appoint any successor to such Designated Director. RCP's designation rights terminate at such time that RCP and its affiliates collectively hold less than 5% of the Company's outstanding common stock. Pursuant to the Director Designation Agreement, the Company and RCP agreed that the designation and appointment of the Designated Director nominees will not violate applicable law and will not cause the Company to become delisted from any securities exchange or other trading market.

## **ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion and analysis should be read in conjunction with our unaudited Condensed Consolidated Financial Statements and the accompanying notes thereto included elsewhere in this report.*

### ***Cautionary Statement Regarding Forward-Looking Statements***

*The following discussion and analysis contains certain financial predictions, forecasts and projections which constitute “forward-looking statements” within the meaning of the federal securities laws. Actual results could differ materially from those financial predictions, forecasts and projections and there can be no assurance that we will achieve such financial predictions, forecasts and projections. Factors that could affect financial predictions, forecasts and projections include availability of liquidity, fluctuations in commodity prices and any conditions internal to our major customers, including loss of their accounts and other factors as listed in our Form 10-K for the year ended December 31, 2017, as filed with the Securities and Exchange Commission.*

### **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 used autos in order to sell used auto parts. We purchase, process and sell ferrous and non-ferrous scrap metal to steel mini-mills, integrated steel makers, foundries, refineries and processors. We purchase ferrous and non-ferrous scrap metal primarily from industrial and commercial generators of steel, aluminum, copper, brass, 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 shredding operations. The shredding operations, which had previously been idled in May 2015, were restarted in May 2017. We operate the auto shredder in the normal course of business subject to market conditions and operating needs. 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.

Our core business is focused on the metal recycling industry. We are focused on returning our core recycling business to profitability. We intend to do this by increasing efficiencies and productivity, which included the commercial restart of our auto shredder in the second quarter of 2017. We will also evaluate other various options and remain alert for possible strategic partnerships, joint ventures and mergers/acquisitions.

### **Liquidity and Capital Resources**



Cash flows generated from operations and our revolving credit facility are significant sources of ongoing liquidity. We have also been able to manage liquidity by deferring certain rent payments made to related parties through October 1, 2017, as well as deferring capital expenditures during 2017. See Note 6 – Related Party Transactions in the accompanying Notes to Condensed 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 September 30, 2018, we held cash and cash equivalents of \$0.7 million. We drew a net \$1.1 million on our revolving credit facility during the nine month period ended September 30, 2018. We expect operating cash flow and borrowings under our working capital line of credit to be sufficient to meet our ongoing obligations.

*Credit facilities and notes payable*

See Note 1 – Summary of Significant Accounting Policies and General, Note 3 – Long-Term Debt and Notes Payable to Bank and Note 4 – Lease Commitments in the accompanying Notes to Condensed Consolidated Financial Statements for further details on debt and notes payable, capital and operating leases and related party obligations.

The borrowings under the line of credit are classified as short-term obligations under GAAP as the agreement with the lender contains a subjective acceleration clause and requires the Company to maintain a lockbox arrangement with the lender. However, the contractual maturity date of the line of credit is February 28, 2020.

## Results of Operations

Nine months ended September 30, 2018 compared to nine months ended September 30, 2017

The following table presents, for the periods indicated, the percentage relationship that certain captioned items in our Condensed Consolidated Statements of Operations bear to total revenue:

Statements of Operations Data:	Nine months ended September 30, 2018		2017	
Total revenue	100.0	%	100.0	%
Total cost of sales	92.9	%	93.8	%
Selling, general and administrative expenses	5.6	%	6.6	%
Income (loss) before other expenses	1.4	%	(0.5)	)%

Our results were negatively impacted during the third quarter of 2018 by recent global political events, such as tariffs, trade wars and other global economic events. Ferrous market prices and volumes were negatively impacted by economic stress in Turkey, one of the largest importers of United States ferrous scrap metal. Pricing and volumes were further challenged by uncertainty created by tariffs and threatened trade wars. Non-ferrous market prices and volumes were similarly impacted by tariffs and threatened trade wars, as well as certain restrictions placed by China on imported metals. Although results for the nine month period ended September 30, 2018 were favorable compared to the same period in 2017, the previously discussed events had a negative impact on reported results for the nine month period ended September 30, 2018.

Total revenue increased \$6.6 million or 15.9% to \$48.1 million in the nine month period ended September 30, 2018 compared to \$41.5 million in the same period in 2017.

Ferrous revenue increased \$6.3 million or 38.4% to \$22.8 million in the nine month period ended September 30, 2018 compared to \$16.5 million in the same period in 2017. For the nine months ended September 30, 2018 compared to nine months ended September 30, 2017, the average selling price ("ASP") of ferrous material increased \$88 per gross ton, or 30%, partially as a result of the shredder restart that led to a favorable shift in the ferrous sales mix and partially due to market improvements during the first six months of 2018. For the nine months ended September 30, 2018 compared to nine months ended September 30, 2017, ferrous material shipments increased 1.5 thousand tons, or 3%, despite the negative impact from the shredder restart. The inherent nature of the shredding process produces

less saleable product volume but at a higher quality level, thereby increasing the ASP and decreasing the tons of material available to ship. Ferrous revenue includes non-commodity revenue such as service fees, transportation and returns and allowances; the ASP calculation excludes these non-commodity revenues.

Non-ferrous revenue increased \$0.5 million or 2.2% to \$24.4 million in the nine month period ended September 30, 2018 compared to \$23.9 million in the same period in 2017. For the nine months ended September 30, 2018 compared to nine months ended September 30, 2017, the ASP of non-ferrous material increased \$0.09 per pound, or 9%, and non-ferrous material shipments decreased by 1.0 million pounds, or 4%. Non-ferrous revenue includes non-commodity revenue such as service fees, transportation and returns and allowances; the ASP calculation excludes these non-commodity revenues.

Total cost of sales increased \$5.7 million or 14.7% to \$44.7 million in the nine month period ended September 30, 2018 compared to \$38.9 million for the same period in 2017. The increase was a result of an increase in ferrous material tons shipped and higher average prices on a per-unit basis in our ferrous and non-ferrous operations, offset slightly by a decrease in non-ferrous material shipments.

Total cost of sales as a percent of revenue decreased during the nine month period ended September 30, 2018 as compared to the same period in 2017. This improvement was a result of generally increasing ASP during 2018 as well as favorable sales mix that resulted from the startup of the shredder. This was partially offset by startup expenses the Company incurred due to the restart of the shredder operations in May 2017. These startup expenses consisted primarily of repairs and maintenance expenses, utilities expenses and personnel expenses.

SG&A expenses decreased \$0.1 million to \$2.7 million in the nine month period ended September 30, 2018 compared to \$2.8 million in the same period in 2017. SG&A expenses decreased primarily due to decreases in labor expense of \$62.0 thousand, property tax expense of \$54.7 thousand, landfill expense of \$38.9 thousand, share based compensation expense of \$23.0 thousand, and depreciation expense of \$22.0 thousand, offset by increases in insurance expense of \$78.0 thousand and legal expense of \$46.6 thousand. The Company is currently under a property tax audit and has accrued an estimate of potential assessments.

Other income (expense) was expense of \$315.0 thousand for the nine month period ended September 30, 2018 compared to expense of \$611.0 thousand for the nine month period ended September 30, 2017. This \$296.0 thousand change is a result of (i) a \$192.0 thousand increase in interest expense, which is a result of the increased outstanding balance on the line of credit, (ii) a decrease in gain on sale of assets of \$28.0 thousand and (iii) an increase in gain on insurance proceeds of \$487.0 thousand related to an insurance claim filed on six roofs on certain of our buildings.

The income tax provision increased \$4.0 thousand to \$13.0 thousand in the nine month period ended September 30, 2018 compared to \$9.0 thousand in the same period in 2017. The effective tax rates in 2018 and 2017 were 3.5% and (1.1)%, respectively, based on federal and state statutory rates. Due to recurring operating losses being incurred, at December 31, 2013, we recorded nearly a full valuation allowance, which is continuing through September 30, 2018. We also have several state and franchise taxes payable based on gross receipts.

Net income for the nine month period ended September 30, 2018 was \$356.0 thousand compared to a net loss of \$825.0 thousand for the same period of 2017. This was an increase of \$1.2 million, or 143.2%.

Three months ended September 30, 2018 compared to three months ended September 30, 2017

The following table presents, for the periods indicated, the percentage relationship that certain captioned items in our Condensed Consolidated Statements of Operations bear to total revenue:

	<b>Three months ended September 30, 2018</b>		<b>2017</b>	
<b>Statements of Operations Data:</b>				
Total revenue	100.0	%	100.0	%
Total cost of sales	95.9	%	93.7	%
Selling, general and administrative expenses	5.3	%	5.8	%
(Loss) income before other expenses	(1.2)	)%	0.6	%

Our results were negatively impacted during the third quarter of 2018 by recent global political events, such as tariffs, trade wars and other global economic events. Ferrous market prices and volumes were negatively impacted by economic stress in Turkey, one of the largest importers of United States ferrous scrap metal. Pricing and volumes were further challenged by uncertainty created by tariffs and threatened trade wars. Non-ferrous market prices and volumes were similarly impacted by tariffs and threatened trade wars, as well as certain restrictions placed by China

on imported metals.

Total revenue increased \$1.9 million or 12.7% to \$16.8 million in the third quarter of 2018 compared to \$14.9 million in the same period in 2017.

**Ferrous revenue increased \$1.1 million or 16.4% to \$7.7 million in the third quarter of 2018 compared to \$6.6 million in the same period in 2017.** For the three months ended September 30, 2018 compared to three months ended September 30, 2017, the average selling price ("ASP") of ferrous material increased \$44 per gross ton, or 13%, primarily due to market improvements. For the three months ended September 30, 2018 compared to three months ended September 30, 2017, ferrous material shipments increased 0.1 thousand tons, or 1%. Ferrous revenue includes non-commodity revenue such as service fees, transportation and returns and allowances; the ASP calculation excludes these non-commodity revenues.

**Non-ferrous revenue increased \$0.9 million or 11.0% to \$8.8 million in the third quarter of 2018 compared to \$7.9 million in the same period in 2017.** For the three months ended September 30, 2018 compared to three months ended September 30, 2017, the ASP of non-ferrous material remained flat, and non-ferrous material shipments increased by 0.9 million pounds, or 12%. Non-ferrous revenue includes non-commodity revenue such as service fees, transportation and returns and allowances; the ASP calculation excludes these non-commodity revenues.

Total cost of sales increased \$2.1 million or 15.4% to \$16.1 million in the three month period ended September 30, 2018 compared to \$14.0 million for the same period in 2017. The increase was a result of an increase in ferrous material shipments and higher average prices on a per-unit basis in our ferrous operations and an increase in non-ferrous material shipments.

Total cost of sales as a percent of revenue increased during the three month period ended September 30, 2018 as compared to the same period in 2017 as a result of the above discussed recent global political events.

SG&A expenses increased \$32.0 thousand to \$0.9 million in the three month period ended September 30, 2018 compared to \$0.9 million in the same period in 2017. SG&A expenses increased primarily due to increases in director fees and costs of \$23.2 thousand, insurance expense of \$22.0 thousand and legal expense of \$22.4 thousand offset by a decrease in labor expense of \$28.1 thousand. The Company is currently under a property tax audit and has accrued an estimate of potential assessments.



Other income (expense) was expense of \$277.0 thousand for the three month period ended September 30, 2018 compared to expense of \$257.0 thousand for the three month period ended September 30, 2017. This \$20.0 thousand change is a result of (i) a \$52.0 thousand increase in interest expense, which is a result of the increased outstanding balance on the line of credit and (ii) a change in other income (expense) of \$32.0 thousand.

The income tax provision decreased \$9.0 thousand in the three month period ended September 30, 2017 to a negative provision of \$7.0 thousand in the three month period ended September 30, 2018 compared to a provision of \$2.0 thousand in the same period in 2017. The effective tax rates in 2018 and 2017 were 1.4% and (1.1)%, respectively, based on federal and state statutory rates. Due to recurring operating losses being incurred, at December 31, 2013, we recorded nearly a full valuation allowance, which is continuing through September 30, 2018. We also have several state and franchise taxes payable based on gross receipts.

Net loss for the third quarter of 2018 was \$477.0 thousand compared to a net loss of \$177.0 thousand for the same period of 2017. This was an increase of \$0.3 million, or 169.5%.

#### Financial condition at September 30, 2018 compared to December 31, 2017

Cash and cash equivalents decreased \$105.0 thousand to \$736.0 thousand as of September 30, 2018 from \$841.0 thousand as of December 31, 2017.

Net cash used in operating activities was \$1.1 million for the nine month period ended September 30, 2018. The net cash used in operating activities is primarily due to an increase in receivables of \$2.3 million, an increase in inventories of \$0.7 million, an increase in other assets of \$0.1 million, and a decrease in payables and accrued expenses to related parties of \$0.2 million. These cash uses in operating activities were partially offset by net income of \$356.0 thousand, an increase in accounts payable of \$0.6 million, depreciation of \$1.6 million, a decrease in receivables from related parties of \$44.0 thousand, and share based compensation expense of \$64.0 thousand.

Net cash from investing activities was \$284.0 thousand for the nine month period ended September 30, 2018. In the nine month period ended September 30, 2018, we recorded a gain from insurance proceeds of \$487.0 thousand. The Company had \$203.0 thousand of unfinanced capital expenditures in 2018.

Net cash from financing activities was \$0.7 million for the nine month period ended September 30, 2018. In the nine month period ended September 30, 2018, we received net proceeds from debt of \$1.1 million less capitalized loan fees in the amount of \$136.0 thousand and payments on capital lease obligations of \$229.0 thousand.

Accounts receivable trade after allowances for doubtful accounts increased \$2.3 million or 54.1% to \$6.5 million as of September 30, 2018 compared to \$4.2 million as of December 31, 2017 due to increased shipments and commodity price increases. In general, the accounts receivable balance fluctuates due to the quantity and timing of shipments, commodity prices and receipt of customer payments.

Accounts receivables from related parties decreased \$44.0 thousand to \$48.0 thousand as of September 30, 2018 compared to \$92.0 thousand as of December 31, 2017. This decrease was due to timing of cash receipts.

Inventories consist principally of ferrous and non-ferrous scrap materials. We value inventory at the lower of cost or net realizable value. Inventory increased \$0.7 million, or 13.1%, to \$5.8 million as of September 30, 2018 compared to \$5.1 million as of December 31, 2017. This increase is primarily driven by higher commodity prices and increased volumes during the third quarter of 2018 compared to the fourth quarter of 2017.

**Inventory aging for the period ended September 30, 2018 (Days Outstanding):**

<b>Description</b>	<b>(in thousands, except days information)</b>				<b>Total</b>
	<b>1 - 30</b>	<b>31 - 60</b>	<b>61 - 90</b>	<b>Over 90</b>	
Ferrous and non-ferrous materials and auto parts	\$ 4,045	\$ 1,111	\$ 362	\$ 257	\$ 5,775

**Inventory aging for the period ended December 31, 2017 (Days Outstanding):**

<b>Description</b>	<b>(in thousands, except days information)</b>				<b>Total</b>
	<b>1 - 30</b>	<b>31 - 60</b>	<b>61 - 90</b>	<b>Over 90</b>	
Ferrous and non-ferrous materials and auto parts	\$ 4,069	\$ 693	\$ 119	\$ 225	\$ 5,106



Inventory in the 60 days or less categories compared to total inventory decreased to 89.3% as of September 30, 2018 compared to 93.3% as of December 31, 2017. Inventory greater than 60 days compared to total inventory increased to 10.7% as of September 30, 2018 compared to 6.7% as of December 31, 2017. The \$275.0 thousand increase in inventory greater than 60 days primarily consists of numerous individually insignificant changes.

Accounts payable trade increased \$0.6 million or 34.9% to \$2.4 million as of September 30, 2018 compared to \$1.8 million as of December 31, 2017. The accounts payable balance fluctuates due to timing of purchases from and payments made to our vendors.

Payables and accrued expenses to related parties decreased \$160.0 thousand to \$13.0 thousand as of September 30, 2018 compared to \$173.0 thousand as of December 31, 2017. This decrease is largely a result of a decrease in the facility rent payable to related parties of \$123.0 thousand. See Note 6 – Related Party Transactions for additional information.

Working capital increased \$1.5 million to \$3.7 million as of September 30, 2018 compared to \$2.2 million as of December 31, 2017 as a result of the above noted items.

### Contractual Obligations

The following table provides information with respect to our known contractual obligations for the quarter ended September 30, 2018.

	<b>Payments due by period (in thousands)</b>				
	<b>Total</b>	<b>Less than 1 year</b>	<b>1 - 2 years</b>	<b>3 - 4 years</b>	<b>More than 4 years</b>
<b>Obligation Description:</b>					
Long-term debt obligations	\$ 7,740	\$ 61	\$ 7,652	\$ 27	\$ —
Operating lease obligations (1)	2,992	580	1,048	914	450
Capital lease obligations (1)	1,024	344	599	62	19
Total	\$ 11,756	\$ 985	\$ 9,299	\$ 1,003	\$ 469

(1) See Note 4 – Lease Commitments and Note 6 – Related Party Transactions for detailed information related to the Company's operating and capital lease obligations.

### 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. **On January 1, 2018, the Company adopted ASU 2014-09 using the retrospective approach. The Company noted no financial impact on the Condensed Consolidated Financial Statements as a result of the adoption of this amended guidance.** In addition, the adoption of this new accounting standard resulted in increased disclosure, including qualitative and quantitative disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. See the Revenue Recognition section of Note 1 – Summary of Significant Accounting Policies and General for additional information.

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 was effective for annual periods beginning after December 15, 2016, including interim periods within those annual periods. Upon adoption, ASU 2015-17 may be applied either prospectively or retrospectively. The Company adopted the standard in the first quarter of 2017 and noted no material impact on its Condensed 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 leased assets 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. Early adoption is permitted. 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 Condensed Consolidated Financial Statements. As of January 1, 2019, the Company expects to record a right-of-use asset and a lease liability of approximately \$7.0 million on the Condensed Consolidated Balance Sheet. The Company does not expect the changes to have a material impact on the Condensed Consolidated Statement of Operations and the Condensed Consolidated Statement of Cash Flows. Upon adoption, the Company expects that its financial statement disclosures will be expanded to present additional details of its leasing arrangements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses*, which provides guidance to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. ASU 2016-13 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019. The Company is evaluating the potential impact of ASU 2016-13 on the Condensed Consolidated Financial Statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows, Classification of Certain Cash Receipts and Cash Payments*, which provides guidance on eight specific cash flow issues. ASU 2016-15 is effective for annual periods beginning after December 15, 2017, including interim periods within those annual

periods. Upon adoption, ASU 2016-15 should be applied retrospectively. The Company adopted the standard in the first quarter of 2018 and noted no material impact from the adoption of ASU 2016-15 on the Condensed Consolidated Financial Statements.

No other new accounting pronouncements issued or effective during the reporting period had, or is expected to have, a material impact on our Condensed Consolidated Financial Statements.

**ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

N/A - Not required for smaller reporting companies.

**ITEM 4: CONTROLS AND PROCEDURES**

(a) Disclosure controls and procedures.

ISA's management, including ISA's principal executive officer and principal financial officer, have evaluated the effectiveness of our "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934. Based upon this evaluation, our principal executive officer and principal financial and accounting officer concluded that, as of September 30, 2018, ISA's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that ISA files under the Exchange Act with the Securities and Exchange Commission (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to ISA's management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding the required disclosure.

(b) Changes to internal control over financial reporting.

There have been no changes in ISA's internal control over financial reporting during the fiscal quarter covered by this report that have materially affected, or are reasonably likely to materially affect, ISA's internal control over financial reporting.

PART II – OTHER INFORMATION

**Item 1. Legal Proceedings.**

The Company has litigation from time to time, including employment-related claims, none of which the Company currently believes to be material.

The Company's operations are subject to various environmental statutes and regulations, including laws and regulations addressing materials used in the processing of products. In addition, certain of the Company's 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 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 the Company's facilities have been in operation for many years and, over time, the Company 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 the Company disposed of materials from its operations, which could result in future expenditures that the Company cannot currently estimate and which could reduce its profits. The Company records liabilities for remediation and restoration costs related to past activities when its 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 the Company.

**Item 1A. Risk Factors.**

There have been no material changes in our risk factors as previously disclosed in Part 1, “Item 1A. Risk Factors” of our Annual Report on Form 10-K, for the fiscal year ended December 31, 2017. You should carefully consider the risk factors in our 2017 Form 10-K, which could materially affect our business, financial condition or future results.

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

None.

**Item 3. Defaults upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

See Index to Exhibits.

31

---

SIGNATURES

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

Date: November 13, 2018

INDUSTRIAL SERVICES OF AMERICA, INC.

By /s/ Todd L. Phillips

Todd L. Phillips

Chief Executive Officer, President and Chief Financial Officer  
(Principal Executive and Financial and Accounting Officer)



## INDEX TO EXHIBITS

### Exhibit

#### Number Description of Exhibits

- 10.1 \* Form of Restricted Stock Unit Grant Agreement for Non-Employee Directors. (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K as filed on July 11, 2018)(File No. 0-20979)
- 31.1 Rule 13a-14(a) Certification of Todd L. Phillips for the Form 10-Q for the quarter ended September 30, 2018.
- 32.1 Section 1350 Certification of Todd L. Phillips for the Form 10-Q for the quarter ended September 30, 2018.
- 101.INS XBRL Instance Document - the instance document does not appear in the Interactive Data File as the XBRL tags are embedded within the Inline XBRL 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

\*Previously filed.