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

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2016

OR

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

For the transition period from _________ to ________

Commission File Number 0-20979

INDUSTRIAL SERVICES OF AMERICA, INC.

(Exact Name of Registrant as specified in its Charter)

Florida	59-0712746
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

7100 Grade Lane, Louisville, Kentucky	40213
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (502) 368-1661

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $0.0033 par value NASDAQ Capital Market
(Title of class) (Name of exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates based on the closing price per share of $1.74 for shares of the registrant's common stock as reported by the Nasdaq Capital Market as of the last business day of the registrant's most recently completed second fiscal quarter was $8,890,553. Solely for the purposes of this calculation, shares held by directors, executive officers and 10% owners of the registrant have been excluded. Such exclusion should not be deemed a determination or an admission by the registrant that such individuals are, in fact, affiliates of the registrant.

Number of shares of Common Stock, $0.0033 par value, outstanding as of the close of business on March 27, 2017: 8,074,541.

DOCUMENTS INCORPORATED BY REFERENCE

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PART I

Item 1. Business.

General

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

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

Our core business is now focused on the metal recycling industry. During 2016, we announced that the Company formed a special committee of independent board members to evaluate various growth and strategic options. During the first quarter of 2017, the special committee concluded its work and reported to the Board. The Board accepted the special committee's recommendation to focus on returning our core recycling business to profitability. We intend to do this by increasing efficiencies and productivity while evaluating various options which may include operating the Company's auto shredder. We will also remain alert for possible strategic partnerships, joint ventures and mergers/acquisitions. On March 31, 2017, the Company amended the terms of its credit facility with MidCap Business Credit, LLC ("MidCap") to extend the maturity date of the Company's line of credit and increase the line of credit from $6.0 million to $8.0 million, subject to the satisfaction of certain borrowing base restrictions as more fully described in the accompanying Notes to Consolidated Financial Statements. See Note 3 - Long Term Debt and Notes Payable to Bank in the accompanying Notes to Consolidated Financial Statements.

The Company also announced on October 4, 2016 the Company and Algar mutually agreed to terminate the Management Agreement between us, pursuant to the Agreement to Terminate Management Services among the Company, Algar, and Sean Garber dated as of September 30, 2016. Effective September 30, 2016, Mr. Garber resigned from all positions with the Company, including as President. Also, on September 30, 2016, the company’s Chief Financial Officer was appointed to serve in the additional role as President.

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

Available Information

We make available, free of charge, through our website www.isa-inc.com, our annual reports on Form 10-K and quarterly reports on Form 10-Q and amendments to those reports as soon as reasonably practicable after we have electronically filed with the Securities and Exchange Commission. We also make available on our website our Board of Directors, committee charters, our Business Ethics Policy and Code of Conduct and our Code of Ethics for the CEO, CFO and senior financial officers. Please note that our Internet address is included in this annual report on Form 10-K as an inactive textual reference only. Information contained on our website www.isa-inc.com is not incorporated by reference into this annual report on Form 10-K and should not be considered a part of this report.

Our Response to 2015 and 2016 Commodity Markets and Liquidity Conditions

During 2015, the Company's average selling price per unit of quantity decreased by 49.4% and 24.9% for ferrous and nonferrous material, respectively, compared to 2014. These decreases also led to significantly lower volumes of material available to the Company to buy and sell. Due to these deteriorating metals commodity market conditions, ISA took significant steps to improve liquidity and pay down debt during 2015 and 2016. Despite modest improvements in metal commodity markets during 2016, low prices combined with low volumes present a difficult ongoing metals recycling market. These steps are described below.

On February 27, 2015, the Company closed on the sale of its Seymour, Indiana property. Also, in conjunction with this decision, the Company signed a lease, effective December 1, 2014, to lease a facility in the Seymour area. See Note 4 - Lease Commitments and Note 10 - Related Party Transactions in the accompanying Notes to Consolidated Financial Statements for further lease information. Proceeds were used to reduce debt and improve liquidity.

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

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

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

On November 6, 2015, the Company entered into a Forbearance Agreement and Third Amendment to Credit Agreement (the "Forbearance Agreement") by and among the Company, certain of the Company's subsidiaries, and Wells Fargo Bank, National Association ("Wells Fargo"). The Forbearance Agreement amended the Credit Agreement to reduce the Maximum Revolver Amount from $15.0 million to $5.0 million. The Forbearance Agreement also amended the Credit Agreement Maturity Date to March 15, 2016 from June 13, 2019. The Forbearance Agreement increased the interest rate on the outstanding indebtedness by approximately 100 basis points.

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

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

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

The Company received cash consideration at closing of $7.5 million, less $150.0 thousand retained by Compactor Rentals (the "Holdback"). In connection with the closing of the transaction, the Company entered into a transition services agreement with Compactor Rentals, pursuant to which the Company will provide certain services to Compactor Rentals until March 31, 2017.

On April 1, 2016, the Company entered Amendment No. 1 to the Asset Purchase Agreement which extended the deadline for the Company to provide written notice if the Company objected to Compactor Rental's calculation of the Holdback. On April 15, 2016, the Company entered into Amendment No. 2 to the Asset Purchase Agreement whereby the Company and Compactor Rentals agreed that the Holdback would be retained by Compactor Rentals based on a mutually-agreed upon calculation of working capital. Amendment No. 2 also detailed the parties' agreement of the following: no indemnification claims would be made by Compactor Rentals arising out of certain matters; certain Compactor Rentals' representatives did not have knowledge of any additional indemnification claims as of April 15, 2016; and the transition services agreement between the parties would be extended at no cost to Compactor Rentals through March 31, 2017.

Compactor Rentals assumed certain liabilities relating to the Waste Services Segment, including but not limited to, current liabilities, warranty liabilities, and post-closing liabilities incurred in connection with transferred contracts.

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

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

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

On February 29, 2016, the Company entered into a Loan Agreement (the "2016 Loan") with MidCap. The 2016 Loan is secured by substantially all of the assets of the Company. Proceeds from this loan were used to pay transaction expenses and to pay off and close the remaining balance on the Wells Fargo revolving line of credit.

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 this line of credit from $6.0 million to $8.0 million, subject to the satisfaction of certain borrowing base restrictions and extended the maturity date to February 28, 2020.

Following the MidCap transaction and the First Amendment, the Company believes its liquidity is sufficient to meet projected needs for at least one year. See Note 3 - Long Term Debt and Notes Payable To Bank in the accompanying Notes to Consolidated Financial Statements for further details.

ISA Recycling Operating Division

Our Recycling Segment sells processed ferrous and non-ferrous scrap material, including stainless steel, to end-users such as steel mini-mills, integrated steel makers and foundries and refineries. We purchase ferrous and non-ferrous scrap material primarily from industrial and commercial generators of steel, iron, aluminum, copper, stainless steel and other metals as well as from other scrap dealers who deliver these materials directly to our facilities. We process these materials by sorting, cutting and/or baling. Prior to May 2015, we also shredded material.

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

Ferrous Operations

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

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

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

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

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

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

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

Auto Parts Operations

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

Non-Ferrous Operations

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

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

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

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

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

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

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

Waste Services Operations (Discontinued Operations)

On December 4, 2015, we sold substantially all assets of our Waste Services Segment. Our waste services operations were in the business of commercial, retail and industrial waste and recycling management services (operating under the name “Computerized Waste Systems” or “CWS”) and commercial and industrial waste and recycling handling equipment sales, rental and maintenance (operating under the name “Waste Equipment Sales and Service Company” or “WESSCO”).

Company Background

ISA was incorporated in 1953 in Florida under the name ALSON MFG. CO. and originally designed and manufactured various forms of electrical products.

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

In 1985, we began offering solid waste management consultations.

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

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

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

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

As of 2016, our primary focus is ferrous and non-ferrous metal recycling, as well as selling used auto parts.

Competition

The metal recycling business is highly competitive and is subject to significant changes in economic and market conditions. In late 2014 and early 2015, the metal commodity market saw increased volatility. Market prices traded down significantly lower, particularly during 2015. The metal commodity market experienced continued volatility during 2016. The 2016 metal commodity market finished strong and provided a positive outlook for 2017. Given the strengthening dollar, exports were reduced and steel mills were able to buy large quantities of low-cost scrap. Pricing and proximity to a metal source are the major competitive factors in the metal recycling business. We compete for the purchase and sale of scrap metal with large, well-financed recyclers of scrap metal as well as smaller metal facilities and brokers/dealers. Although we expanded our facilities and increased our processing efficiencies in prior years, certain of our competitors have greater financial, marketing and physical resources. There can be no assurance that we will be able to obtain our desired market share based on the competitive nature of this industry.

Dependence on Major Customer

In 2016, we had sales to one major customer that totaled approximately 12.5% of our net sales for the year ended December 31, 2016.

Employees

As of March 26, 2017, we had 75 full-time employees. None of our employees are members of a union.

Effect of State and Federal Environmental Regulations

Although we believe that our business model adequately protects us from potential environmental liability, we also continue to use our best efforts to be in compliance with federal, state and local environmental laws. Such compliance has not historically constituted a material expense to us.

The recycling operations are subject to federal, state and local requirements, which regulate health, safety, the environment, zoning and land-use. We strive to conduct our operations in compliance with applicable laws and regulations. While such amounts expended in the past or that we anticipate spending in the future have not had and are not expected to have a material adverse effect on our financial condition or operations, the possibility remains that technological, regulatory or enforcement developments, the results of environmental studies or other factors could materially alter this expectation.

Item 1A. Risk Factors.

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

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

Risks Related to Our Operations

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

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

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

We make certain assumptions regarding future demand and net realizable value in order to assess that we record our ferrous and non-ferrous inventory properly at the lower of cost or market. We base our assumptions on historical experience, current market conditions and current replacement costs. If the anticipated future selling prices of scrap metal and finished steel products should decline due to the cyclicality of the business or otherwise, we would re-assess the recorded net realizable value of such inventory which could result in downward adjustments to reduce the value of such inventory (and increase cost of sales) to the lower of cost or market.

Volatility in market prices of the scrap metal recycling inventory experienced in late 2014 and through 2015 caused management to re-assess the carrying value of our inventory. In 2015 we incurred a lower of cost or market inventory write-down of $1.3 million. We did not incur a lower of cost or market inventory write-down in 2016 as the market prices of the scrap metal recycling inventory improved in 2016 as compared to 2015.

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

Our primary sources of liquidity during 2015 and 2016 were cash flows generated from asset sales, the idling of our auto shredder operation and the refinancing of the Company's working line of credit; in the first quarter of 2017, we extended the maturity date of our line of credit and increased the line of credit from $6.0 million to $8.0 million, subject to the satisfaction of certain conditions as more fully described in the accompany Notes to Consolidated Financial Statements.

Influenced primarily by the length and depth of the metals market downturn and the Company's ongoing operating losses, we may not be able to fund our future capital needs, including necessary working capital, funds for capital expenditures or debt service, from operating cash flow. Consequently, we may have to rely on third-party sources to fund our capital needs or we may have to rely on further asset sales or similar actions. We may be unable to obtain third-party financing or conduct asset sales on favorable terms or at all, which could materially and adversely affect our operating results, cash flow and liquidity. Furthermore, we cannot provide assurance that sufficient liquidity can be raised from one or more of these sources or that a desired transaction could be consummated within the period needed to meet certain obligations

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

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

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

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

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

Our operations are dependent upon fuel, which we generally purchase in the open market on a daily basis. Direct fuel costs include the cost of fuel and other petroleum-based products used to operate our fleet of cranes and heavy equipment, as well as our shredder when it is not idled. We are also susceptible to increases in indirect fuel costs which include fuel surcharges from vendors. When we have experienced increases in the cost of fuel and other petroleum-based products in the past, we were able to pass a portion of these increases on to our customers. However, because of the competitive nature of the industry, there can be no assurance that we will be able to pass on current or future increases in fuel prices to our customers. A significant increase in fuel costs could adversely affect our business, which adverse impact would be magnified if combined with a decrease in revenue caused by a decrease in commodity prices.

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

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

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

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

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

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

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

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

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

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

Seasonal changes may adversely affect our business and operations.

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

Risks Related to Our Common Stock

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

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

The market price for our common stock may be volatile.

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

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

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

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

Item 2. Properties.

The following table outlines our principal properties as of December 31, 2016:

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

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

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

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

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

Item 3. Legal Proceedings.

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

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

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

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

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

	2016		2015	
Quarter Ended	**High**	**Low**	**High**	**Low**
March 31	$ 3.05	$ 0.87	$ 6.00	$ 4.13
June 30	$ 2.78	$ 1.63	$ 4.64	$ 3.36
September 30	$ 2.30	$ 1.32	$ 4.08	$ 3.35
December 31	$ 3.35	$ 1.10	$ 3.52	$ 1.24

There were approximately 136 shareholders of record as of December 31, 2016.

Our Board of Directors did not declare any dividends in 2016 or 2015.

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

On November 15, 2005, our Board of Directors authorized a program to repurchase up to 300.0 thousand shares of our common stock at current market prices. We did not repurchase any shares in 2016 or 2015. There are approximately 133.3 thousand shares still available for repurchase under this program.

Item 6. Selected Financial Data.

Selected Financial Data

	(Amounts in thousands, except per share data)				
Year ended December 31:	**2016**	**2015**	**2014**	**2013**	**2012**
Total revenue	$ 36,505	$ 46,180	$ 110,091	$ 136,753	$ 194,232
Net loss from continuing operations	$ (3,230)	$ (9,085)	$ (8,686)	$ (13,816)	$ (6,620)
Net income from discontinued operations	$ —	$ 7,320	1,413	*	*
Earnings (loss) per common share from continuing operations:					
Basic	$ (0.40)	$ (1.14)	$ (1.15)	$ (1.96)	$ (0.95)
Diluted	$ (0.40)	$ (1.14)	$ (1.15)	$ (1.96)	$ (0.95)
Earnings (loss) per common share from discontinued operations:					
Basic	$ —	$ 0.92	$ 0.19	$ *	$ *
Diluted	$ —	$ 0.92	$ 0.19	$ *	$ *
At year end:					
Total assets	$ 20,856	$ 19,434	$ 37,790	$ 44,032	$ 63,323
Current maturities of long-term debt	$ 2,942	$ 20	$ 15,911	$ 1,597	$ 1,687
Current maturities of capital lease obligations	$ 198	$ —	$ —	$ —	$ —
Long-term debt, net of current maturities	$ —	$ —	$ —	$ 16,295	$ 23,369
Long-term debt, net of current maturities, related parties	$ 1,504	$ —	$ —	$ —	$ —
Capital lease obligations, net of current maturities	$ 1,050	$ —	$ —	$ —	$ —

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

* On December 4, 2015, the Company sold a majority of its Waste Services Segment assets. Years 2015 and 2014 have been adjusted to reflect discontinued operations of the Waste Services Segment. Years 2013 through 2012 have not been adjusted for discontinued operations of the Waste Services Segment.

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

The following discussion and analysis should be read in conjunction with the information set forth under Item 6, "Selected Financial Data" and our consolidated financial statements and the accompanying notes thereto included elsewhere in this report.

The following discussion and analysis contains certain financial predictions, forecasts and projections which constitute "forward-looking statements" within the meaning of the federal securities laws. Actual results could differ materially from those financial predictions, forecasts and projections and there can be no assurance that we will achieve such financial predictions, forecasts and projections. Please see Item 1A, "Risk Factors" for items that could affect our financial predictions, forecasts and projections.

General

Our core business is now focused on the metal recycling industry. During 2016, we announced that the Company formed a special committee of independent board members to evaluate various growth and strategic options. During the first quarter of 2017, the special committee concluded its work and reported to the Board. The Board accepted the special committee's recommendation to focus on returning our core recycling business to profitability. We intend to do this by increasing efficiencies and productivity while evaluating various options which may include operating the Company's auto shredder. We will also remain alert for possible strategic partnerships, joint ventures and mergers/acquisitions.

Also, on March 31, 2017, the Company entered into an amended credit facility with MidCap, which extended the maturity date of the Company's line of credit and increased the line of credit from $6.0 million to $8.0 million, subject to the satisfaction of certain borrowing base restrictions as more fully described in the accompanying Notes to Consolidated Financial Statements.

The Company also announced on October 4, 2016 the Company and Algar mutually agreed to terminate the Management Agreement between us, pursuant to the Agreement to Terminate Management Services among the Company, Algar, and Sean Garber dated as of September 30, 2016. Effective September 30, 2016, Mr. Garber resigned from all positions with the Company, including as President. Also, on September 30, 2016, the company's Chief Financial Officer was appointed to serve in the additional role as President.

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

Liquidity and Capital Resources

Our cash requirements generally consist of working capital, capital expenditures and debt service. Our primary sources of liquidity during 2015 and 2016 were cash flows generated from asset sales, the idling of our auto shredder operation and the refinancing of the Company's working line of credit. These steps are more fully described below and in the accompanying Notes to the Consolidated Financial Statements. Cash flows generated from operations and our revolving credit facility are also significant sources of ongoing liquidity. We have also been able to manage liquidity by deferring certain rent payments made to related parties, as well as deferring capital expenditures. See Note 10 - Related Party Transactions in the accompanying Notes to Consolidated Financial Statements for additional information. We actively manage our working capital and associated cash requirements and continually seek more effective use of cash. As of December 31, 2016, we held cash and cash equivalents of $0.5 million. We had an outstanding balance of $2.9 million on our revolving credit facility as of December 31, 2016.

During 2015 and 2016, the Company experienced significant liquidity challenges related to the severe metal market downturn and associated ISA loan defaults with our then lenders. Management took the below steps. See "Our Response to 2015 and 2016 Commodity Markets and Liquidity Conditions" in Item 1 of this Form 10-K for further discussion of these actions.

In February 2015, the Company sold its Seymour, Indiana property and relocated its Seymour operations to a leased facility in the same general geographic area. The proceeds from the sale of this property were used to reduce debt and improve liquidity.

In April 2015, the Company sold its property located at 6709 Grade Lane, Louisville, KY to a related party. The proceeds from the sale of this property were used to reduce debt and improve liquidity.

In May 2015, the Company warm idled its auto shredder. The proceeds associated with working capital reductions were used to reduce debt and improve liquidity.

Also, in May 2015, the Company sold its property located at 7017 Grade Lane, Louisville, KY to a related party. The proceeds from the sale of this property were used to reduce debt and improve liquidity.

In November 2015, the Company entered into a forbearance agreement with Wells Fargo, which required certain actions by the Company.

In December 2015, the Company sold substantially all assets of the Company’s Waste Services Segment. Proceeds from the sale of this segment were used to reduce debt and improve liquidity.

During 2015, the Company paid down debt by $16.3 million and favorably improved borrowing availability, primarily as a result of the above actions. As more fully described in Note 15 - Discontinued Operations in the accompanying Notes to Consolidated Financial Statements, the Waste Services Segment provided positive operating cash flow that will no longer be available to the Company.

On February 29, 2016, the Company refinanced its Wells Fargo debt with a new lender, MidCap Business Credit.

On March 31, 2017, the Company entered into the First Amendment to the 2016 Loan, which extended the maturity date of the Company's line of credit and increased the line of credit from $6.0 million to $8.0 million, subject to the satisfaction of certain borrowing base restrictions as more fully described in the accompanying Notes to Consolidated Financial Statements.

Credit facilities and notes payable

During 2015 the Company had certain loans with KY Bank and, during 2015 and 2016 with Wells Fargo. As of December 31, 2014, the Company was in default under the Wells Fargo loans and during the second half of 2015 entered into a Forbearance Agreement with Wells Fargo whereby the due dates on the loans were accelerated and the Company was required to take certain actions.

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

On December 4, 2015, in conjunction with the above-noted sale of substantially all assets of the Company’s Waste Services Segment, the Company paid off the KY Bank loans and certain Wells Fargo loans. As of December 31, 2015, the Company had an outstanding balance of $19.7 thousand to Wells Fargo. On February 29, 2016, the Company closed on new financing with MidCap Business Credit and paid off in full remaining amounts due to Wells Fargo.

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

Swap agreements

In October 2013, the Company entered into an interest rate swap agreement with KY Bank swapping a variable rate based on LIBOR for a fixed rate. This swap agreement covered approximately $2.4 million in debt, commenced October 17, 2013 and was scheduled to mature on October 1, 2018. The swap agreement fixed our interest rate at 4.74%. The swap was settled for $15.0 thousand during 2015. As of December 31, 2016, we do not have any swap agreements.

Critical Accounting Policies

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

Revenue Recognition

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

Inventory

Our inventories primarily consist of ferrous and non-ferrous, including stainless steel, and scrap metals and are valued at the lower of average purchased cost or net realizable value ("NRV") based on the specific identification method based on individual scrap commodity. Quantities of inventories are determined based on our inventory systems and are subject to periodic physical verification using estimation techniques including observation, weighing and other industry methods. We recognize inventory impairment when the NRV, based upon current market pricing, falls below recorded value or when the estimated volume is less than the recorded volume of inventory. We record the loss in cost of sales in the period during which we identified the loss. Prices of commodities we own may be volatile. We are exposed to risks associated with fluctuations in the market price for both ferrous and non-ferrous metals, which are at times volatile. We attempt to mitigate this risk by seeking to rapidly turn our inventories.

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

Valuation of long-lived assets

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

Income Taxes

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

We recognize uncertain income tax positions using the "more-likely-than-not" approach as defined in the ASC. The amount recognized is subject to estimate and management's judgment with respect to the most likely outcome for each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. We have no liability for uncertain tax positions recognized as of December 31, 2016 and 2015.

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

Stock Incentive Plan

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

Results of Operations

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

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

Year ended December 31,	2016	2015
Consolidated Statements of Operations Data:		
Total revenue	100.0 %	100.0 %
Total cost of sales	96.1 %	110.5 %
Selling, general and administrative expenses	12.3 %	8.4 %
Loss before other income (expense)	(8.4)%	(18.9)%

The 14.4% decrease in cost of sales as a percentage of revenue in 2016 as compared to 2015 is primarily due to significant adverse conditions in 2015 including substantial downward commodity price pressures during 2015 which severely impacted margins, a fixed asset impairment charge of $0.6 million recorded in 2015 due to the May 2015 warm idle of the shredder, and an inventory lower of cost or market adjustment of $1.3 million in 2015 related to a decline in metal commodity market prices. In 2016, the downward pressure on commodity prices eased and the metals market experienced modest stabilization.

Selling, general and administrative expenses as a percentage of revenue in 2016 as compared to 2015 increased 3.9%. This increase is mainly due to substantially lower revenues in 2016 associated with lower metal prices and lower revenues in 2016 due to the May 2015 warm idle of the shredder. Selling, general and administration expenses increased by $0.6 million in 2016 as compared to 2015, mainly due to an increase in stock option expense of $0.2 million, an increase in bonus expense of $0.5 million, offset by a decrease in utilities of $0.1 million.

Accumulated Other Comprehensive Income (Loss)

Comprehensive income is net income plus certain other items that are recorded directly to shareholders' equity. Amounts included in accumulated other comprehensive loss for our derivative instruments are not recorded net of tax in 2015 due to the valuation allowance recorded. Refer to Note 1 – Summary of Significant Accounting Policies - Derivative and Hedging Activities and Note 7 - Income Taxes in the accompanying Notes to Consolidated Financial Statements for additional information about our derivative instruments and valuation allowance, respectively.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Total revenue decreased $9.7 million or 21.0% to $36.5 million in 2016 compared to $46.2 million in 2015. This decrease was primarily due to the May 2015 warm idle of the Company's shredder operations, which despite a portion of volume shifting to the Company's ferrous operations, resulted in a significant decrease in revenue, as well as significant metal commodity price declines and associated volume decreases. Revenue from the Company's shredder operations were $0 million for the year ended December 31, 2016 and $11.9 million for the year ended December 31, 2015, a decrease of $11.9 million. The remaining increase was due primarily to increased ferrous volumes. Nonferrous material shipments decreased by 1.8 million pounds, or 5.3%, along with a decrease in the average selling price of nonferrous material of $0.07 per pound, or 8.2%, for the year ended December 31, 2016 compared to year ended December 31, 2015. For the year ended December 31, 2016 compared to year ended December 31, 2015, the Company experienced a decrease in the average selling price of ferrous material of $23 per gross ton, or 11.1%. For the year ended December 31, 2016 compared to year ended December 31, 2015, the Company experienced an increase in ferrous material shipments of 21.4 thousand tons, or 43.3%. This increase in ferrous material shipments was primarily a result of the May 2015 warm idle of the Company's shredder operations. Due to the idling of the Company's shredder operations, a portion of materials previously sold and classified as shredder shipments during the year ended December 31, 2015 were purchased and sold through the ferrous operations for the year ended December 31, 2016.

Total cost of sales decreased $15.9 million or 31.2% to $35.1 million in 2016 compared to $51.0 million in 2015. This decrease was primarily due to the May 2015 warm idling of the Company's shredder operations as well as significant metal commodity price declines and associated scrap metal volume decreases. Cost of sales from the Company’s shredder operations were $1.7 million for the year ended December 31, 2016 compared to $15.8 million for the year ended December 31, 2015, resulting in a $14.1 million decrease. Cost of sales in 2016 for the Company's shredder operations relate primarily to depreciation, which has continued. The remaining decrease in cost of sales relates to lower shipping volumes for non-ferrous and lower metal commodity prices for both ferrous and non-ferrous partially offset by increased ferrous volumes as noted in the above paragraph

Total cost of sales as a percent of revenue was lower during the year ended 2016 as compared to the same period in 2015. The metals commodity markets improved during 2016 as compared to the same period in 2015, which, despite lower average selling price, allowed for improved gross margins.

In 2015, we incurred a lower of cost or market inventory write-down of $1.3 million, or 2.8% of revenue. Additionally, in 2015, we incurred a $0.6 million lower-of-cost fixed asset write down related to the significant process and strategy changes associated with the ASR process. See Note 1 - Summary of Significant Accounting Policies - Inventories in the accompanying Notes to Consolidated Financial Statements for additional information.

Selling, general and administrative ("SG&A") expenses increased $0.6 million or 15.4% to $4.5 million in 2016 compared to $3.9 million in 2015. The increase in SG&A expenses was mainly due to an increase in stock option expense of $0.2 million, an increase in bonus expense of $0.5 million, offset by a decrease in utilities of $0.1 million.

As a percentage of total revenue, selling, general and administrative expenses were 12.3% in 2016 compared to 8.4% in 2015. This increase is a result of the significant revenue decrease from 2015 to 2016 along with increased selling, general and administrative expenses of 15.4%.

Interest expense decreased $0.2 million or 26.8% to $0.5 million in 2016 compared to $0.7 million in 2015 which is a result of the significant steps that the Company took during 2015 to reduce debt and improve liquidity.

Other income (expense) was expense of $94.0 thousand for the year ended December 31, 2016 compared to expense of $348.0 thousand for the year ended December 31, 2015. This $254.0 thousand change is a result of a $186.0 thousand decrease in interest expense, which is a result of the significant steps that the Company took during 2015 to reduce debt and improve liquidity; a $320.0 thousand decrease in the gain on sale of assets, which was primarily due to a gain during the first quarter of 2015 on the sale of our former Seymour, Indiana location and moving our facility to a leased property in the same general area; along with a $11.0 thousand decrease in other income; an increase in the gain on insurance proceeds of $399.0 thousand. We filed an insurance claim related to six roofs on certain of our buildings due to weather related damage. In 2016 we received insurance proceeds in the amount of $571.4 thousand related to this claim. We recognized a gain of $399.3 thousand, net of $80.0 thousand impairment write-downs of the related roofs and consulting fees related to the claim.

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

	Fiscal Year Ended December 31,	
Description Other Income (Expense)	**2016**	**2015**
Income from settlements	$ 9.9	$ 34.0
Other	5.8	(7.0)
Total other income, net	$ 15.7	$ 27.0

The income tax expense increased $67.0 thousand to a tax provision of $80.0 thousand in 2016 compared to a tax expense of $13.0 thousand in 2015. The effective tax rates, including the intangible impairment losses and the deferred tax asset valuation allowance, in 2016 and 2015 were (2.5)% and (0.1)%, respectively, based on federal and state statutory rates.

Financial Condition at December 31, 2016 compared to December 31, 2015

Cash and cash equivalents decreased $0.1 million to $0.5 million as of December 31, 2016 compared to $0.6 million as of December 31, 2015.

Net cash used in operating activities was $3.3 million for the year ended December 31, 2016. The net cash used in operating activities is primarily due to a net loss of $3.2 million, an increase in receivables of $1.7 million, an increase in inventories of $1.0 million, and a decrease in accounts payables of $0.5 million; partially offset by a decrease in receivables from related parties of $58.0 thousand, depreciation of $2.3 million, share-based option expense of $357.0 thousand, and an increase in other current liabilities of $433.0 thousand. The company had $8.0 thousand of capital expenditures in 2016.

Net cash from financing activities was $2.7 million for the year ended December 31, 2016. In the year ended December 31, 2016, we received net proceeds from debt of $2.9 million less capitalized loan fees in the amount of $241.0 thousand.

Trade accounts receivable after allowances for doubtful accounts increased $1.7 million or 101.4% to $3.4 million as of December 31, 2016 compared to $1.7 million as of December 31, 2015 due to the receipt of customer payments and a decrease in the volume of shipments of ferrous, nonferrous, and stainless steel material during 2016. In general, the accounts receivable balance fluctuates due to the timing of shipments and receipt of customer payments.

Inventories consist principally of ferrous and nonferrous scrap materials. We value inventory at the lower of cost or market. Inventory increased $1.0 million or 42.6% to $3.4 million as of December 31, 2016 compared to $2.4 million as of December 31, 2015. This increase is primarily driven by seasonality resulting in increased volumes and inventory levels during the fourth quarter of 2016 compared to the fourth quarter of 2015.

We make certain assumptions regarding future demand and net realizable value in order to assess whether inventory is properly recorded at the lower of cost or market. We base our assumptions on historical experience, current market conditions and current replacement costs. Management spent much of 2015 and early 2016 working to assess the Company's automobile shredder residue ("ASR") process. Significant process and strategy changes associated with the ASR process have been made, including the May 2015 warm idle of the shredder. These changes, combined with the significant metals market reduction in demand and prices experienced in late 2014 and through 2015, caused management to perform a lower of cost-or-market assessment which resulted in inventory write-downs of $1.3 million for the year of December 31, 2015. There was no inventory write-down in 2016.

Inventory aging for the period ended December 31, 2016 (Days Outstanding):

	(in thousands)				
Description	**1 - 30**	**31 - 60**	**61 - 90**	**Over 90**	**Total**
Ferrous and non-ferrous materials	$ 3,011	$ 268	$ 62	$ 96	$ 3,437

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

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

Inventory in the "1-30 days" category increased by $1.0 million from December 31, 2015 to December 31, 2016. This increase is primarily due to increased volumes during December 2016 as compared to December 2015.

Accounts payable trade decreased $0.5 million or 25.4% to $1.6 million as of December 31, 2016 compared to $2.2 million as of December 31, 2015. The accounts payable balance fluctuates due to timing of purchases from and payments made to our vendors. This decrease is largely a result of improved liquidity which led to quicker payments to the Company's suppliers.

Accounts payables and accrued expenses from related parties decreased $1.3 million to $0.6 million as of December 31, 2016 compared to $1.9 million as of December 31, 2015. This decrease is largely a result of the Company entering into a subordinated, unsecured debt with related parties on February 29, 2016, which converted amounts previously held as related party payables, in the amount of $1.5 million. See Note 10 - Related Party Transactions in the Consolidated Financial Statements for additional information.

Working capital increased $0.9 million to $1.7 million as of December 31, 2016 compared to $0.8 million as of December 31, 2015 as a result of the above noted items.

Contractual Obligations

The following table provides information with respect to our known contractual obligations as of December 31, 2016:

	Payments due by period (in thousands)				
Obligation Description:	**Total**	**Less than 1 year**	**1 - 2 years**	**3 - 5 years**	**More than 5 years**
Long-term debt obligations	$ 4,446	$ 2,942	$ —	$ 1,504	$ —
Operating lease obligations	821	774	47	—	—
Capital lease obligations	1,248	198	608	442	—
Total	$ 6,515	$ 3,914	$ 655	$ 1,946	$ —

Inflation and Prevailing Economic Conditions

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

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

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

Impact of Recently Issued Accounting Standards

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

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

In April 2015, the FASB issued ASU 2015-03, *Interest-Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs*. The guidance requires an entity to present debt issuance costs in the balance sheet as a direct reduction from the carrying amount of the debt liability, consistent with debt discounts, rather than as an asset. Amortization of debt issuance costs will continue to be reported as interest expense. Debt issuance costs related to revolving credit arrangements, however, will continue to be presented as an asset and amortized ratably over the term of the arrangement. ASU 2015-03 is effective for reporting periods beginning after December 15, 2015 including interim periods within those annual periods. Early application is permitted, and upon adoption, ASU 2015-03 should be applied on a retrospective basis. The Company adopted ASU 2015-03 and noted no impact from the adoption on its Consolidated Financial Statements.

In July 2015, the FASB issued ASU 2015-11, *Inventory*, which simplifies the measurement principle of inventories valued under the First-In, First-Out ("FIFO") or weighted average methods from the lower of cost or market to the lower of cost and net realizable value. ASU 2015-11 is effective for reporting periods beginning after December 15, 2016 including interim periods within those annual periods. The Company adopted the standard in the fourth quarter of 2016 and noted no material impact on its Consolidated Financial Statements.

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

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

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

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 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. Early adoption is permitted as of the beginning of an interim or annual reporting period. Upon adoption, ASU 2016-15 should be applied retrospectively. The Company is evaluating the potential impact of ASU 2016-15 on the Consolidated Financial Statements.

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

N/A - Not required for smaller reporting companies.

Item 8. Consolidated Financial Statements and Supplementary Data.

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

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

None.

Item 9A. Controls and Procedures.

(a) Disclosure controls and procedures.

ISA's management, including ISA's principal executive officer and principal financial officer, have evaluated the effectiveness of our "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934. Based upon their evaluation, our principal executive officer and principal financial officer concluded that, as of December 31, 2016, ISA's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that ISA files under the Exchange Act with the Securities and Exchange Commission (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to ISA's management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding the required disclosure.

(b) Internal controls over financial reporting.

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

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

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

Our management conducted an evaluation of the effectiveness of our internal control over financial reporting, based on the framework and criteria established in Internal Control -- Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management assessed the effectiveness of our internal control over financial reporting for the year ended December 31, 2016, and concluded that such internal control over financial reporting was effective as of December 31, 2016.

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

(c) Changes to internal control over financial reporting.

There were no changes in ISA's internal control over financial reporting during the year ended December 31, 2016 that have materially affected, or are reasonably likely to affect ISA's internal control over financial reporting.

Item 9B. Other Information.

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 2016 Loan. This covenant may be replaced by a Fixed Charge Coverage Ratio ("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.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

BOARD OF DIRECTORS

Set forth below is a list of members of the Board of Directors, together with their ages, all Company positions and offices each person currently holds and the year in which each person joined the Board.

Name and Principal Occupation with Company	Age	Year First Became Director
Orson Oliver Chairman of the Board and Interim Chief Executive Officer	74	2005
Albert Cozzi Director	71	2006
Vince Tyra Director	51	2014
William Yarmuth Director	65	2014

ORSON OLIVER has been our director since 2005, our Chairman of the Board since 2012 and our interim Chief Executive Officer since 2013. He currently holds an officer position as General Counsel with the A.J. Schneider Company. He has over thirty-five years of experience in banking and financial consulting. Mr. Oliver began his career in 1968 as an attorney with the U.S. Treasury Department in Washington, D.C. In 1975, he joined the Bank of Louisville as general counsel. In 1985, he became president of the Bank of Louisville. When Branch Banking and Trust Company acquired the Bank of Louisville in 2003, the Bank of Louisville had assets of $1.6 billion and was the largest, locally managed bank in Louisville, Kentucky. Since his retirement from banking in February 2004, Mr. Oliver has worked as an independent general business consultant for the Al J. Schneider Company, a corporation with a number of large hotels and real estate holdings in the Louisville, Kentucky area. From May 2004 through December 2011, Mr. Oliver also worked as an independent general business consultant for PNC Bank, which is headquartered in Pittsburgh, Pennsylvania. Mr. Oliver was a member of the Board of Directors of the Al J. Schneider Company from February 2004 through June 2016. Beginning in 2013, Mr. Oliver also serves as a director of the Bankers' Bank of Kentucky.

ALBERT A. COZZI has been our director since 2006. Since February 2006, Mr. Cozzi has been a partner with Cozzi Consulting Group, a start-up consulting business, marking the re-entry of Mr. Cozzi into the scrap industry following a two-year non-compete agreement he had with his former employers at Metal Management, Inc. From July 1999 to January 2004, Mr. Cozzi served as the chief executive officer of Metal Management, Inc. headquartered in Chicago, Illinois, and one of the largest full service metals recyclers in the United States. From December 1997 to June 1999, Mr. Cozzi served as the president and chief operating officer of Metal Management, Inc. From 1963 to 1997, Mr. Cozzi held various positions with Cozzi Iron & Metal, originally located in Chicago, Illinois, prior to its merger with Metal Management, Inc., including president from 1990 to 1997. Mr. Cozzi received an M.B.A. from the University of Chicago.

VINCE TYRA has been our director since 2014. Mr. Tyra was President of ISCO Industries ("ISCO"), a global, customized piping solutions provider based in Louisville, Kentucky, through 2016. Prior to his position at ISCO, Mr. Tyra was a Managing Partner at Southfield Capital, a private investment firm based in Greenwich, Connecticut, where he joined in 2007. Mr. Tyra continues to be an Operating Partner with Southfield Capital, serves on the firm's investment committee and is a board member of various Southfield Capital portfolio companies. Prior to Southfield Capital, Mr. Tyra was CEO of Broder Bros., Co., a wholesale distributor of imprintable activewear. Prior to joining Broder, Mr. Tyra served as President of Retail and Activewear at Fruit of the Loom. Previous to Fruit of the Loom, Mr. Tyra was a principal investor and Executive Vice President of TSM, a Louisville, Kentucky based wholesale distributor of activewear.

WILLIAM YARMUTH has been our director since 2014. Mr. Yarmuth has been the Chairman and Chief Executive Officer at Almost Family Inc. ("Almost Family"), a Louisville, Kentucky-based provider of a range of Medicare-certified home health nursing services to patients in need of recuperative and other care, since 1992. Mr. Yarmuth has been a director of Almost Family since 1991, when the company acquired National Health Industries, where Mr. Yarmuth was Chairman, President and Chief Executive Officer .

Except as disclosed above, none of the other directors holds another directorship in a company with a class of securities registered pursuant to Section 12 of the Exchange Act or subject to the requirements of Section 15(d) of the Exchange Act or in a company registered as an investment company under the Investment Company Act of 1940, as amended. None of our directors has any family relationship with any of our other directors or executive officers.

On December 2, 2013, the Company and Algar entered into a Management Services Agreement (the “Management Agreement”). Pursuant to the Management Agreement, the Company agreed that Algar could cause the appointment of up to two members of the Board. In 2014, Algar nominated William Yarmuth and Vince Tyra to serve as board members. Messrs. Tyra and Yarmuth were recommended for nomination and appointment to the Board by Algar, Inc. in 2016. Messrs. Tyra and Yarmuth were subsequently nominated by the Board for election, and they were elected, by the shareholders at the 2016 annual meeting to hold office until the 2017 annual meeting and until their respective successors have been elected and qualified.

Audit Committee

The Audit Committee confers with our independent registered public accounting firm regarding the scope and adequacy of annual audits; reviews reports from such independent accountants; and meets with the independent accountants to review the adequacy of our accounting principles, financial controls and policies. The Audit Committee met four (4) times in 2016. The members of the Audit Committee are Messrs. Tyra, Cozzi and Yarmuth. Mr. Tyra is the chairperson of this committee. All current members of the Audit Committee are independent as defined in Rule 5605(a)(2) of the NASDAQ listing standards and the Audit Committee Qualifications of Rule 5605(c)(2). The Board of Directors has determined that Mr. Tyra is qualified as an "audit committee financial expert" based on a thorough review of his education and financial experience and is independent as described in the preceding sentences. Our Audit Committee has a written charter, which is available on our website at www.isa-inc.com under Investors.

EXECUTIVE OFFICERS

The following table sets forth certain information with respect to the Company's executive officers.

Name	Served as an Executive Officer From	Age	Position with the Registrant and Other Principal Occupations
Orson Oliver	2013	74	Mr. Oliver has been our director since 2005, our Chairman of the Board since 2012 and our interim Chief Executive Officer since 2013. He currently holds an officer position as General Counsel with the A.J. Schneider Company. He has over thirty-five years of experience in banking and financial consulting. Mr. Oliver began his career in 1968 as an attorney with the U.S. Treasury Department in Washington, D.C. In 1975, he joined the Bank of Louisville as general counsel. In 1985, he became president of the Bank of Louisville. When Branch Banking and Trust Company acquired the Bank of Louisville in 2003, the Bank of Louisville had assets of $1.6 billion and was the largest, locally managed bank in Louisville, Kentucky. Since his retirement from banking in February 2004, Mr. Oliver has worked as an independent general business consultant for the Al J. Schneider Company, a corporation with a number of large hotels and real estate holdings in the Louisville, Kentucky area. From May 2004 through December 2011, Mr. Oliver also worked as an independent general business consultant for PNC Bank, which is headquartered in Pittsburgh, Pennsylvania. Mr. Oliver was a member of the Board of Directors of the Al J. Schneider Company from February 2004 through June 2016. Beginning in 2013, Mr. Oliver also serves as a director of the Bankers' Bank of Kentucky.
Todd L. Phillips	2014	41	Mr. Phillips was appointed President in September 2016, was appointed Secretary in June 2016, and continues to be Chief Financial Officer, a position he has held since December 31, 2014. Mr. Phillips joined ISA from CRS Reprocessing, LLC, where he held the positions of Chief Operating Officer and Chief Financial Officer from January 2009 to December 2014. CRS is a private-equity backed company with operations in the United States, Europe and Asia. Prior to CRS, Mr. Phillips was Chief Financial Officer at Genscape, Inc. from March 2004 to January 2009, a global information provider to energy commodity traders. Genscape was backed by private equity firm Oaktree Capital and was honored twice during Mr. Phillips's tenure as an Inc. 500 company, recognizing Genscape as one of the 500 fastest growing companies in the United States. Mr. Phillips was the corporate controller for Metal Sales Manufacturing Corporation from March 2002 to March 2004. Mr. Phillips began his career at Arthur Andersen LLP from December 1997 through March 2002 following his graduation from the University of Kentucky. He is a Certified Public Accountant and holds degrees in accounting and business administration, with a focus on finance, from the University of Kentucky.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors, certain officers and persons who own more than ten percent (10%) of our outstanding common stock to file with the Securities and Exchange Commission reports of changes in ownership of our common stock held by such persons. Officers, directors and greater than 10% shareholders must furnish us with copies of all forms they file under this regulation. To our knowledge, based solely on a review of the copies of such reports furnished to us and representations from reporting persons that no other reports including Forms 5 were required, all Section 16(a) filing requirements applicable to all of our officer, directors and greater than 10% shareholders were timely complied with during 2016.

Code of Ethics

The Board of Directors has adopted our Code of Ethics for the Chief Executive Officer and Financial Executives, which is available on our website at www.isa-inc.com under Investors. The Company will post any waivers to the Code of Ethics to our website. Shareholders may communicate directly with the Board of Directors in writing by sending a letter to the Board at: Industrial Services of America, Inc., 7100 Grade Lane, Louisville, KY 40213 or by a secure e-mail via our website at www.isa-inc.com.

Item 11. Executive Compensation.

EXECUTIVE COMPENSATION DISCUSSION

In accordance with SEC regulations, the following table summarizes the compensation awarded to, paid to, or earned by: (i) all persons who served as our principal executive officer during 2016, and (ii) our most highly compensated executive officer, other than the principal executive officer, who was serving as an executive officer at December 31, 2016 and (iii) the executive officer for whom disclosure would otherwise have been required who was not serving as an executive officer at December 31, 2016 (collectively the "Named Executive Officers").

2016 Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Bonus ($)	Share-Based Compensation ($)	Non-Equity Incentive Plan Compensation ($)	All Other Compensation ($)		Total ($)
Orson Oliver	2016	$ —	$ —	$ —	$ —	$ 52,400	(1)	$ 52,400
Interim Chief Executive Officer	2015	—	—	—	—	20,000	(1)	20,000
Sean Garber	2016	$ 232,512	$ —	$ —	$ 180,000	$ 19,061	(2)	$ 431,573
President (Former)	2015	250,000	—	—	—	29,747	(2)	279,747
Todd L. Phillips	2016	$ 220,000	$ 110,000	$ 189,000	$ 100,000	$ —	(3)	$ 619,000
President, Secretary, and Chief Financial Officer	2015	206,000	40,000	60,200	—	—	(3)	306,200

(1) Mr. Oliver was appointed interim CEO in June 2013. He does not receive any compensation for serving in this role. Amounts reflect director's fees earned of $52,400 in 2016 and $20,000 in 2015.

(2) In connection with a management agreement between the Company and Algar, Inc., the Company was required to reimburse Algar for the portion of Mr. Garber's salary that was attributable to Algar's services under this management agreement in an amount not to exceed $20.8 thousand per month, or $250.0 thousand per year plus other expenses. We reimbursed Algar $232.5 thousand for Mr. Garber's salary and $19.1 thousand for expenses incurred by Algar related to the performance of the management agreement during 2016. As further described below, Algar was also eligible to receive certain bonuses based on improved operating results of the Company. During 2016 through September 30, 2016, Algar earned and the Company accrued a bonus of $180.0 thousand. The management agreement was terminated on September 30, 2016.

(3) Mr. Phillips was appointed President in September 2016, was appointed Secretary in June 2016, and continues to be Chief Financial Officer, a position he has held since December 31, 2014. Amounts shown under Share-Based Compensation represent the grant date fair value of Restricted Stock Units granted on June 15, 2016. For additional information, see Note 12 - Share Based Compensation in the accompanying Notes to Consolidated Financial Statements. Amounts shown under Bonus represent a discretionary cash bonus awarded to Mr. Phillips during 2016. Amounts shown under Non-Equity Incentive Plan Compensation represent a retention bonus earned by Mr. Phillips during 2016. See Annual Incentive Bonuses section below for further detail.

Compensation Risk Assessment

We have assessed the incentive compensation policies and practices for our employees and concluded that they do not create risks that are reasonably likely to have a material adverse effect on the Company. The Company's compensation policies and practices are evaluated to ensure that they do not foster risk-taking above the level of risk associated with the Company's business model.

Interim Chief Executive Officer

Orson Oliver does not receive any compensation in connection with his service as our interim Chief Executive Officer.

Management Services Agreement

On December 2, 2013, the Company and Algar entered into a Management Services Agreement (the "Management Agreement"). The term of the Management Agreement was effective December 1, 2013 with a contractual term expiring on December 31, 2016, subject to earlier termination upon mutual agreement or upon circumstances set forth in the agreement. On September 30, 2016 (the "Termination Effective Date"), the Company and Algar mutually agreed to terminate the Management Agreement pursuant to the Termination Agreement.

Effective September 30, 2016, pursuant to the Termination Agreement, Mr. Garber resigned from all positions with the Company, including as President.

For more information related to the compensation of Mr. Garber as President, see the discussion of the Management Agreement in Note 2 - Management Services Agreement with Algar, Inc. in the accompanying Notes to Consolidated Financial Statements. Other than as required by the Management Agreement, Mr. Garber did not receive any compensation in connection with his service as our President.

Under the Management Agreement, we were required to pay Algar a bonus in an amount equal to 10.0% of any year-over-year increase in the Company's adjusted pre-tax income (as defined) during the term. During 2016 through the Termination Effective Date, Algar earned and the Company accrued a bonus of $180.0 thousand.

Compensation Committee

The members of the Compensation Committee are Messrs. Cozzi and Yarmuth. The Compensation Committee is responsible for making recommendations to the Board regarding salaries and bonuses that we pay to our executive officers. This committee held one duly called meeting in 2016. This committee does not have a chairperson. All functions of the Compensation Committee are performed by the committee as a whole. However, the Compensation Committee confers with our interim Chief Executive Officer and President to obtain additional input for the committee's decision-making process and recording our processes and procedures for determination of executive and director compensation, including the scope of authority of the Compensation Committee, the extent to which the Compensation Committee may delegate any authority, and any role of executive officers in determining or recommending the amount or form of executive and director compensation. The Compensation Committee has delegated to our President decisions regarding non executive employee compensation. None of our executive officers served as a member of the Compensation Committee of another entity. Our Compensation Committee has a written charter, which is available on our website at www.isa-inc.com under Investors.

Compensation Committee Consultant

In January 2011 the Compensation Committee retained Bostonian Group, a Marsh & McLennan Agency Company, to undertake a market assessment and provide trend information on incentive compensation plans. Bostonian Group used Towers Watson Top Management Report (Services: $100M - $449M), Mercer Executive Compensation Survey (General Industry Less Than $500M), and Salary.com Companalyst Survey (General Industry $200M - $500M) as well as a peer group of companies to determine the benchmark range of competitive salaries and incentives from which to determine the appropriate salaries and incentives for the Company's executives and senior managers. The market composite was calculated from the 25th, 50th and 75th percentiles of the aggregate peer group data and the three published surveys, with each weighted 25%. Bostonian Group also provided a summary of the peer group prevalent compensation practices, including merit increases, promotions, market adjustments, and target cash and equity incentives. Bostonian Group identified the group of public companies as the peer group that was similar to the Company (Avalon Holdings Corp, Casella Waste Systems Inc, Ceco Environmental Corp, Davey Tree Expert Co, Heritage-Crystal Clean Inc, Homeland Security Capital CP, Metalico Inc, Perma-Fix Environmental Svcs, Schnitzer Steel Inds, Team Inc, TRC Cos Inc, Unvl Stainless & Alloy Prods, US Ecology Inc, Versar Inc, Waste Connections Inc, Waste Management Inc, Waste Services Inc, WCA Waste Corp) in one or more of the following ways:

- Operate in the scrap metal, waste management, recycling or related environmental services industries;
- Reported revenue ranging from $36 million to $562 million in their most recent fiscal year; and
- Employ executives in positions similar to those of the Company's senior management.

The Compensation Committee subsequently retained a second consultant, RS Finance & Consulting, LLC, to supplement Bostonian Group's data by identifying additional public companies with gross margins and number of employees that were similar to those of the Company, and analyzing the compensation practices of those companies. At the request of our President, RS Finance & Consulting updated its data in connection with the negotiation of our CFO's employment agreement in 2014. Since this update, the Compensation Committee has not consulted any third parties on compensation matters.

Executive Employment Agreement and Stock Option Agreements with Chief Financial Officer

On December 31, 2014, in connection with the hiring of a new Chief Financial Officer, our then President, Sean Garber, negotiated and we entered into an Executive Employment Agreement with Mr. Phillips having successive one-year terms, which are automatically extended unless earlier terminated by either party in accordance with the agreement.

Mr. Phillips' annual base salary increased from an annual rate of $200.0 thousand to an annual rate of $220.0 thousand on July 1, 2015. Mr. Phillips is eligible to receive an annual bonus with a target of 50% of his then-current annual base salary. The Company’s Compensation Committee may determine, in its sole discretion, whether the CFO will receive an annual bonus.

At the time of entry into his employment agreement, we entered into two Stock Option Agreements with our CFO, dated December 31, 2014 and January 2, 2015, respectively. Under these agreements, our CFO received a grant of an aggregate of 170.0 thousand non-incentive stock options which vest over a three-year period, with 1/3 vesting on the first anniversary of the grant date and 1/6 vesting every six months thereafter until the three-year anniversary of the grant date. The stock option agreement dated December 31, 2014 granted our CFO 150.0 thousand stock options at an exercise price per share of $5.97. The stock option agreement dated January 2, 2015 granted our CFO 20.0 thousand stock options at an exercise price per share of $5.71. The exercise price per share of the options is equal to the fair market value of the Company’s common stock on the grant date. These options were cancelled on June 15, 2016.

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 Restricted Stock Units ("RSUs") to the CFO. The RSUs vest as follows if and to the extent that the CFO remains employed by the Company through each of the following dates: (i) on July 1, 2016, 50.00% (45,000) of the RSUs vested and became nonforfeitable; (ii) on December 31, 2016, 12.50% (11,250) of the RSUs vested and became nonforfeitable; (iii) on June 30, 2017, 12.50% (11,250) of the RSUs vest and become nonforfeitable; (iv) on December 31, 2017, 12.50% (11,250) of the RSUs vest and become nonforfeitable; and (v) on June 15, 2018, 12.50% (11,250) of the RSUs vest and become nonforfeitable. 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 has continued his employment by the Company through December 31, 2016 and the related 56,250 RSUs have vested and become nonforfeitable.

The stock options and one-time stock option exchange were granted pursuant to the Company’s 2009 Long Term Incentive Plan.

Base Salary

When determining base salary levels for senior management, we evaluate base salary levels of similar positions in the group of our selected peer companies. Base salaries reflect an executive's roles and responsibilities and recognize and reward individual skills, experience and sustained job performance.

Under Mr. Phillips’s executive employment agreement, his base salary was $200.0 thousand per year until June 30, 2015, at which time his salary increased to $220.0 thousand per year.

Annual Incentive Bonuses

The Company's annual incentive compensation plan is a cash-based, pay-for-performance incentive plan. The plan covers executives and certain other personnel as determined by the Compensation Committee and the Company's President. The incentive compensation plan rewards the achievement of certain corporate operating and financial targets set by the Compensation Committee at the beginning of each year.

The Compensation Committee may also establish individual performance goals for executives and other employees in connection with annual incentive compensation. The Compensation Committee awarded Mr. Phillips a discretionary bonus earned during 2016 and to be paid in 2017 of $110.0 thousand.

Long Term Incentive Plan

Long-term incentive compensation opportunities may be performance-based. Long-term incentives provided by the Company may consist of equity awards based on achievement of certain corporate targets. The Company may award long-term incentives in the form of restricted stock, stock options and other forms of equity incentives as more fully described in the Company's 2009 Long-Term Incentive Plan. Equity-based performance awards provide an adequate incentive to management to perform well for shareholders. In addition, equity awards have been an effective means of attracting and retaining management talent.

Long-term incentive plans are designed to ensure that incentive compensation reflects the growth and profitability of the Company. Each of the equity-based awards offered by the Company is intended to reward specified results. These awards promote a long-term view, reward long-term positive performance of the Company, and are intended to align management's interests with shareholders' interests.

Stock Options and Restricted Stock Units

The Company awards stock options and RSUs because it believes they serve a valuable purpose in aligning management's interests with shareholders' interests. Because stock options and RSUs generally vest over time, they serve not only as an incentive for superior performance, but also as a retention device. The Company generally receives an income tax deduction when an executive exercises a stock option or when the RSUs vest.

Perquisites

The Company provides certain members of management various perquisites that are provided by similar companies throughout the industry and include health, dental, vision, life and disability insurance and in the case of some Named Executive Officers, car allowances. We furnish these benefits to provide an additional incentive for our management and to remain competitive in the general marketplace for managerial talent.

Retirement and Other Benefits

The Compensation Committee reviews the overall cost to the Company of the various programs generally when changes are proposed. The Compensation Committee believes the benefits provided by these programs are important factors in attracting and retaining executive officers, including the Named Executive Officers.

401(k) Savings Plans

Our CFO is eligible to participate in our defined contribution retirement plan under Section 401(k) of the Internal Revenue Code on the same basis as all other eligible employees. Eligible employees may contribute 100.0% of their annual salary to meet the IRS limit of $18,000. In an effort to decrease expenses, we suspended the employee match under the plan for an undetermined period of time effective March 1, 2014.

Health and Welfare Plan

We share or pay for the cost of medical, dental, vision, basic life insurance and disability benefits with all eligible full-time regular employees. Our CFO is eligible to participate in these benefits on the same basis as all other employees, unless otherwise specified in an individual employment contract.

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Compensation Recovery

We expect to implement a clawback policy in accordance with the requirements of the Dodd-Frank Act and the regulations that the SEC is expected to issue under that Act. We have elected to wait until the SEC issues guidance about the proper form of a clawback policy before formulating our policy.

Termination and Change of Control Agreements

CFO Employment Agreement and Retention Agreement

If our CFO's employment is terminated by the Company without "Cause" or due to his resignation for "Good Reason", he will be entitled to the continued payment of his base salary and COBRA premiums for twelve months following such termination. Our CFO's receipt of the payments and benefits described in this paragraph is contingent on his execution and non-revocation of a release of claims in favor of the Company.

Following the termination of our CFO's employment with the Company, he is subject to non-competition and non-solicitation covenants, which extend for 12 months following termination of employment.

Under a Retention Agreement with our CFO dated as of March 25, 2016, under which we would pay our 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 remains employed with the Company on those dates, if our CFO's employment is terminated without Cause or for Good Reason (as defined) during 2017, we are required to pay him an amount equal to $125.0 thousand times the quotient of the number of full months employed in 2017 divided by 12.

Outstanding Equity Awards at Fiscal Year-End 2016

The following table provides information with respect to outstanding equity awards for each Named Executive Officer as of December 31, 2016.

Name	Option Awards				
	Number of Securities Underlying Unexercised Options (#) Exercisable	Option Exercise Price ($)	Option Expiration Date	Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
Orson Oliver (1) Interim CEO	86,000	$4.68	May 16, 2019	—	—
Todd L. Phillips (2) President, Secretary, and Chief Financial Officer	—	NA	NA	33,750	60,413

(1) Mr. Oliver was awarded 86,000 options to purchase shares of our Common Stock on May 16, 2014. The market value of the stock options is based on a closing price of $4.68 per share on grant date. These shares were fully vested on the grant date.

(2) Mr. Phillips has 33,750 RSUs outstanding at December 31, 2016. The RSUs vest as follows if and to the extent that Mr. Phillips remains employed by the Company through each of the following dates: (i) on June 30, 2017, 11,250 RSUs vest and become nonforfeitable; (ii) on December 31, 2017, 11,250 RSUs vest and become nonforfeitable; and (iii) on June 15, 2018, 11,250 RSUs vest and become nonforfeitable. Market value was computed using the Company's closing stock price on December 30, 2016, the last trading date before the Company's fiscal year ended, which was $1.79.

2016 Director Compensation Table

The following table summarizes the compensation earned by or awarded to each director, other than a Named Executive Officer, during 2016.

Name	Fees Earned or Paid in Cash ($) (1)	Option Awards ($)	All Other Compensation ($)	Total ($)
Orson Oliver	$ 40,000	$ —	$ —	$ 40,000
Vince Tyra	60,500	—	—	60,500
William Yarmuth	50,875	—	—	50,875
Albert Cozzi	58,875	—	—	58,875
Ronald Strecker	41,000	—	—	41,000

(1) The amount reflects fees of $5,000 per Board meeting, $2,000 per Compensation Committee and $2,000 per Audit Committee meeting and retainer and hourly fees payable for Special Committee service for those directors attending in person or video conferencing and assigned to the respective committee. See also the "Executive Compensation Discussion and Analysis" section for a discussion of Orson Oliver's compensation. In addition to serving as our Chairman, Mr. Oliver also serves as our interim CEO.

Beginning with the June 2016 Board meeting, the Company revised its Board compensation policy to provide for payments to Board members of $5,000 per Board meeting and $2,000 per committee meeting. For service on the Board’s Special Committee, the Chairman of that committee, Mr. Tyra, receives a monthly retainer of $5,000 per month, and other members, Messrs. Cozzi and Yarmuth, of that committee receive $3,000 per month.

The Board held three conference calls during 2016 and received no compensation for those meetings. The Board has not established a policy regarding compensation for telephonic meetings.

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

Shares Available for Grant and Options/Warrants Outstanding

The following information is provided as of December 31, 2016 with respect to our existing compensation plans, including individual compensation arrangements, under which our equity securities are authorized for issuance:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights ($)	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	502,000	$4.78	1,636,094
Equity compensation plans not approved by security holders	—	—	—
Total	502,000	$4.78	1,636,094

The Company had 45,150 Restricted Stock Units outstanding at December 31, 2016.

VOTING SECURITIES

The following table sets forth information regarding beneficial ownership of our common stock as of March 22, 2017 for (i) each of our Named Executive Officers, directors and nominees for director, (ii) each person known to management to own of record or beneficially more than five percent of our outstanding shares, and (iii) all of our executive officers and directors as a group.

Name	Amount and Nature of Beneficial Ownership (1)(2)(3)		Percentage of Class (1)	
Orson Oliver 7100 Grade Lane Louisville, KY 40213	1,951,705	(4)	23.92%	(4)
Todd Phillips	63,805		*	
Albert Cozzi	191,752	(5)	2.35%	(5)
William Yarmuth	33,953	(6)	*	(6)
Vince Tyra	30,000	(7)	*	(7)
Sean Garber	50,670		*	
All directors and executive officers as a group	2,321,885	(8)	28.01%	(8)

* denotes less than 1% ownership

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Name and Address	Amount and Nature of Beneficial Ownership (1)(2)(3)		Percentage of Class (1)	
Other Beneficial Ownership over 5%:				
Recycling Capital Partners, LLC 295 S. Commerce Drive Waterloo, IN 46793	1,714,286	(9)	19.19%	(9)
Daniel M. Rifkin 295 S. Commerce Drive Waterloo, IN 46793	1,714,286	(9)	19.19%	(9)
Harry Kletter Family Ltd. Ptnsp 7100 Grade Lane Louisville, KY 40213	750,000	(10)	9.29%	(10)
K&R, LLC 7100 Grade Lane Louisville, KY 40213	549,168	(10)	6.80%	(10)
The Estate of Harry Kletter 7100 Grade Lane Louisville, KY 40213	517,788	(10)	6.41%	(10)
David Russell P.O. Box 280481 Northridge, CA 91328	802,449	(11)	9.90%	(11)

(1) The table reflects share ownership and the percentage of such share ownership as of March 22, 2017. We have determined the percentages on the basis of 8,074,541 shares of our Common Stock outstanding and exclusive of 30,690 shares of Common Stock held as Treasury stock.

(2) Except as otherwise indicated, each person or entity shown has sole voting and investment power with respect to the shares of common stock beneficially owned by him, her or it.

(3) Based upon information furnished to the Company by the named persons, information contained in filings with the SEC, and information in our shareholder records. Under the rules of the SEC, a person is deemed to beneficially own shares over which the person has or shares voting or investment power or has the right to acquire beneficial ownership within 60 days, and such shares are deemed to be outstanding for the purpose of computing the percentage beneficially owned by such person or group. However, we do not consider shares of which beneficial ownership can be acquired within 60 days to be outstanding when we calculate the percentage ownership of any other person.

(4) Includes options to purchase 86,000 shares exercisable within 60 days of March 22, 2017 and 3,750 shares held in Trusts for Mr. Oliver's daughter and minor grandchildren for which Mr. Oliver is the trustee. Also includes 517,788 shares held by the Estate of Harry Kletter of which Mr. Oliver is executor, 750,000 shares owned by The Harry Kletter Family Limited Partnership of which Mr. Oliver is general partner, and 549,168 shares owned by K&R, LLC which is controlled by Mr. Oliver.

(5) Includes options to purchase 68,000 shares exercisable within 60 days of March 22, 2017.

(6) Includes options to purchase 30,000 shares exercisable within 60 days of March 22, 2017.

(7) Includes options to purchase 30,000 shares exercisable within 60 days of March 22, 2017.

(8) Includes the options described in notes 4 through 10 above to purchase 214,000 shares exercisable within 60 days of March 22, 2017.

(9) Based on information set forth on Schedule 13D/A filed with the SEC on October 14, 2014. As sole manager of Recycling Capital Partners, LLC, Daniel M. Rifkin shares voting and dispositive power over these shares. Includes warrants to purchase 857,143 shares exercisable within 60 days of March 22, 2017.

(10) Includes 517,788 shares held by the Estate of Harry Kletter of which Mr. Oliver is executor, 750,000 shares owned by The Harry Kletter Family Limited Partnership of which Mr. Oliver is general partner, and 549,168 shares owned by K&R, LLC which is controlled by Mr. Oliver.

(11) Based on information obtained via email confirmation on March 23, 2017 from David Russell. Includes options to purchase 30,000 shares exercisable within 60 days of March 22, 2017 and the following beneficially owned shares of our common stock: 375,386 shares held in a trust, 98,645 shares held in custodial accounts for Dr. Russell's adult stepson and minor children, and 167,921 shares held in various retirement plans for Dr. Russell's benefit.

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

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Policies and Procedures for Related Person Transactions

Our Board of Directors has adopted written policies and procedures for the review of any transaction, arrangement, or relationship in which we are a participant, the amount involved exceeds $120,000, and one of our executive officers, directors, director nominees or 5% shareholders (or their immediate family members), each of whom we refer to as a “related person,” has a direct or indirect material interest.

If a related person proposes to enter into such a transaction, arrangement or relationship, which we refer to as a “related person transaction,” the related person must report the proposed related person transaction to our Board. The policy calls for the proposed related person transaction to be reviewed and, if deemed appropriate, approved by our Audit Committee. Whenever practicable, the reporting, review and approval will occur prior to entry into the transaction. If advance review and approval is not practicable, the Audit Committee will review, and in its discretion may ratify the related person transaction. The policy also permits the chairman of the Audit Committee to review and, if deemed appropriate, approve proposed related person transactions that arise between Audit Committee meetings, subject to ratification by the Audit Committee at its next meeting. Any related person transactions that are ongoing in nature will be reviewed annually. If the related person at issue is a director of the Company, or a family member of a director, then that director would recuse himself and abstain from voting on the approval of the related person transaction, but may, if so requested by the chair of the Audit Committee, participate in some or all of the committee's discussions of the related person transaction.

A related person transaction reviewed under the policy will be considered approved or ratified if it is authorized by the Audit Committee after full disclosure of the related person's interest in the transaction.

As appropriate for the circumstances of the related person transaction, the Audit Committee will review and consider the following:

- The related person's interest in the related person transaction;
- The approximate dollar value of the amount involved in the related person transaction;
- The approximate dollar value of the amount of the related person's interest in the transaction without regard to the amount of any profit or loss;
- Whether the transaction will be undertaken in the ordinary course of our business;
- Whether the terms of the transaction are no less favorable to us than terms that could have been reached with an unrelated third party;
- The purpose, and the potential benefits to us, of the transaction; and
- Any other information regarding the related person transaction or the related person in the context of the proposed transaction that would be material to investors in light of the circumstances of the particular transaction.

The Audit Committee may approve or ratify the transaction only if it determines that, under all of the circumstances, the transaction is in, and not inconsistent with, our best interests. The Audit Committee may impose any conditions on the related person transaction that it deems appropriate.

Unless the transaction is excluded by the instructions to the SEC's related person transaction disclosure rule, any approved related person transaction would be disclosed in accordance with SEC rules.

The policy provides that transactions involving compensation of executive officers shall be reviewed and approved by the Compensation Committee in the manner specified in its charter.

For more information related to related party transactions, see Note 10 - Related Party Transactions in the accompanying Notes to Consolidated Financial Statements.

Corporate Governance - Director Independence

A majority of our directors are independent. We combined the roles of Chairman of the Board and Chief Executive Officer in 2013. The Board appointed Mr. Oliver as Chairman of the Board in May 2012 due to his legal and financial background as well as his previous work on the Board and as Audit Committee Chairman. On June 14, 2013, the Board appointed Mr. Oliver as interim President and interim Chief Executive Officer, for which he continues to be our interim Chief Executive Officer. Mr. Oliver's legal and financial background as well as his knowledge and experience with the Company make Mr. Oliver capable of effectively identifying strategic priorities and leading the discussion and execution of strategy. Mr. Oliver does not receive any salary from the Company; he receives fees as a director of the Company. We recognize that different Board leadership structures may be appropriate for companies in different situations and believe that no one structure is suitable for all companies at all times. We believe our current Board leadership structure is optimal given its current composition.

The members of the Audit Committee are Messrs. Tyra, Cozzi, and Yarmuth. All current members of the Audit Committee are independent as defined in Rule 5605(a)(2) of the NASDAQ listing standards and the Audit Committee Qualifications of Rule 5605(c)(2).

The members of the Compensation Committee are Messrs. Cozzi and Yarmuth. All current members of the Compensation Committee are independent as defined in Rule 5605(a)(2) of the NASDAQ listing standards and the Compensation Committee Qualifications of Rule 5605(d)(2)(A).

The members of the Nominating Committee are Messrs. Cozzi and Tyra. This committee does not have a chairperson. The Nominating Committee met two (2) times in 2016 One new director nomination was submitted in 2016. Messrs. Cozzi and Tyra are independent as defined in Rule 5605(a)(2) of the NASDAQ listing standards.

Item 14. Principal Accountant Fees and Services.

INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS FEES

The aggregate fees billed for professional services by principal accountants Mountjoy Chilton Medley LLP in 2016 and 2015 are as follows:

Audit Fees: $129,325 and $137,015 to principal accountants Mountjoy Chilton Medley LLP for the years ended December 31, 2016 and 2015, respectively, for services rendered for the annual audit of our financial statements and the quarterly reviews of the financial statements included in our quarterly reports on Form 10-Q.

Audit Related Fees: $8,700 and $8,500 to principal accountants Mountjoy Chilton Medley LLP for the annual audit of our 401(k) retirement plan for the years ended December 31, 2016 and 2015, respectively.

Tax Fees: No tax services were provided by principal accountants Mountjoy Chilton Medley LLP for the years ended December 31, 2016 and 2015.

All Other Fees: No other services were provided by principal accountants Mountjoy Chilton Medley LLP for the years ended December 31, 2016 and 2015.

The Audit Committee is responsible for pre-approving all auditing services and permitted non-audit services that our independent registered public accountants are to perform, except as described below.

The Audit Committee has established general guidelines for the permissible scope and nature of any permitted non-audit services in connection with its annual review of the audit plan and will review such guidelines with the Board of Directors. The full Audit Committee, or in its absence, the chair of the Audit Committee, may pre-approve non-audit services. No pre-approval is necessary for the provision of non-audit services if (1) the aggregate amount of all such non-audit services constitutes no more than 5% of the total amount of revenues paid by us to the registered public accountants during the fiscal year in which the accountants provide the non-audit services, (2) we did not recognize such services at the time of engagement to be non-audit services, and (3) such services are promptly brought to the attention of the Audit Committee and approved prior to the completion of the audit. Mountjoy Chilton Medley LLP did not provide any such services in 2016.

PART IV

Item 15. Exhibits and Consolidated Financial Statement Schedules.

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

(a)(3) List of Exhibits

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

(b) Exhibits.

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INDUSTRIAL SERVICES OF AMERICA, INC.

Dated:	March 31, 2017	By :	/s/ Orson Oliver
			Orson Oliver, Chairman of the Board and Interim Chief Executive Officer

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

Signature	Title	Date
/s/ Orson Oliver Orson Oliver	Chairman of the Board and Interim Chief Executive Officer (Principal Executive Officer)	March 31, 2017
/s/ Todd L. Phillips Todd L. Phillips	President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 31, 2017
/s/ Albert Cozzi Albert Cozzi	Director	March 31, 2017
/s/ Vince Tyra Vince Tyra	Director	March 31, 2017
/s/ William Yarmuth William Yarmuth	Director	March 31, 2017

INDEX TO EXHIBITS

Exhibit Number		Description of Exhibits
2.1	**	Asset Purchase Agreement dated as of December 4, 2015, by and among Industrial Services of America, Inc., WESSCO, LLC, and Compactor Rentals of America, LLC. (Attachments and schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. Industrial Services of America, Inc. hereby undertakes to furnish supplementally copies of any of the omitted attachments and schedules upon request by the U.S. Securities and Exchange Commission.) (Incorporated herein by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K as filed on December 7, 2015) (File No. 0-20979)
2.2	**	Asset Purchase Agreement Amendment No. 1 dated April 1, 2016, by and among Industrial Services of America, Inc., WESSCO, LLC, and Compactor Rentals of America, LLC. (Incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q as filed May 13, 2016) (File No. 0-20979)
2.3	**	Asset Purchase Agreement Amendment No. 2 dated April 15, 2016, by and among Industrial Services of America, Inc., WESSCO, LLC, and Compactor Rentals of America, LLC. (Incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q as filed May 13, 2016) (File No. 0-20979)
3.1	**	Industrial Services of America, Inc. Amended and Restated Articles of Incorporation. (Incorporated herein by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K as filed on March 31, 2014) (File No. 0-20979)
3.2	**	Amended and Restated By-laws of ISA, dated March 8, 2016. (Incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K as filed on March 8, 2016) (File No. 0-20979)
4.1	**	Securities Purchase Agreement dated as of June 13, 2014 between the Company and Recycling Capital Partners, LLC. (Incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K as filed on June 19, 2014) (File No. 0-20979)
4.2	**	Registration Rights Agreement dated as of June 13, 2014 between the Company and Recycling Capital Partners, LLC. (Incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K as filed on June 19, 2014) (File No. 0-20979)
4.3	**	Common Stock Purchase Warrant dated as of June 13, 2014 by the Company to Recycling Capital Partners, LLC. (Incorporated herein by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K as filed on June 19, 2014) (File No. 0-20979)
10.1	**	Lease Agreement, dated January 1, 1998, by and between ISA and K&R. (Incorporated herein by reference to Exhibit 10.10 to the Company's Current Report on Form 8-K as filed on March 3, 1998) (File No. 0-20979)
10.2	**	Industrial Services of America, Inc. 2009 Long Term Incentive Plan. (Incorporated herein by reference to Exhibit 10.57 to the Company's Proxy Statement on Form DEF 14A as filed on April 30, 2009) (File No. 0-20979)*
10.3	**	Form of Stock Option Agreement issued in connection with the 2009 Long Term Incentive Plan. (Incorporated herein by reference to Exhibit 10.57 to the Company's Annual Report on Form 10-K as filed on April 1, 2013) (File No. 0-20979)*

Exhibit Number		Description of Exhibits
10.4	**	Management Services Agreement dated as of December 1, 2013, between the Company and Algar, Inc., including the Stock Option Agreement attached thereto as Attachment A. (Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K as filed on December 4, 2013) (File No. 0-20979)*
10.5	**	Director Designation Agreement dated as of June 13, 2014 between the Company and Recycling Capital Partners, LLC. (Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K as filed on June 19, 2014) (File No. 0-20979)
10.6	**	Securities Purchase Agreement dated December 31, 2014 between the Company and Todd L. Phillips. (Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K as filed on January 5, 2015) (File No. 0-20979)*
10.7	**	Executive Employment Agreement dated December 31, 2014 between the Company and Todd L. Phillips. (Incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K as filed on January 5, 2015) (File No. 0-20979)*
10.8		First Amendment to Executive Employment Agreement, dated February 1, 2017, between the Company and Todd Phillips.*
10.9	**	Stock Option Agreement dated December 31, 2014 between the Company and Todd L. Phillips. (Incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K as filed on January 5, 2015) (File No. 0-20979)*
10.10	**	Stock Option Agreement dated January 2, 2015 between the Company and Todd L. Phillips. (Incorporated herein by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K as filed on January 5, 2015) (File No. 0-20979)*
10.11	**	Offer to Purchase Real Estate dated April 30, 2015 from LK Property Investments, LLC to ISA Real Estate LLC. (Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K as filed on May 6, 2015) (File No. 0-20979)
10.12	**	Lease Agreement dated April 30, 2015 by and between Industrial Services of America, Inc. and LK Property Investments, LLC. (Incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K as filed on May 6, 2015) (File No. 0-20979)
10.13	**	Stock Purchase Agreement, dated as of August 5, 2015, between Industrial Services of America, Inc. and Algar, Inc. (Incorporated herein by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K as filed on August 7, 2015) (File No. 0-20979)*
10.14	**	Loan and Security Agreement dated as of February 29, 2016 between the Company, its subsidiaries and MidCap Business Credit LLC. (Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K as filed on March 2, 2016) (File No. 0-20979)
10.15	**	Revolving Note made by the Company to the order of MidCap Business Credit LLC in face principal amount of $6,000,000. (Incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K as filed on March 2, 2016) (File No. 0-20979)
10.16	**	Pledge and Security Agreement dated as of February 29, 2016 between the Company, its subsidiaries and MidCap Business Credit LLC. (Incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K as filed on March 2, 2016) (File No. 0-20979)

Exhibit Number		Description of Exhibits
10.17	**	Guaranty and Suretyship Agreement of the Company’s subsidiaries as guarantors for the benefit of MidCap Business Credit LLC, dated February 29, 2016. (Incorporated herein by reference to Exhibit 10.4 to the Company’s Current Report on Form 8-K as filed on March 2, 2016) (File No. 0-20979)
10.18	**	Term Note, date February 29, 2016, issued by the Company to K&R, LLC. (Incorporated herein by reference to Exhibit 10.35 to the Company’s Annual Report on Form 10-K as filed on March 25, 2016) (File No. 0-20979)
10.19	**	Term Note, date February 29, 2016, issued by the Company to 7100 Grade Lane, LLC. (Incorporated herein by reference to Exhibit 10.36 to the Company’s Annual Report on Form 10-K as filed on March 25, 2016) (File No. 0-20979)
10.20	**	Intercreditor and Subordination Agreement, dated February 29, 2016, among the Company and K&R, LLC for the benefit of MidCap Business Credit LLC. (Incorporated herein by reference to Exhibit 10.37 to the Company’s Annual Report on Form 10-K as filed on March 25, 2016) (File No. 0-20979)
10.21	**	Intercreditor and Subordination Agreement, dated February 29, 2016, among the Company and 7100 Grade Lane, LLC for the benefit of MidCap Business Credit LLC. (Incorporated herein by reference to Exhibit 10.38 to the Company’s Annual Report on Form 10-K as filed on March 25, 2016) (File No. 0-20979)
10.22	**	Restricted Stock Unit Grant Agreement, dated March 25, 2016, between the Company and Todd L. Phillips. (Incorporated herein by reference to Exhibit 10.39 to the Company’s Annual Report on Form 10-K as filed on March 25, 2016) (File No. 0-20979)*
10.23	**	Retention Agreement, dated March 25, 2016, between the Company and Todd L. Phillips. (Incorporated herein by reference to Exhibit 10.40 to the Company’s Annual Report on Form 10-K as filed on March 25, 2016) (File No. 0-20979)*
10.24	**	Restricted Stock Unit Grant Agreement, dated as of June 15, 2016, between Industrial Services of America, Inc. and Todd L. Phillips. (Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K as filed on June 16, 2016) (File No. 0-20979)
10.25	**	Industrial Services of America, Inc. Amended and Restated Long Term Incentive Plan, restated as of June 15, 2016. (Incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K as filed on June 16, 2016) (File No. 0-20979)
10.26	**	Agreement to Terminate Management Services Agreement dated as of September 30, 2016, by and among: (i) Algar, Inc., (ii) Sean Garber, and (iii) Industrial Services of America, Inc. (Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K as filed on October 4, 2016) (File No. 0-20979)
10.27		First Amendment to the Loan and Security Agreement dated as of March 31, 2017 between the Company, its subsidiaries and MidCap Business Credit LLC.
11		Statement of Computation of Earnings Per Share (See Note 9 in the accompanying Notes to Consolidated Financial Statements).
21		List of subsidiaries of Industrial Services of America, Inc.

23	Consent of Independent Registered Public Accounting Firm.
31.1	Rule 13a-14a Certification of Orson Oliver for the Form 10-K for the year ended December 31, 2016
31.2	Rule 13a-14a Certification of Todd L. Phillips for the Form 10-K for the year ended December 31, 2016
32.1	Section 1350 Certification of Orson Oliver and Todd L. Phillips for the Form 10-K for the year ended December 31, 2016.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Document
101.DEF	XBRL Taxonomy Extension Definitions Document
101.LAB	XBRL Taxonomy Extension Labels Document
101.PRE	XBRL Taxonomy Extension Presentation Document

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

**Previously filed.

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

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016 and 2015

CONTENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Industrial Services of America, Inc. and Subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive loss, shareholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Industrial Services of America, Inc. and Subsidiaries as of December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Mountjoy Chilton Medley LLP
/s/ Mountjoy Chilton Medley LLP
Louisville, Kentucky
March 31, 2017

INDUSTRIAL SERVICES OF AMERICA, INC.
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2016 and 2015

	2016	2015
ASSETS	**(in thousands)**	
Current assets		
Cash and cash equivalents	$ 526	$ 642
Income tax receivable	14	14
Accounts receivable – trade after allowance for doubtful accounts of $35.0 thousand in 2016 and 2015	3,361	1,669
Receivables from related parties (Note 10)	150	208
Inventories (Note 1)	3,437	2,410
Prepaid expenses and other current assets	216	160
Total current assets	7,704	5,103
Net property and equipment (Note 1)	13,068	14,152
Other assets		
Deferred income taxes (Note 7)	27	97
Other non-current assets	57	82
Total other assets	84	179
Total assets	$ 20,856	$ 19,434

See accompanying notes to consolidated financial statements.

INDUSTRIAL SERVICES OF AMERICA, INC.
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2016 and 2015

		2016		2015
LIABILITIES AND SHAREHOLDERS' EQUITY		**(in thousands)**		
Current liabilities				
Current maturities of long-term debt (Note 3)	$	2,942	$	20
Current maturities of capital lease obligations (Note 4)		198		—
Bank overdrafts		79		—
Accounts payable		1,605		2,152
Payable and accrued expenses to related parties (Note 10)		578		1,922
Other current liabilities		627		194
Total current liabilities		6,029		4,288
Long-term liabilities				
Long-term debt, related parties (Note 3 and 10)		1,504		—
Capital lease obligations, net of current maturities (Note 4)		1,050		—
Total long-term liabilities		2,554		—
Shareholders' equity				
Common stock, $0.0033 par value: 20.0 million shares authorized in 2016 and 2015; 8,105,231 and 8,049,622 shares issued in 2016 and 2015, respectively; 8,074,541 and 8,018,932 shares outstanding in 2016 and 2015, respectively		27		27
Additional paid-in capital		23,912		23,555
Stock warrants outstanding		1,025		1,025
Retained losses		(12,647)		(9,417)
Treasury stock at cost, 30,690 shares in 2016 and 2015		(44)		(44)
Total shareholders' equity		12,273		15,146
Total liabilities and shareholders' equity	$	20,856	$	19,434

See accompanying notes to consolidated financial statements.

INDUSTRIAL SERVICES OF AMERICA, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended December 31, 2016 and 2015

	2016	2015
	(in thousands, except per share information)	
Revenue from product sales	$ 36,505	$ 46,180
Cost of sales for product sales	35,086	49,105
Impairment loss, property and equipment	—	637
Inventory adjustment for lower of cost or market (Note 1)	—	1,283
Total cost of sales	35,086	51,025
Operating income (loss)	1,419	(4,845)
Selling, general, and administrative expenses	4,475	3,879
Loss before other income (expense)	(3,056)	(8,724)
Other income (expense)		
Interest expense, including loan fee amortization	(509)	(695)
Gain on sale of assets	—	320
Gain on insurance proceeds	399	—
Other income, net	16	27
Total other expense	(94)	(348)
Loss before income taxes	(3,150)	(9,072)
Income tax provision (Note 7)	80	13
Net loss from continuing operations	(3,230)	(9,085)
Income from discontinued operations, net of tax, including gain of $6.0 million in 2015	—	7,320
Net Loss	$ (3,230)	$ (1,765)
Net income (loss) per share of common stock:		
Basic:		
Continuing operations	$ (0.40)	$ (1.14)
Discontinued operations	$ —	$ 0.92
Diluted:		
Continuing operations	$ (0.40)	$ (1.14)
Discontinued operations	$ —	$ 0.92
Weighted average shares outstanding:		
Basic	8,048	7,989
Diluted	8,048	7,989

See accompanying notes to consolidated financial statements.

INDUSTRIAL SERVICES OF AMERICA, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
Years ended December 31, 2016 and 2015

	2016		2015	
	(in thousands)			
Net loss	$	(3,230)	$	(1,765)
Other comprehensive income (loss):				
Unrealized loss on derivative instruments		—		(5)
Amounts reclassified from accumulated other comprehensive income		—		15
Comprehensive loss	$	(3,230)	$	(1,755)

See accompanying notes to consolidated financial statements.

INDUSTRIAL SERVICES OF AMERICA, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Years ended December 31, 2016 and 2015
(in thousands, except share information)

	Common Stock						Treasury Stock		
	Shares	Amount	Additional Paid-in Capital	Stock Warrants	Retained Losses	Accumulated Other Comprehensive Income	Shares	Cost	Total Shareholders' Equity
Balance as of December 31, 2014	8,049,622	$ 27	$ 23,249	$ 1,025	$ (7,652)	$ (10)	(93,212)	$ (134)	$ 16,505
Common stock	—	—	99	—	—	—	62,522	90	189
Unrealized gain on derivative instruments	—	—	—	—	—	(5)	—	—	(5)
Amounts reclassified from accumulated other comprehensive income	—	—	—	—	—	15	—	—	15
Stock option compensation	—	—	207	—	—	—	—	—	207
Net loss	—	—	—	—	(1,765)	—	—	—	(1,765)
Balance as of December 31, 2015	8,049,622	$ 27	$ 23,555	$ 1,025	$ (9,417)	$ —	(30,690)	$ (44)	$ 15,146
Common stock	55,609	—	—	—	—	—	—	—	—
Share-based compensation	—	—	357	—	—	—	—	—	357
Net loss	—	—	—	—	(3,230)	—	—	—	(3,230)
Balance as of December 31, 2016	8,105,231	$ 27	$ 23,912	$ 1,025	$ (12,647)	$ —	(30,690)	$ (44)	$ 12,273

See accompanying notes to consolidated financial statements.

INDUSTRIAL SERVICES OF AMERICA, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2016 and 2015

	2016	2015
	(in thousands)	
Cash flows from operating activities		
Net loss from continuing operations	$ (3,230)	$ (9,085)
Adjustments to reconcile net loss to net cash (used in) from operating activities:		
Depreciation and amortization	2,297	2,354
Inventory write-down	—	1,283
Share-based compensation expense	357	207
Impairment loss, property and equipment	—	637
Gain on sale of property and equipment	—	(320)
Gain from insurance proceeds	(399)	—
Deferred income taxes	70	—
Amortization of loan fees included in interest expense	130	242
Change in assets and liabilities		
Receivables	(1,692)	7,278
Receivables from related parties	58	201
Inventories	(1,027)	2,029
Income tax receivable/payable	—	(41)
Other assets	80	128
Accounts payable	(547)	(470)
Payables to related parties	160	521
Other current liabilities	433	66
Net cash (used in) from operating activities	(3,310)	5,030
Cash flows from investing activities		
Proceeds from insurance claim	479	—
Proceeds from sale of property and equipment	—	2,117
Purchases of property and equipment	(8)	(21)
Net cash from investing activities	471	2,096
Cash flows from financing activities		
Loan fees capitalized	(241)	—
Change in bank overdrafts	79	(79)
Payments on long-term debt	(20)	(16,253)
Proceeds from long-term debt	—	362
Payments on capital lease obligations	(37)	—
Proceeds from revolving line of credit, net	2,942	—
Net cash from (used in) financing activities	2,723	(15,970)
Cash flows from discontinued operations		
Net cash provided by operating activities	—	1,783
Net cash provided by investing activities	—	6,644
Net cash from discontinued operations	—	8,427
Net change in cash and cash equivalents	(116)	(417)
Cash and cash equivalents at beginning of year	642	1,059
Cash and cash equivalents at end of year	$ 526	$ 642

See accompanying notes to consolidated financial statements.

INDUSTRIAL SERVICES OF AMERICA, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2016 and 2015

	2016	2015
	(in thousands)	
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 300	$ 532
Tax refunds received	5	2
Cash paid for income taxes	15	58
Supplemental disclosure of noncash investing and financing activities:		
Increase (decrease) in equipment purchases accrual	$ —	$ (30)
Equipment additions financed by capital lease obligations	1,285	—
Conversion of related party payables to long-term debt, related parties	1,504	—
Common stock issued in exchange for a reduction of accrued but unpaid bonus compensation	—	189
Real estate sale proceeds used to offset accrued but unpaid bonus compensation	—	50

See accompanying notes to consolidated financial statements.

INDUSTRIAL SERVICES OF AMERICA, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Industrial Services of America, Inc. (a Florida corporation) and its subsidiaries ("ISA" or the "Company") purchases and sells ferrous and nonferrous materials at four Kentucky and Indiana locations. Additionally, ISA operates Pick.Pull.Save used automobile parts yard. All of these activities operate under the Company's Recycling Segment. During 2015, ISA sold substantially all of the Waste Services Segment assets. See Note 15 - Discontinued Operations for further information. Accordingly, as of December 4, 2015, the Company's operations are solely in the Recycling Segment.

The Company's core business is now focused on the metal recycling industry. During 2016, the Company announced that the Company formed a special committee of independent board members to evaluate various growth and strategic options. During the first quarter of 2017, the special committee concluded its work and reported to the Board. The Board accepted the special committee's recommendation to focus on returning the core recycling business to profitability. The Company intends to do this by increasing efficiencies and productivity while evaluating various options which may include operating the Company's auto shredder. The Company will also remain alert for possible strategic partnerships, joint ventures and mergers/acquisitions. Also, on March 31, 2017, the Company entered into an amended credit facility with MidCap (see Note 3 - Long Term Debt and Notes Payable to Bank), which extended the maturity date of the Company's line of credit and increased the available borrowing capacity of the line of credit, subject to certain borrowing base restrictions and approvals.

The Company also announced on October 4, 2016 that the Company and Algar mutually agreed to terminate the Management Agreement between them, pursuant to the Agreement to Terminate Management Services among the Company, Algar, and Sean Garber dated as of September 30, 2016. Effective September 30, 2016, Mr. Garber resigned from all positions with the Company, including as President. Also, on September 30, 2016, the company’s Chief Financial Officer was appointed to serve in the additional role as President.

The Company's Response to 2015 and 2016 Commodity Markets and Liquidity Conditions

During 2015, the Company's average selling price per unit of quantity decreased by 49.4% and 24.9% for ferrous and nonferrous material, respectively, compared to 2014. These decreases also led to significantly lower volumes of material available to the Company to buy and sell. Due to these deteriorating metals commodity market conditions, ISA took significant steps to improve liquidity and pay down debt during 2015 and 2016. Despite modest improvements in metal commodity markets during 2016, low prices combined with low volumes present a difficult ongoing metals recycling market.

The Company took the below steps to address the challenging metal commodity market.

On February 27, 2015, the Company closed on the sale of its Seymour, Indiana property. Also, in conjunction with this decision, the Company signed a lease, effective December 1, 2014, to lease a facility in the Seymour area. See Note 4 - Lease Commitments for further lease information and Note 10 - Related Party Transactions for further related party details. Proceeds were used to reduce debt and improve liquidity.

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

On November 6, 2015, the Company entered into a Forbearance Agreement and Third Amendment to Credit Agreement (the "Forbearance Agreement") by and among the Company, certain of the Company's subsidiaries, and Wells Fargo Bank, National Association ("Wells Fargo"). The Forbearance Agreement amended the Credit Agreement to reduce the Maximum Revolver Amount from $15.0 million to $5.0 million. The Forbearance Agreement also amended the Credit Agreement Maturity Date to March 15, 2016 from June 13, 2019. The Forbearance Agreement increased the interest rate on the outstanding indebtedness by approximately 100 basis points.

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

Under the Forbearance Agreement, the Forbearance Termination Date was the earlier to occur of (i) Wells Fargo's election following the failure of the Loan Parties to satisfy any of the Forbearance Conditions, and (ii) March 15, 2016. See Note 3 - Long Term Debt and Notes Payable to Bank for further details.

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

The Company received cash consideration at closing of $7.5 million, less $150.0 thousand retained by Compactor Rentals (the "Holdback"). In connection with the closing of the transaction, the Company entered into a transition services agreement with Compactor Rentals, pursuant to which the Company will provide certain services to Compactor Rentals until March 31, 2017.

On April 1, 2016, the Company entered Amendment No. 1 to the Asset Purchase Agreement which extended the deadline for the Company to provide written notice if the Company objected to Compactor Rental's calculation of the Holdback. On April 15, 2016, the Company entered into Amendment No. 2 to the Asset Purchase Agreement whereby the Company and Compactor Rentals agreed that the Holdback would be retained by Compactor Rentals based on a mutually-agreed upon calculation of working capital. Amendment No. 2 also detailed the parties' agreement of the following: no indemnification claims would be made by Compactor Rentals arising out of certain matters; certain Compactor Rentals' representatives did not have knowledge of any additional indemnification claims as of April 15, 2016; and the transition services agreement between the parties would be extended at no cost to Compactor Rentals through March 31, 2017. Compactor Rentals assumed certain liabilities relating to the Waste Services Segment, including but not limited to, current liabilities, warranty liabilities, and post-closing liabilities incurred in connection with transferred contracts.

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

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

See Note 15 - Discontinued Operations related to the sale of the Waste Services Segment.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

On February 29, 2016, the Company entered into a Loan Agreement (the "2016 Loan") with MidCap Business Credit, LLC ("MidCap"). The 2016 Loan is secured by substantially all of the assets of the Company. Proceeds from this loan were used to pay transaction expenses and to pay off and close the remaining balance on the Wells Fargo revolving line of credit. On March 31, 2017, the Company entered into an amendment to the 2016 Loan to increase the line of credit from $6.0 million to $8.0 million, subject to the satisfaction of certain borrowing base restrictions, and extend the maturity date to February 28, 2020. See Note 3 - Long Term Debt and Notes Payable to Bank for further details.

Liquidity Risk Factors

The Company's primary sources of liquidity during 2015 and 2016 were cash flows generated from asset sales, the idling of our auto shredder operation and the refinancing and availability of the Company's working line of credit. Influenced primarily by the length and depth of the metals market downturn and the Company's ongoing operating losses, the Company may not be able to fund future capital needs, including necessary working capital, funds for capital expenditures or debt service, from operating cash flow. Consequently, the Company may have to rely on third-party sources to fund capital needs or may have to rely on further asset sales or similar actions. The Company may be unable to obtain third-party financing or conduct asset sales on favorable terms or at all, which could materially and adversely affect our operating results, cash flow and liquidity. Furthermore, the Company cannot provide assurance that sufficient liquidity can be raised from one or more of these sources or that a desired transaction could be consummated within the period needed to meet certain obligations.

Notwithstanding the above, management believes it will have adequate liquidity for at least one year beyond the date this Form 10-K is issued. This determination is based on the following: improved operating results in recent months, operating and cash flow projections for 2017 and 2018, and the amended credit facility with MidCap which extends the maturity date to February 28, 2020 and increases the borrowing availability, subject to certain borrowing base restrictions and approvals as described in Note 3 - Long Term Debt and Notes Payables to Bank.

Revenue Recognition

ISA records revenue for its recycling operations upon delivery of the related materials.

Revenue for the equipment sales divisions was recorded upon delivery of the equipment to the customer. The Company provided installation and training on all equipment and it charged these costs to the customer, recording revenue in the period the service was provided. The Company was the middleman in the sale of the equipment and not a manufacturer. Any warranty was the responsibility of the manufacturer and therefore, no estimates were made for warranty obligations. Allowances for equipment returns were made on a case-by-case basis. Historically, returns of equipment were not material. See Note 15 - Discontinued Operations for further details.

The Company's management services group provided customers with evaluation, management, monitoring, auditing and cost reduction consulting of customers' non-hazardous solid waste removal activities. The Company recognized revenue related to the management aspects of these services when it delivered the services. The Company recorded revenue related to this activity on a gross basis because the Company was ultimately responsible for service delivery, had discretion over the selection of the specific service provided and the amounts to be charged, and was directly obligated to the subcontractor for the services provided. ISA was an independent contractor. If the Company discovered that third party service providers had not performed, either by auditing of the service provider invoices or communications from customers, then the service delivery dispute was resolved directly with the third party service supplier. Revenue from equipment rental was recognized monthly as earned. See Note 15 - Discontinued Operations for further details.

Fair Value of Financial Instruments

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 and derivative instruments (for part of 2015). 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 consider 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, debt and derivatives. 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 tables represent our fair value hierarchy for Level 1 and Level 2 financial instruments, in thousands, at December 31, 2016 and 2015:

	Fair Value at Reporting Date Using		
	Quoted Prices in Active Markets for Identical Assets	**Significant Other Observable Inputs**	
2016:	**Level 1**	**Level 2**	**Total**
Assets:			
Cash and cash equivalents	$ 526	$ —	$ 526
Liabilities			
Current maturities of long term debt	$ —	$ (2,942)	$ (2,942)
Long term debt, related parties	—	(1,171)	(1,171)

	Fair Value at Reporting Date Using		
	Quoted Prices in Active Markets for Identical Assets	**Significant Other Observable Inputs**	
2015:	**Level 1**	**Level 2**	**Total**
Assets:			
Cash and cash equivalents	$ 642	$ —	$ 642
Liabilities			
Long term debt	$ —	$ (20)	$ (20)

The Company had no transfers in or out of Levels 1 or 2 fair value measurements. We have had no activity in Level 3, fair value measurements for the years ended December 31, 2016 or 2015, except for an impairment of property and equipment charge of $636.6 thousand for the year ended December 31, 2015.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

In preparing the consolidated financial statements in conformity with generally accepted accounting principles in the United States of America ("GAAP"), 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 realizability of deferred income tax assets and liabilities, estimates of inventory balances and values, 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.

Discontinued Operations

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

Principles of Consolidation

The 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.

Cash and Cash Equivalents

Cash and cash equivalents includes cash in banks with original maturities of three months or less. Cash and cash equivalents are stated at cost which approximates fair value, which in the opinion of management, are subject to an insignificant risk of loss in value. The Company maintains cash balances in excess of federally insured limits.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable consists primarily of amounts due from customers from product and brokered sales. The allowance for doubtful accounts totaled $35.0 thousand and $35.0 thousand at December 31, 2016 and 2015, respectively. The determination of the allowance for doubtful accounts includes a number of factors, including the age of the balance, estimated settlement adjustments, past experience with the customer account, changes in collection patterns and general economic and industry conditions. Interest is not normally charged on receivables, nor is collateral for receivables normally required. Potential credit losses from significant customers could adversely affect results of operations or financial condition. While the Company believes the allowance for doubtful accounts is adequate, changes in economic conditions or any weakness in the steel and metals industry could adversely impact future earnings. In general, the Company considers accounts receivable past due which are 30 to 60 days after the invoice date. Losses are charged off to the allowance when it is deemed further collection efforts will not provide additional recoveries.

Major Customer:

The Company had sales to a major customer that totaled approximately 12.5% of net sales for the year ended December 31, 2016. The accounts receivable balance related to the major customer was $0.4 million as of December 31, 2016. There were no major customers as of December 31, 2015 with sales and accounts receivable that were greater than 10% of consolidated amounts.

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. See Impact of Recently Issued Accounting Standards at the end of Note 1. Quantities of inventories are determined based on our inventory systems and are subject to periodic physical verification using estimation techniques including observation, weighing and other industry methods. 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Management spent much of 2014 and early 2015 working to assess the Company's automobile shredder residue ("ASR") process. Significant process and strategy changes associated with the ASR process were made. These changes, combined with the significant metals market reduction in market demand and prices experienced in late 2014 and through 2015, caused management to perform a lower of cost-or-market assessment, which resulted in inventory write-downs of $1.3 million for the year ended of December 31, 2015. The Company did not have a lower of cost-or-NRV inventory write-down for the year ended December 31, 2016.

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 shredded, torched 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 as of December 31, 2016 and 2015 consist of the following:

	December 31, 2016			
	Raw Materials	Finished Goods	Processing Costs	Total
	(in thousands)			
Ferrous and non-ferrous materials	$ 2,222	$ 805	$ 410	$ 3,437

	December 31, 2015			
	Raw Materials	Finished Goods	Processing Costs	Total
	(in thousands)			
Ferrous and non-ferrous materials	$ 1,354	$ 652	$ 404	$ 2,410

Property and Equipment

Property and equipment are stated at cost and depreciated on a straight-line basis over the estimated useful lives of the related property.

Property and equipment, in thousands, as of December 31, 2016 and 2015 consist of the following:

	Life	2016	2015
Land		$ 4,993	$ 4,993
Equipment and vehicles	1-10 years	26,606	25,363
Office equipment	1-7 years	1,624	1,624
Building and leasehold improvements	5-40 years	7,708	7,821
		$ 40,931	$ 39,801
Less accumulated depreciation		27,863	25,649
		$ 13,068	$ 14,152

Depreciation expense for the years ended December 31, 2016 and 2015 was $2.3 million and $2.4 million, respectively. Of the $2.3 million of depreciation expense recognized in 2016, $2.2 million was recorded in cost of sales, and $0.1 million was recorded in general and administrative expense. Of the $2.4 million of depreciation expense recognized in 2015, $2.2 million was recorded in cost of sales, and $0.2 million was recorded in general and administrative expense.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Certain Banking Expenses

The Company has included certain banking costs relating to our loans and loan restructuring within interest expense. The loan fees amortization totaled $130.1 thousand and $242.4 thousand for the years ended December 31, 2016 and 2015, respectively. On November 6, 2015, the Company and Wells Fargo entered into a forbearance agreement that changed the maturity date of the debt related to these certain banking expenses to March 15, 2016. Additionally, on December 4, 2015 the Company paid in full a portion of the Wells Fargo debt related to these certain banking expenses. The Company adjusted the amortization period in 2015 for these certain banking expenses accordingly. In 2016, the Company incurred $240.5 thousand in banking expenses when the Company entered into a loan with MidCap.

Shipping and Handling Fees and Costs

Shipping and handling charges incurred by the Company are included in cost of sales and shipping charges billed to the customer are included in revenues in the accompanying consolidated statements of operations.

Advertising Expense

Advertising costs are charged to expense in the period the costs are incurred. Advertising expense was $0.8 thousand and $2.4 thousand for the years ended December 31, 2016 and 2015, respectively.

Derivative and Hedging Activities

The Company is exposed to market risk stemming from changes in metal commodity prices, and interest rates. In the normal course of business, the Company actively manages its exposure to interest rate risks by entering into various hedging transactions, authorized under established policies that place clear controls on these activities. Derivative financial instruments previously used consist of interest rate swap contracts. Derivative financial instruments are accounted for under the provisions of the FASB's authoritative guidance titled "ASC 815 - Derivatives and Hedging." Under these standards, derivatives are carried on the balance sheet at fair value. The Company's interest rate swaps were designated as a cash flow hedge, and the effective portions of changes in the fair value of the derivatives were recorded as a component of other comprehensive income or loss and were recognized in the statement of operations when the hedged item affected earnings. Ineffective portions of changes in the fair value of cash flow hedges were recognized in gain or loss on derivative liabilities. Cash flows related to derivatives were included in operating activities. As of December 31, 2016 and 2015, we do not have any interest rate swap instruments. During part of 2015, we had an interest rate swap outstanding.

The Company does not enter into any interest rate swap derivative instruments for trading purposes. The Company recognizes as an adjustment to interest expense the differential paid or received on interest rate swaps. The change in the fair value of the interest rate swap, which was established as an effective hedge, was included in other comprehensive income. The Company includes the required disclosures for interest rate swaps in Note 3 – Long Term Debt and Notes Payable to Bank.

During 2016 and 2015, we did not use derivative instruments in the form of commodity hedges to assist in managing our commodity price risk. We do not enter into any commodity hedges for trading purposes.

Income Taxes

Deferred income taxes are recorded to recognize the tax consequences on future years of differences between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes, referred to as "temporary differences," and for net operating loss carry-forwards subject to an ongoing assessment of realizability. Deferred income taxes are measured by applying current tax laws. The Company uses the deferral method of accounting for available state tax credits relating to the purchase of the shredder equipment.

The FASB has issued guidance, included in the ASC, related to the accounting for uncertainty in income taxes recognized in financial statements. The Company recognizes uncertain income tax positions using the "more-likely-than-not" approach as defined in the ASC. The amount recognized is subject to estimate and management's judgment with respect to the most likely outcome for each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. The Company has no liability for uncertain tax positions recognized as of December 31, 2016 and 2015.

As a policy, the Company recognizes interest accrued related to unrecognized tax positions in interest expense and penalties in operating expenses. See also Note 7 - Income Taxes for additional information relating to income taxes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Earnings (Loss) Per Share

Basic earnings (loss) per share are computed by dividing net income (loss) by the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share are computed by dividing net income (loss) by the weighted average number of common shares outstanding plus the dilutive effect of stock options and warrants.

Accumulated Other Comprehensive Income (Loss)

Comprehensive income (loss) is net income (loss) plus certain other items that are recorded directly to shareholders' equity. Amounts included in accumulated other comprehensive loss for our derivative instruments are not recorded net of tax in 2015 due to the valuation allowance recorded. See Note 7 - Income Taxes for additional information relating to the valuation allowance. There are no amounts included in accumulated other comprehensive loss for derivative instruments in 2016.

Stock Option 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 our historical experience and future expectations.

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 12 - Share Based Compensation. 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 our actual forfeiture rate is materially different from its 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Subject to shareholder approval and restrictions on exercisability set forth in a Stock Option Agreement entered into on December 2, 2013 between the Company and Algar (the “Stock Option Agreement”), the Company granted Algar an option to purchase a total of 1.5 million shares (in four tranches) of Company common stock (the "Algar Options") at an exercise price per share of $5.00. The Algar Options were not issued under the LTIP. The Company's shareholders approved the Algar Options on October 15, 2014. On September 30, 2016, the Company and Algar mutually agreed to terminate the Management Agreement between them dated as of December 1, 2013. As part of the agreement to terminate the Management Agreement, the Stock Option Agreement was also terminated. See Note 10 - Related Party Transactions for further details.

The Company used the Lattice-Based model to value the Company's stock options for the Algar Options due to market and performance conditions prior to September 30, 2016. See Note 12 - Share Based Compensation. The fair value of the Algar Options was estimated at the end of each quarter for the third and fourth tranches due to ongoing performance conditions. For the first two tranches, the conditions for vesting were met.

Subsequent Events

The Company has evaluated the period from December 31, 2016 through the date the financial statements herein were issued, for subsequent events requiring recognition or disclosure in the financial statements and the following event was identified:

As more fully described in Note 3 - Long Term Debt and Notes Payable to Bank, 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").

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. The Company has not yet assessed the impact of the adoption of ASU 2014-09 on the Consolidated Financial Statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

In April 2015, the FASB issued ASU 2015-03, *Interest-Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs.* The guidance requires an entity to present debt issuance costs in the balance sheet as a direct reduction from the carrying amount of the debt liability, consistent with debt discounts, rather than as an asset. Amortization of debt issuance costs will continue to be reported as interest expense. Debt issuance costs related to revolving credit arrangements, however, may continue to be presented as an asset and amortized ratably over the term of the arrangement. ASU 2015-03 is effective for reporting periods beginning after December 15, 2015 including interim periods within those annual periods. Early application is permitted, and upon adoption, ASU 2015-03 should be applied on a retrospective basis. The Company adopted ASU No. 2015-03 and noted no material impact on the Consolidated Financial Statements.

In July 2015, the FASB issued ASU 2015-11, *Inventory*, which simplifies the measurement principle of inventories valued under the First-In, First-Out ("FIFO") or weighted average methods from the lower of cost or market to the lower of cost and net realizable value. ASU 2015-11 is effective for reporting periods beginning after December 15, 2016 including interim periods within those annual periods. The Company adopted the standard in the fourth quarter of 2016 and noted no material impact on the Consolidated Financial Statements.

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

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

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

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 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. Early adoption is permitted as of the beginning of an interim or annual reporting period. Upon adoption, ASU 2016-15 should be applied retrospectively. The Company is evaluating the potential impact of ASU 2016-15 on the Consolidated Financial Statements.

NOTE 2 - MANAGEMENT SERVICES AGREEMENT WITH ALGAR, INC.

On December 2, 2013, the Company and Algar entered into a Management Services Agreement (the "Management Agreement"). The term of the Management Agreement was effective December 1, 2013 with a contractual term expiring on December 31, 2016, subject to earlier termination upon mutual agreement or upon circumstances set forth in the agreement. On September 30, 2016 (the "Termination Effective Date"), the Company and Algar mutually agreed to terminate the Management Agreement pursuant to the Termination Agreement. See the details below.

Under the Management Agreement, Algar provided the Company with day-to-day senior executive level operating management services. Algar also provided business, financial, and organizational strategy and consulting services, as the Company's board of directors reasonably requested from time to time.

The Management Agreement gave Algar the right to appoint the Company's President and one additional executive officer of the Company. The Management Agreement also provided that the Company's board of directors be increased up to seven members. The Company and Algar also agreed that Algar, subject to certain limitations and Nasdaq listing requirements, may cause the appointment of up to two members to the board of directors, one of whom will serve as Vice Chairman.

The Company appointed Sean Garber to the Company's board of directors on October 15, 2014. Mr. Garber was also appointed Vice Chairman at that time. On December 2, 2013, in connection with the Management Agreement, the Company's board of directors appointed Mr. Garber as President. Mr. Garber replaced Orson Oliver who had been serving as interim President. As of December 31, 2016, Mr. Oliver continues to serve as the Company's Chairman and interim Chief Executive Officer.

Mr. Garber, Algar's Chairman and Chief Executive Officer, formerly served as the Company's President from 1997 to 2000. Mr. Garber is also Algar's largest shareholder. Algar is located in Louisville, Kentucky and specializes in the procurement and sale of new and used auto parts as well as automotive and metal recycling.

Effective September 30, 2016, pursuant to the Termination Agreement, Mr. Garber resigned from all positions with the Company, including as President, and the Board appointed Todd Phillips as President. Mr. Phillips has been the Company's CFO since December 31, 2014 and will continue to serve in that role.

The Company was required to reimburse Algar on a monthly basis for its pre-approved expenses, as defined in the Management Agreement, including expenses associated with the salaries of its executive appointees and employees. Under the Management Agreement, through the Termination Effective Date, the Company reimbursed Algar for the portion of Mr. Garber's salary that was attributable to Algar's services under the Management Agreement in an amount not exceeding $20.8 thousand per month, or $250.0 thousand per year plus other expenses. Also, under the Management Agreement, Algar was to be paid a bonus in an amount equal to 10.0% of any year-over-year increase in the Company's adjusted pre-tax income during the term. See Note 10 - Related Party Transactions for discussion of amounts.

Subject to shareholder approval and restrictions on exercisability set forth in a Stock Option Agreement entered into on December 2, 2013 between the Company and Algar (the "Stock Option Agreement"), the Company granted Algar an option to purchase a total of 1.5 million shares of Company common stock at an exercise price per share of $5.00. The Company's shareholders approved the Algar Options on October 15, 2014. On September 30, 2016, the Company and Algar mutually agreed to terminate the Management Agreement. As part of the agreement to terminate the Management Agreement, the Stock Option Agreement was also terminated. None of the options were exercised.

In connection with the Management Agreement, Mr. Garber and Orson Oliver, the Company's interim Chief Executive Officer and Chairman of the Board of Directors, received an Irrevocable Proxy from each of Harry Kletter, K & R, LLC (K&R) and the Harry Kletter Family Limited Partnership (collectively, "Kletter"), which provided Mr. Oliver and Mr. Garber joint voting authority over the shares owned by Kletter, approximately 27.0% of the Company's issued and outstanding common stock. As of December 31, 2013, Kletter was the Company's largest shareholder. Messrs. Oliver and Garber entered into a separate agreement in which, among other things, they agreed to vote their proxies in favor of matters approved by the Company's board of directors. Mr. Garber and Mr. Oliver terminated the Irrevocable Proxies that were received in connection with the Management Agreement as of the Termination Effective Date.

NOTE 3 - LONG TERM DEBT AND NOTES PAYABLE TO BANK

Summary:

During 2014, the Company had certain loans with Wells Fargo and certain loans with KY Bank. As of December 31, 2014, the Company was in default under the Wells Fargo loans and during the second half of 2015 entered into a Forbearance Agreement with Wells Fargo whereby the due dates on the loans were accelerated and the Company was required to take certain actions. During 2015, as more fully described in Note 1 - Summary of Significant Accounting Policies and General, the Company took steps to pay down debt and increase liquidity. On December 4, 2015, in conjunction with the sale of substantially all assets of the Company’s Waste Services Segment, the Company paid off the KY Bank loans and certain Wells Fargo loans. As of December 31, 2015, the Company had an outstanding balance of $19.7 thousand to Wells Fargo. Additionally, on February 29, 2016, the Company closed on new financing with MidCap and paid off in full remaining amounts due to 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 10 - Related Party Transactions. See Note 1 - Summary of Significant Accounting Policies and below for further details.

MidCap:

On February 29, 2016, the Company entered into the 2016 Loan with MidCap, which was a $6.0 million senior, secured asset-based line of credit with MidCap. The Company may 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 shall amortize monthly on a straight line basis over sixty (60) months with no reduction to the overall line of credit availability.

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 (3.75% as of January 23, 2017) 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, 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, 2018. 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 is subject to a prepayment fee of $120.0 thousand if the 2016 Loan is terminated or prepaid before 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 after the one year anniversary of the loan. The $60.0 thousand fee is reduced to zero if the 2016 Loan is refinanced by an FDIC insured institution after eighteen months from February 29, 2016.

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 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 2016 Loan. This covenant may be replaced by a Fixed Charge Coverage Ratio ("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.

The 2016 Loan had availability of $1.3 million as of December 31, 2016.

NOTE 3 - LONG TERM DEBT AND NOTES PAYABLE TO BANK (Continued)

Wells Fargo:

On June 13, 2014, the Company entered into a senior, secured credit facility (the "Credit Agreement") with Wells Fargo pursuant to which Wells Fargo granted the Company a revolving line of credit of up to $15.0 million (the "Revolving Loan"), up to $1.0 million of which was available to the Company as a sub-facility for letters of credit. As of December 31, 2015, all loans under the credit agreement except the Revolving Loan had been paid in full. The Company was able to borrow up to 85% of the value of its eligible accounts receivable and 65% of the value of eligible inventory under the Revolving Loan. As of December 31, 2015, an availability block that limits borrowings under the revolver in the amount of $1.6 million was in place.

The Credit Agreement also provided the Company with a secured equipment term loan of $2.8 million (the "Term Loan"). The Company used the proceeds from the Credit Agreement to repay in full its prior credit facility and no further amounts can be borrowed.

The interest rate on the Revolving Loan was equal to daily three month LIBOR plus three percent (3.00%). The interest rate on the Term Loan was equal to daily three month LIBOR plus three and 25/100 percent (3.25%). In the Event of a Default (as defined in the Credit Agreement) under either the Revolving Loan or the Term Loan, the interest rate would increase by two percent (2.0%). Each of the Revolving Loan and the Term Loan had a maturity date of June 13, 2019. During 2015, the lender temporarily decreased the borrowing base block, thereby increasing the availability of capital under our revolving line of credit by $350,000. The Company was charged $5,000 per week for each week in which it utilized this additional $350,000.

The Company was subject to a prepayment fee of up to 2.00% of the maximum Revolving Loan and Term Loan amount in the event the Credit Agreement was terminated or prepaid prior to June 13, 2018. However, Wells Fargo waived these fees as part of the December 4, 2015 and February 29, 2016 payoffs.

Interest under the Revolving Loan was payable monthly in arrears. Principal and interest under the Term Loan was payable in sixty (60) monthly installments, with the first payment commencing July 1, 2014, and the final unpaid principal amount, together with all accrued and unpaid interest, charges, fees, or other advances, if any, to be paid on June 13, 2019.

As of December 31, 2015, the Company had $0.8 million available under the Revolving Loan. All amounts outstanding on the Revolving Loan were paid on February 29, 2016.

The Bank of Kentucky:

Until December 4, 2015, WESSCO owed amounts under two promissory notes (collectively, the "KY Bank Notes") in favor of KY Bank, one in the amount of $3.0 million (the "Term Note") and one in the amount of $1. 0 million (the "Line of Credit Note"). Additionally, on January 15, 2015, the Company signed a new line of credit ("2015 Line of Credit Note") in the amount of $1.0 million with KY Bank in order to purchase additional equipment. The draw period for the 2015 Line of Credit Note expired on January 14, 2016. All amounts under the KY Bank loans were repaid on December 4, 2015.

K&R, LLC and 7100 Grade Lane, LLC:

Amounts owed to K&R, LLC and 7100 Grade Lane, LLC are more fully described in Note 10 - Related Party Transactions.

NOTE 3 - LONG TERM DEBT AND NOTES PAYABLE TO BANK (Continued)

Long term debt as of December 31, 2016 and 2015 consisted of the following:

	2016	2015
	(in thousands)	
Revolving credit facility with MidCap at December 31, 2016 and Wells Fargo at December 31, 2015. See above description for additional details	$ 2,942	$ 20
K&R, LLC related party note (See Note 10 - Related Party Transactions)	884	—
7100 Grade Lane, LLC related party note (See Note 10 - Related Party Transactions)	620	—
	4,446	20
Less current maturities	2,942	20
	$ 1,504	$ —

The annual maturities of long term debt, in thousands, for the next five years and thereafter as of December 31, 2016 are as follows:

2017	$ 2,942
2018	—
2019	—
2020	1,504
2021	—
Total long-term debt	$ 4,446

NOTE 4 - LEASE COMMITMENTS

Operating Leases:

The Company leases a portion of our Louisville, Kentucky facility from a related party (see Note 10 - Related Party Transactions) under an operating lease expiring December 31, 2017 (the "7100 Lease"). The lease amount is $53.8 thousand per month. In addition, the Company is also responsible for real estate taxes, insurance, utilities and maintenance expense.

As described in Note 1 - Summary of Significant Accounting Policies, the Company signed a lease, effective December 1, 2014, to lease a facility in the Seymour, Indiana area. This lease is for a period of three years. The Company has 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. In the event ISA exercises 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 signed a lease, effective October 1, 2014, to lease three cranes for $28.9 thousand per month (the "Crane Lease"). This lease is for a period of five years. On May 1, 2016, the Company entered into an amendment to the Crane Lease, whereby the lease converted from an operating lease to a capital lease. See details below in Capital Leases section.

The Company previously leased equipment from a related party (see Note 10 - Related Party Transactions) under an operating lease for a monthly payment of $5.5 thousand. The lease expired November 2015.

The Company previously leased equipment from a related party (see Note 10 - Related Party Transactions) under an operating lease for a monthly payment of $5.0 thousand. The lease expired in May 2016.

The Company previously leased office space in Dallas, Texas. The lease expired April 2015.

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 pay the remaining balance of scheduled payments over a 19 month period, ending March 31, 2017. As the lease was terminated and obligation recorded, future payments remaining of $11.4 thousand are not included in the future minimum lease payments table below.

Future minimum lease payments for operating leases for the next five years ending December 31 of each year, in thousands, as of December 31, 2016 are as follows:

	Related Party	Other	Total
2017	$ 682	$ 92	$ 774
2018	36	—	36
2019	11	—	11
2020	—	—	—
2021	—	—	—
Future minimum lease payments	$ 729	$ 92	$ 821

Total rent expense for the years ended December 31, 2016 and 2015 was $982.2 thousand and $1,357.4 thousand, respectively.

Capital Leases:

On May 1, 2016, the Company entered into an amendment to the Crane Lease, whereby the lease is extended through 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 reminder 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. For the year ended December 31, 2016, the Company recorded $171.3 thousand in depreciation expense and $78.7 thousand in interest expense related to the Crane Lease. The net book value of the cranes leased was $1.1 million at December 31, 2016.

NOTE 4 - LEASE COMMITMENTS (Continued)

Future minimum lease payments for the capital lease for the next five years ending December 31 of each year, in thousands, as of December 31, 2016 are as follows:

	Total	Principal	Interest
2017	$ 308	$ 198	$ 110
2018	375	290	85
2019	375	318	57
2020	375	349	26
2021	94	93	1
	$ 1,527	$ 1,248	$ 279

NOTE 5 - PROVISION FOR EMPLOYEE TERMINATIONS AND SEVERANCES

For the years ended December 31, 2016 and 2015, the Company expensed $0 thousand and $9.9 thousand, respectively, for costs related to employee terminations and severances.

NOTE 6 - EMPLOYEE RETIREMENT PLAN

The Company maintains a defined contribution retirement plan under Section 401(k) of the Internal Revenue Code which covers substantially all employees. Eligible employees may contribute up to 100.0% of their annual salary up to the IRS limits. Under the plan, the Company matches 25.0% of each eligible employee’s voluntary contribution up to 6.0% of their gross salary. The Company also offers an additional discretionary match for eligible employees who contribute 7.0% - 10.0% of their weekly wages. In an effort to decrease expenses, the Company suspended the employee match under the plan for an undetermined period of time effective March 1, 2014. There was no expense under the plan for the years ended December 31, 2016 and 2015.

NOTE 7 - INCOME TAXES

The income tax provision (benefit), in thousands, consists of the following for the years ended December 31, 2016 and 2015:

	2016	2015
Federal		
Current	$ —	$ —
Deferred	—	—
	—	—
State and Local		
Current	11	13
Deferred	69	—
	80	13
	$ 80	$ 13

A reconciliation of income taxes at the statutory rate to the reported provision (benefit), in thousands, is as follows:

	2016	2015
Federal income tax at statutory rate	$ (1,071)	$ (595)
State and local income taxes, net of federal income tax effect	(48)	(77)
Permanent differences	902	—
Increase in deferred tax asset valuation allowance	408	716
Other differences	(111)	(31)
	$ 80	$ 13

NOTE 7 - INCOME TAXES (Continued)

Significant components of the Company's deferred tax liabilities and assets, in thousands, as of December 31, 2016 and 2015 are as follows:

	2016	2015
Deferred tax liabilities		
Property and equipment	$ (935)	$ (1,459)
Gross deferred tax liabilities	(935)	(1,459)
Deferred tax assets		
Intangibles and goodwill	2,038	2,286
Accrued property taxes	53	13
Allowance for doubtful accounts	14	14
Inventory capitalization	110	63
Stock options	605	1,147
Federal net operating loss carry forward	4,706	4,176
State net operating loss carry forward	1,658	1,758
State recycling equipment tax credit carry forward	4,593	4,598
Inventory valuation reserve	60	78
Accrued expenses	187	77
Other	11	11
Gross deferred tax assets	14,035	14,221
Valuation allowance	(13,073)	(12,665)
Net deferred tax assets	$ 27	$ 97

At December 31, 2016, the Company had deferred recycling equipment state tax credit carry forwards of $4.6 million relating to our shredder purchase which do not expire. This tax credit is limited to our Kentucky state income tax liability which includes the Limited Liability Entity Tax, which is based on gross receipts or gross profits. The Company used the available state tax credits of $3.0 thousand and $7.4 thousand in 2016 and 2015, respectively.

At December 31, 2016, the Company had a Federal net operating loss ("NOL") carry forward of $13.8 million which expires beginning in 2033. The Company also has state NOL carry forwards of $26.8 million as of December 31, 2016. The majority of the state NOL carry forwards relates to losses in Kentucky and expire beginning in 2031.

A deferred tax asset valuation allowance is established if it is "more likely than not" that the related tax benefits will not be realized. In determining the appropriate valuation allowance, the Company considers the projected realization of tax benefits based on expected levels of future taxable income, considering recent operating losses, available tax planning strategies, reversals of existing taxable temporary differences and taxable income in the state and carry back provisions. As of December 31, 2016, management determined that only the state recycling equipment tax credit carry forwards would be realized to the extent of $27 thousand and reserved all other net deferred tax assets by increasing the related valuation allowance. The state tax credit carry forwards have been reduced to their net realizable value based upon estimates of future gross profits and utilization of the credit in the foreseeable future.

The recorded valuation allowance, in thousands, consisted of the following at December 31, 2016 and 2015:

	Year Ended December 31,	
	2016	2015
Valuation allowance, beginning of year	$ 12,665	$ 11,949
Increase in deferred tax asset valuation allowance	408	716
Valuation allowance, end of year	$ 13,073	$ 12,665

NOTE 8 - CASH AND STOCK DIVIDENDS

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

In 2016 and 2015, the Board of Directors did not declare a cash or stock dividend.

NOTE 9 – PER SHARE DATA

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

	2016	2015
Continuing operations:	(in thousands, except per share information)	
Basic loss per share		
Net loss	$ (3,230)	$ (9,085)
Weighted average shares outstanding	8,048	7,989
Basic loss per share	$ (0.40)	$ (1.14)
Diluted loss per share		
Net loss	$ (3,230)	$ (9,085)
Weighted average shares outstanding	8,048	7,989
Add dilutive	—	—
Diluted weighted average shares outstanding	8,048	7,989
Diluted loss per share	$ (0.40)	$ (1.14)

	2016	2015
Discontinued operations:	(in thousands, except per share information)	
Basic loss per share		
Net income	$ —	$ 7,320
Weighted average shares outstanding	8,048	7,989
Basic income per share	$ —	$ 0.92
Diluted loss per share		
Net income	$ —	$ 7,320
Weighted average shares outstanding	8,048	7,989
Add dilutive	—	—
Diluted weighted average shares outstanding	8,048	7,989
Diluted income per share	$ —	$ 0.92

NOTE 10 - RELATED PARTY TRANSACTIONS

During the period ended December 31, 2016 and 2015, 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 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, the Company's Chairman of the Board and interim Chief Executive Officer, Orson Oliver, assumed the roles of executor of Mr. Kletter's estate and President of Kletter Holdings LLC. As of December 31, 2016, 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 leases a portion of the Louisville, Kentucky facility from 7100 LLC (previously from K&R) under an operating lease, the "7100 Lease," expiring December 2017. Additionally, the Company leased equipment from K&R under operating leases that expired November 2015 and May 2016. See Note 4 - Lease Commitments for additional information relating to the rent and lease agreements with K&R. During 2015 and continuing into 2016, 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.

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 December 31, 2016 and 2015, 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 five percent (5.00%). Interest will accrue until April 30, 2017, at which time interest will be paid monthly. 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.

Algar, Inc. ("Algar"):

Management Services Agreement with Algar:

On December 2, 2013, the Company and Algar entered into a Management Services Agreement (the "Management Agreement"). On September 30, 2016 (the "Termination Effective Date"), the Company and Algar mutually agreed to terminate the Management Agreement pursuant to the Termination Agreement. See the details below.

Under the Management Agreement, Algar provided the Company with day-to-day senior executive level operating management services. Algar also provided business, financial, and organizational strategy and consulting services, as the Company's board of directors reasonably requested from time to time.

In connection with the Management Agreement, the Company's board of directors appointed Sean Garber as President and as a member of the board of directors.

Under the Management Agreement, the Company reimbursed Algar for the portion of Mr. Garber's salary that was attributable to Algar's services under the Management Agreement in an amount not exceeding $20.8 thousand per month, or $250.0 thousand per year plus other expenses. Also, under the Management Agreement, Algar was to be paid a bonus in an amount equal to 10.0% of any year-over-year increase in the Company's adjusted pre-tax income during the term. The term of the Management Agreement was effective December 1, 2013 and originally expired on December 31, 2016, subject to earlier termination upon mutual agreement or upon circumstances set forth in the agreement. On September 30, 2016, the Company and Algar mutually agreed to terminate the Management Agreement.

NOTE 10 - RELATED PARTY TRANSACTIONS (Continued)

For the year ended December 31, 2014, Algar earned a bonus of $428.0 thousand that was accrued by ISA. This amount was reduced by $50.0 thousand related to the real estate sale to SG&D described below. The bonus payable was further reduced on August 5, 2015, in 2015 when the Company entered into a Stock Purchase Agreement with Algar, whereby the Company issued 50.7 thousand shares of its common stock to Algar for aggregate consideration equal to $189.0 thousand based on the fair value of the Company's common stock. The consideration was payable in the form of a reduction of the Company's $378.0 thousand accrued but unpaid bonus compensation due to Algar as of August 5, 2015. During the year ended December 31, 2016, the Company paid Algar the remaining $189.0 thousand related to the accrued but unpaid bonus compensation related to the bonus earned in 2014.

As of the Termination Effective Date, the Company and Algar mutually terminated the Management Agreement. The Termination Agreement provides that in satisfaction of all amounts owed to Algar under the Management Agreement, the Company paid Algar: (i) $20,880 on the Termination Effective Date, (ii) an aggregate amount equal to $50,000, paid in three equal monthly installments on the last day of October, November and December 2016 (full amount accrued at September 30, 2016), and (iii) an amount equal to ten percent of the decrease, if any, in reported "Loss before income taxes" for the nine months ended September 30, 2016 as reported on the Condensed Consolidated Statements of Operations in the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2016, (the "3Q 2016 Form 10-Q") as filed with the U.S. Securities and Exchange Commission, over the Company's reported "Loss before income taxes" for the nine months ended September 30, 2015 as reported in the 3Q 2016 Form 10-Q (the "Accrued Bonus Payment"). The Accrued Bonus Payment will be payable as follows: subject to the availability of cash under applicable law and loan covenants, the Company will pay the Accrued Bonus Payment to Algar upon the first to occur of March 31, 2017, or the date of closing of a Change of Control Transaction, as defined. The Company accrued $180.0 thousand in bonus expense to Algar for the year ended December 31, 2016 related to the Accrued Bonus Payment. The Termination Agreement also provided for the cancellation of the Stock Option Agreement as of the Termination Effective Date. Mr. Garber and Mr. Oliver terminated the Irrevocable Proxies that were received in connection with the Management Agreement as of the Termination Effective Date. Mr. Garber resigned all offices with the Company and his director position as of the Termination Effective Date.

Other transactions with Algar:

During 2016 and 2015, the Company participated in various other transactions with Algar. The Company sold scrap to Algar, bought scrap from Algar, and provided logistical and IT services to Algar. Related to these transactions, the Company has accounts receivable balances from Algar, an accounts payable balance to Algar, along with related income and expense as of December 31, 2016 and 2015.

Board of Directors' fees and consulting fees:

The Company pays board and committee fees to non-employee directors. Additionally, the Company paid financial consulting fees to one of its directors in 2015. Related to these transactions, the Company has accounts payable balances to the Board of Directors for fees and consulting fees, along with related expense at and as of December 31, 2016 and 2015.

LK Property Investments, LLC:

On April 30, 2015, ISA Real Estate LLC sold to LK Property, an entity principally owned by Daniel M. Rifkin, CEO of MetalX and the principal owner of RCP, a 4.4 acre parcel of real estate, located at 6709 Grade Lane, Louisville, Kentucky, for a purchase price of $1.0 million. The Company used the proceeds from the sale primarily for debt reduction and working capital. The loss on sale of this asset was $102.0 thousand. See Note 14 - Financing and Related Matters for discussion related to Mr. Rifkin.

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.

Metal X, LLC:

During 2016 and 2015, the Company sold scrap material to MetalX and held accounts receivables balances from MetalX related to scrap sales. For additional information regarding MetalX, see Note 14 - Financing and Related Matters.

SG&D Ventures, LLC:

In May 2015, ISA Real Estate LLC sold to SG&D, an entity owned by shareholders of Algar, including Mr. Garber, an approximately 1-acre parcel of non-essential real estate, located at 7017 Grade Lane, Louisville, Kentucky, for an aggregate purchase price equal to independent third-party appraisal amount of $350.0 thousand. The Company received this appraisal before the sale. The purchase consideration consisted of $300.0 thousand in cash from SG&D and a credit of $50.0 thousand against bonus compensation previously accrued but not paid to Algar as described above. The gain on sale of this asset was $1.1 thousand.

NOTE 10 - RELATED PARTY TRANSACTIONS (Continued)

Related party balances as of and for the years ended December 31, 2016 and 2015 are as follows, in thousands:

		2016	2015
K&R, LLC and 7100 LLC:			
Deposit amounts owed to the Company by related parties	(1)	$ 42	$ 74
Property deposit payable to related parties	(2)	—	500
Note payable to related parties	(3)	1,504	—
Accrued interest to related parties	(2)	63	—
Facility rent payable to related parties	(2)	176	821
Equipment rent payable to related parties	(2)	15	132
Facility rent expense to related parties	(4)	646	646
Equipment rent expense to related parties	(4)	25	126
Interest expense to related parties	(4)	63	—
Algar, Inc.:			
Accounts receivable from Algar for scrap transactions	(1), (5)	$ —	$ 93
Accounts receivable from Algar for logistical services	(1), (5)	—	19
Accounts payable to Algar	(2), (5)	—	28
Bonus payable to Algar	(2), (6)	180	189
Revenue from scrap sales to Algar	(4), (7)	7	117
Revenue from logistical services to Algar	(4), (7)	48	69
Revenue from IT services to Algar	(4), (7)	16	23
Scrap material purchases from Algar	(4), (7)	1,204	1,225
Management fee expense	(4), (7)	238	250
Bonus expense to Algar	(4), (7)	180	—
Net rental income from Algar	(4), (7)	16	—
Other expenses to Algar	(4), (7)	14	30
Board of Directors: *			
Accounts payable to the Board of Directors for fees	(2)	$ 144	$ 250
Board of director fee expense	(4)	251	180
Board of director consulting expense	(4)	—	25
LK Property Investments, LLC:			
Lease deposit to LK Property	(1)	$ 3	$ 3
Accounts payable to LK Property	(2)	—	2
Rent expense to LK Property**	(4)	36	24
Loss on the sale of assets to LK Property	(4)	—	(102)
Metal X, LLC:			
Accounts receivable from Metal X	(1)	$ 105	$ 19
Revenue from product sales to Metal X	(4)	246	1,905
SG&D Ventures, LLC:			
Gain on the sale of assets to SG&D	(4)	$ —	$ 1

NOTE 10 - RELATED PARTY TRANSACTIONS (Continued)

* Excludes insignificant amount of travel reimbursement.
**Excludes amounts reimbursed to LK Properties for utilities and property tax.
(1) Included in receivables from related parties on the Consolidated Balance Sheets; balances are as of December 31, 2016 and 2015.
(2) Included in payable and accrued expenses to related parties on the Consolidated Balance Sheets; balances are as of December 31, 2016 and 2015.
(3) Included in long-term liabilities on the Consolidated Balance Sheets; balance is as of December 31, 2016 and 2015.
(4) Included in the Consolidated Statements of Operations; balances are for the year ended December 31, 2016 and 2015.

As discussed above, the Company and Algar mutually agreed to terminate the Management Agreement pursuant to the Termination Agreement on September 30, 2016. Therefore, the Company considers Algar a related party through the termination date. The Company reported the Algar related party balances as follows:
(5) The 2016 balances are excluded as Algar was not a related party at December 31, 2016.
(6) The 2016 balance includes the bonus payable amount at December 31, 2016 as this amount was earned on September 30, 2016 while Algar was a related party.
(7) The 2016 balances include transactions for the nine month period ended September 30, 2016, the period Algar was a related party.

NOTE 11 - SEGMENT INFORMATION

Prior to December 4, 2015, the Company's operations included two primary segments: Recycling and Waste Services. The Recycling Segment ("Recycling") provides ferrous and non-ferrous recycling in four locations in the Midwest. The Waste Services Segment ("Waste Services") provided waste disposal services including contract negotiations with service providers, centralized billing, invoice auditing, and centralized dispatching. Waste Services also sold, leased, and serviced waste handling and recycling equipment, such as trash compactors and balers to end user customers. On December 4, 2015, the Company sold substantially all assets of the Waste Services Segment and discontinued those operations. The assets, liabilities, revenues, expenses, and cash flows of the Waste Services Segment are disclosed in Note 15 - Discontinued Operations.

The Company's two reportable segments were determined by the products and services that each offers. Recycling generates its revenues based on buying and selling of ferrous and non-ferrous, including stainless steel, scrap metals and automobile parts. The Company's ISA Pick.Pull.Save used automobile yard is considered a product line within Recycling. The Company purchases automobiles for the yard through auctions, automobile purchase programs with various suppliers, and general scrap purchases. Retail customers locate and remove used parts for purchase from automobiles within the yard. Fuel, Freon, tires and certain core automobile parts are also sold to various vendors for additional revenue. All automobiles are sold as scrap metal after a specified time period in the yard.

Waste Services' revenues consisted of charges to customers for waste disposal services and equipment sales and lease income.

NOTE 12 - SHARE BASED COMPENSATION

Following is a summary of stock option activity and number of shares reserved for outstanding options for the years ended December 31, 2016 and 2015:

Total Options	Number of shares (in thousands)	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2014	2,152	$ 5.02	2.70 years	$ 2.23
Granted	20	5.71	—	3.01
Outstanding at December 31, 2015	2,172	$ 5.02	1.70 years	$ 2.24
Cancelled	(1,670)	$ 5.10	—	$ 2.18
Outstanding at December 31, 2016	502	$ 4.78	2.07 years	$ 2.43
Exercisable at December 31, 2016	502	4.78	2.07 years	$ 2.43
Securities available for grant at December 31, 2016	1,636			

Following is a summary of the nonvested options issued and outstanding:

Non-Vested Options	Number of shares (in thousands)	Weighted Average Grant Date Option Fair Value
Outstanding at January 1, 2015	990	$ 2.31
Granted	20	3.01
Vested	(140)	2.95
Forfeited	—	—
Outstanding at December 31, 2015	870	$ 2.22
Cancelled	(870)	2.22
Outstanding at December 31, 2016	—	$ —

Option Grants:

As described in Note 1 - Summary of Significant Accounting Policies and General and Note 10 - Related Party Transactions, as of December 1, 2013, subject to shareholder approval (which was received during 2014) and vesting provisions, the Company granted options to purchase a total of 1.5 million shares of its common stock to Algar at a per share exercise price of $5.00 pursuant to the Management Agreement. At the annual meeting of shareholders of the Company on October 15, 2014, shareholders approved the issuance of these options. The first 375.0 thousand share options vested and became exercisable on December 1, 2014. The second 375.0 thousand share options vested and became exercisable after the market price of the Company's common stock reached $6.00 per share during 2014. The third 375.0 thousand share options would have vested and become exercisable only if and after the market price of the Company's common stock reached $8.00 per share or Company revenue following an acquisition increased by $90.0 million. The fourth 375.0 thousand share options would have vested and become exercisable only if and after the market price of the Company's common stock reached $9.00 per share or Company revenue following an acquisition increases by $120.0 million. On September 30, 2016, the Company and Algar mutually agreed to terminate the Management Agreement between them dated as of December 1, 2013. In connection with the termination of the Management Agreement, the Stock Option Agreement was also terminated. See Note 2 - Management Services Agreement with Algar, Inc. for additional information relating to the Management Agreement and the related Stock Option Agreement.

In January 2015, the Company awarded options to purchase 20.0 thousand shares of the Company's common stock to its Chief Financial Officer. These options were scheduled to vest over a three-year period, with 1/3 vesting on the first anniversary of the grant date and 1/6 vesting every six months thereafter until the three year anniversary of the grant date. The exercise price per share of the options was $5.71, the fair value of the underlying common stock as of the grant date. These options were cancelled on June 15, 2016. See below for further details.

NOTE 12 – SHARE BASED COMPENSATION (Continued)

The weighted average assumptions relating to the valuation of the Company's stock options awarded in 2015 are shown below. There were no stock options awarded in 2016.

	2015
Weighted average grant-date fair value of grants per option	$ 3.01
Volatility	60.1%
Risk-free interest rate	2.3%
Expected life (in years)	5
Expected dividend yield	0.0%

RSUs:

On March 25, 2016, our Compensation Committee granted 32.0 thousand restricted stock units ("RSUs") to the Company's Chief Financial Officer (the "CFO"), under the LTIP pursuant to a Restricted Stock Unit Grant Agreement (the "RSU Agreement"). The RSUs were granted to the CFO in lieu of other compensation and as partial payment of the CFO's bonus related to certain milestone accomplishments during 2015 and early 2016. The 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 $90.2 thousand and has been recognized as expense in the accompanying Consolidated Statement of Operations. Each RSU vested on April 1, 2016 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 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 will be recognized as expense beginning in the second quarter of 2016. Each RSU vests on March 29, 2018 and represents the right to receive one share of the Company's common stock upon the vesting of the RSU, subject to the terms and conditions set forth in the RSU Agreement and the Plan.

NOTE 12 – SHARE-BASED COMPENSATION AND OTHER COMPENSATION AGREEMENTS (Continued)

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 vest as follows if and to the extent that the CFO remains employed by the Company through each of the following dates: (i) on July 1, 2016, 50.00% (45,000) of the RSUs vest and become nonforfeitable; (ii) on December 31, 2016, 12.50% (11,250) of the RSUs vest and become nonforfeitable; (iii) on June 30, 2017, 12.50% (11,250) of the RSUs vest and become nonforfeitable; (iv) on December 31, 2017, 12.50% (11,250) of the RSUs vest and become nonforfeitable; and (v) on June 15, 2018, 12.50% (11,250) of the RSUs vest and become nonforfeitable. 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 has continued his employment by the Company through December 31, 2016 and the related 56,250 RSUs have vested and become nonforfeitable.

Following is a summary of RSU activity:

Restricted Stock Units	Number of shares (in thousands)	WA Remaining Contractual Term	WA Grant Date Fair Value
Outstanding at December 31, 2015	—	—	$ —
Granted	133.4	0.35 years	2.32
Vested	(88.3)	—	2.36
Outstanding at December 31, 2016	45.1	1.05 years	$ 2.23

Other Equity Transactions:

On August 5, 2015, the Company entered into a Stock Purchase Agreement with Algar, whereby the Company issued 50.7 thousand shares of its common stock to Algar for aggregate consideration equal to $189.0 thousand based on the fair value of our common stock. The consideration was payable in the form of a partial reduction of the Company's accrued but unpaid bonus compensation due to Algar pursuant to the Management Services Agreement between the Company and Algar. See Note 10 - Related Party Transactions.

See Note 14 - Financing and Related Matters for details on an additional equity transaction.

Non-Equity Transactions:

Under a retention agreement with the Company's CFO dated March 25, 2016, the Company will 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 remains employed with the Company on those dates. The CFO remained employed with the Company as of December 31, 2016 and the Company accrued $100.0 thousand related to the 2016 retention bonus. If the CFO's employment is terminated without cause during 2017, the Company is required to pay him an amount equal to $125.0 thousand times the quotient of the number of full months employed in 2017 divided by 12.

On September 30, 2016, the Company entered into retention agreements ("Retention Agreements") with certain management employees (individually "Staff Member"). Under the Retention Agreement, if the Staff Member remains 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 will pay the Staff Member a bonus in an amount equal to 25% of the Staff Member's then-current annual base salary. At September 30, 2016, the Company estimated this liability to be $132.7 thousand. The Company will evaluate the liability on an ongoing basis, and will expense the liability through December 31, 2017 unless determined otherwise. The Company has expensed $22.1 thousand for the year ended December 31, 2016.

Other:

As of December 31, 2016, we had unrecognized share-based compensation cost related to non-vested RSU awards in the amount of $142.0 thousand.

Stock compensation charged to operations relating to stock options and RSU awards was $0.4 million and $0.2 million for the years ended December 31, 2016 and 2015, respectively.

NOTE 13 - LEGAL PROCEEDINGS AND ENVIRONMENTAL MATTERS

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.

NOTE 14 - 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.

NOTE 15 - DISCONTINUED OPERATIONS

As discussed in Note 1 - Summary of Significant Accounting Policies, on December 4, 2015, the Company and WESSCO entered into the Asset Purchase Agreement with Compactor Rentals pursuant to which the Company sold its “Waste Services Segment,” consisting of substantially all of the assets used in (i) the Company’s commercial, retail and industrial waste and recycling management services business which the Company operated under the name “Computerized Waste Systems” or “CWS,” and (ii) the Company’s equipment sales, rental and maintenance business for the commercial and industrial waste and recycling industry which the Company operated under the name “Waste Equipment Sales and Service Company."

The Company received cash consideration at closing of $7.5 million, less $150.0 thousand which was retained by Compactor Rentals in connection with working capital adjustments. Compactor Rentals assumed certain liabilities relating to the Waste Services Segment, including but not limited to, current liabilities, warranty liabilities, and post-closing liabilities incurred in connection with transferred contracts. The transaction expenses related to the sale were $350.0 thousand and a gain of $6.0 million was recorded.

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

The Asset Purchase Agreement contains standard and customary representations, warranties and covenants, including a restrictive covenant under which the Company will be prohibited from competing with the Waste Services Segment for five years following the closing.

Financial information for the Waste Services discontinued operations is summarized as follows:

NOTE 15 - DISCONTINUED OPERATIONS (Continued)

		2015 (in thousands)
Revenue from services and product sales	$	7,402
Cost of sales for services		5,486
Selling, general, and administrative expenses		678
Gain on the sale of business		6,031
Gain on the sale of equipment		51
Net income	$	7,320

		2015 (in thousands)
Cash flows from operating activities		
Net income from discontinued operations	$	7,320
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation and amortization		402
Gain on sale of property and equipment		(51)
Gain on sale of business		(6,031)
Change in assets and liabilities		
Receivables		(103)
Inventories		10
Other assets		12
Accounts payable		172
Other current liabilities		52
Net cash from operating activities	$	1,783
Cash flows from investing activities		
Proceeds from sale of property and equipment		76
Proceeds from sale of business, net of disposal costs		7,000
Purchases of property and equipment		(432)
Net cash provided by investing activities	$	6,644

A pro forma summary of continuing operations for the three months ended December 31, 2015 assuming the Waste Services Segment was sold at the beginning of the quarter is as follows (unaudited):

		2015 (in thousands, except per share data)
Total revenue	$	6,555
Net loss from continuing operations		(2,351)
Net loss		3,680
Net loss from continuing operations per share	$	(0.29)
Net income per share		0.46

EXHIBIT 10.8

FIRST AMENDMENT TO
EXECUTIVE EMPLOYMENT AGREEMENT

This First Amendment to the Executive Employment Agreement (the "***Amendment***") is entered into and effective as of February 1, 2017 (the "***Effective Date***") between Industrial Services of America, Inc., a Florida corporation (the "***Company***"), and Todd L. Phillips ("***Executive***").

WHEREAS, the Company and Executive entered into that certain Executive Employment Agreement dated as of December 31, 2014 (the "***Agreement***");

WHEREAS, Section 4(c) of the Agreement contemplates that Executive will be eligible for an annual performance-based bonus at the discretion of the Company's President;

WHEREAS, on September 30, 2016, the Company's President resigned from his position as President of the Company and the Board appointed Executive to serve as his replacement; and

WHEREAS, the Company and Executive each desire to amend Section 4(c) of the Agreement for the sole purpose of removing the President's discretion to award Executive with a performance-based bonus and to instead give the Compensation Committee such discretion.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties do hereby agree as follows:

1. Section 4(c) of the Agreement shall be deleted in its entirety and replaced with the following:

(c) ***Annual Discretionary Bonus***. During the Term, Executive will be eligible to receive an annual performance-based bonus (the "***Bonus***") that provides Executive an opportunity to earn a target percentage of 50% of Executive's then-current Base Salary (the "***Target Amount***"). After the end of each calendar year during the Term, the Compensation Committee of the Board of Directors (the "***Compensation Committee***") of the Company, in its sole discretion, will determine whether Executive will receive the Bonus based on: (i) the Company's financial and operating performance during that calendar year; and (ii) the Compensation Committee's evaluation of Executive's contribution to the Company's performance during that calendar year. Executive's Bonus, if any, will be paid in a lump sum in the year following the year to which the Bonus relates. Both Executive and the Company acknowledge and agree that the Bonus may be smaller or larger than the Target Amount. The Company will pay the Bonus, if any, to Executive in cash (net of any required withholdings or deductions) or in stock incentives. If the Bonus is paid in stock incentives, the stock will be immediately vested, but a minimum of six months must elapse between the date Executive acquires the stock from the Company and any resale of the stock.

2. This Amendment was approved by the Company's Board of Directors on the Effective Date.

IN WITNESS, WHEREOF, the parties have entered into this Amendment as of the Effective Date, but actually on the dates stated below.

INDUSTRIAL SERVICES OF AMERICA, INC.	**EXECUTIVE:**
By: /s/ Orson Oliver	/s/ Todd L. Phillips
Name: Orson Oliver	Todd L. Phillips
Title: Interim Chief Executive Officer	
Date: March 28, 2017	Date: March 28, 2017

AMENDMENT NO. 1 TO LOAN AND SECURITY AGREEMENT

This AMENDMENT NO. 1 TO LOAN AND SECURITY AGREEMENT (this "**Amendment**") is entered into as of March 31, 2017 by and among INDUSTRIAL SERVICES OF AMERICA, INC., a Florida corporation ("**ISA**"; and together with any additional Person that at any time becomes an additional Borrower, jointly, severally and collectively, "**Borrowers**" and each a "**Borrower**"), ISA LOGISTICS LLC, a Kentucky limited liability company ("**ISA Logistics**"), ISA INDIANA, INC., an Indiana corporation ("**ISA Indiana**"), ISA REAL ESTATE, LLC, a Kentucky limited liability company ("**ISA Real Estate**"), ISA INDIANA REAL ESTATE, LLC, a Kentucky limited liability company ("**ISA IN Real Estate**"), 7021 GRADE LANE LLC, a Kentucky limited liability company ("**7021 Grade Lane**"), 7124 GRADE LANE LLC, a Kentucky limited liability company ("**7124 Grade Lane**"), and 7200 GRADE LANE LLC, a Kentucky limited liability company ("**7200 Grade Lane**"; and together with ISA Logistics, ISA Indiana, ISA Real Estate, ISA IN Real Estate, 7021 Grade Lane, 7124 Grade Lane and any additional Person that at any time becomes a Guarantor, jointly, severally and collectively, "**Guarantors**" and each a "**Guarantor**"; and together with Borrowers, jointly, severally and collectively, "**Loan Parties**" and each a "**Loan Party**"), and MIDCAP BUSINESS CREDIT LLC, a Texas limited liability company ("**Lender**").

RECITALS:

WHEREAS, Borrowers, the other Loan Parties and Lender are parties to the Loan and Security Agreement (All Assets), dated as of February 29, 2016 (as amended by this Amendment and as the same may hereafter be amended, amended and restated, modified, supplemented, extended, renewed, restated or replaced, the "**Loan Agreement**"); and

WHEREAS, Loan Parties have requested that Lender (i) extend the Term of the Loan Agreement, (ii) increase the Credit Limit and (iii) make certain other amendments to the Loan Agreement, and Lender has agreed to the foregoing requests subject to the terms and conditions hereof.

NOW THEREFORE, in consideration of the premises and the agreements herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

Section 1. Definitions. Interpretation. Capitalized terms used but not defined herein shall have the meanings given to them in the Loan Agreement. This Amendment shall be construed and interpreted in accordance with the rules of construction set forth in the Loan Agreement.

Section 2. Amendments to Loan Agreement.

2.1 Loans and Other Financial Accommodations. Section 5(e) of the Loan Agreement is hereby amended and restated in its entirety as follows:

"(e) As used in this Section 5 and elsewhere in this Agreement, the following terms shall have the following meanings:

(i) "**Appraised Value**" shall mean, with respect to the Eligible Real Property, the fair market value of such Eligible Real Property as set forth in the most recent reasonably acceptable appraisal, if any, received by Lender in accordance with Section 10(d) hereof of such Eligible Real Property conducted by an independent appraiser engaged by Lender or otherwise acceptable to Lender in its Permitted Discretion, which appraisal shall assume, among other things, a marketing time period agreed to by Lender in its Permitted Discretion.

(ii) "**Borrowing Base**" shall mean, as of any date of determination, with respect to any Borrower, the sum of the following:

(A) up to eighty-five percent (85%) of the unpaid face amount of Qualified Accounts of such Borrower; plus

(B) the lesser of (1) $2,500,000 and (2) seventy-five percent (75%) times the then extant Net Orderly Liquidation Percentage times the cost of Eligible Inventory of such Borrower; plus

(C) the lesser of (1) $400,000 and (2) forty percent (40%) of the Net Forced Liquidation Value of Eligible Equipment of such Borrower (the "Equipment Sub-Line"); which Equipment Sub-Line shall amortize as described in Section 5(f) below; plus

(D) the lesser of (1) $1,750,000 and (2) forty-five percent (45%) of the Appraised Value of Eligible Real Property (the "**Real Property Sub-Line**"); minus

(E) the Borrowing Base Reserve.

Without limiting Lender's discretion, notwithstanding the actual net face value of any Qualified Account of Borrowers, for purposes of computing the Borrowing Base, the value of all Qualified Accounts due from any account debtor (other than United States government agencies) shall not exceed the sum of $150,000 in the aggregate for all Borrowers. Lender may, in its sole discretion, raise or lower the $150,000 limit set forth in the immediately preceding sentence without in any way creating a course of conduct which requires Lender to maintain such raised or lowered limit or to raise or lower such limit again in the future. Lender, in its exercise of its discretion, has initially set higher credit limits on those customers of a Borrower set forth on Exhibit 2 attached hereto.

Notwithstanding the foregoing, the parties hereto acknowledge, confirm and agree that, until such time as Lender receives any third-party or internal approvals Lender may require, in its Permitted Discretion, with respect to the Eligible Real Property (including, without limitation, any approvals needed from Wells Fargo Bank, N.A.), Lender shall have no obligation to make, and Borrowers shall have no right to request or receive, any loans, advances or credits with respect to the Real Property Sub-Line.

(iii) "**Borrowing Base Certificate**" shall mean a form of borrowing base certificate, in form and substance acceptable to Lender.

(iv) "**Borrowing Base Reserve**" shall mean, as of any date of determination, (A) such amounts (expressed as either a specified amount or as a percentage of a specified category or item) as Lender may from time to time establish and adjust in reducing the amount available for borrowing (1) to reflect events, conditions, contingencies or risks which, as determined by Lender in its Permitted Discretion, do or may affect (x) the Collateral or its value, (y) the assets, business or prospects of any Borrower, or (z) the Liens and other rights of Lender in the Collateral (including the enforceability, perfection and priority thereof), or (2) to reflect Lender's judgment (determined in its Permitted Discretion) that any collateral report or financial information furnished by or on behalf of any Borrower to Lender is or may have been incomplete, inaccurate or misleading in any material respect, or (3) in respect of any state of facts that Lender determines in its Permitted Discretion constitutes an Event of Default (as defined in Section 16 below), or (4) in respect of impediments to Lender's ability to realize upon any Eligible Real Property (including, but not limited to, (w) municipal taxes and assessments, (x) repairs, (y) remediation of title defects and (z) amounts that are reasonably likely to be expended by any Loan Party to correct or remedy any non-compliance with Environmental Laws), and (B) the Cost Reserve.

(v) “**Cost Reserve**” shall mean, as of any date of determination, an amount equal to five percent (5%) of the total inventory of Borrowers.

(vi) “**Credit Limit**” shall mean an amount equal to $8,000,000.

(vii) “**Eligible Equipment**” shall mean the equipment owned by Borrowers and set forth on Exhibit 3 attached hereto.

(viii) “**Eligible Inventory**” shall have the meaning set forth in Section 7 below.

(ix) “**Eligible Real Property**” shall mean, collectively, the Real Property (i) owned by ISA Real Estate located at 7110 Grade Lane, Louisville, KY, as more particularly described on Schedule “D”annexed hereto, (ii) owned by 7200 Grade Lane located at 7200 Grade Lane, Louisville, KY, as more particularly described on Schedule “D” annexed hereto, and (iii) owned by 7124 Grade Lane located at 7124 Grade Lane, Louisville, Kentucky, as more particularly described on Schedule “D” annexed hereto, in each case, so long as such Real Property meets the following specifications:

(A) a Loan Party owns fee title thereto;

(B) the applicable Loan Party has executed and delivered to Lender such Mortgages and other documents as Lender may reasonably request;

(C) the applicable Loan Party shall have delivered to Lender with respect to each parcel of Real Property, title insurance, an appraisal, a survey, zoning report, flood certificate and environmental studies, flood insurance and other real property items as required by FIRREA, each of which shall be satisfactory to Lender in its Permitted Discretion;

(D) Lender has a perfected first-priority Lien in such Real Property (subject only to Permitted Liens);

(E) such parcels of Real Property have been appraised by a third-party appraiser engaged by Lender or otherwise acceptable to Lender in good faith;

(F) such Real Property is used by a Loan Party for lawful purposes;

(G) as to any particular property, the applicable Loan Party is in compliance with the representations and warranties contained herein (including, without limitation, under Sections 14(f), 14(m) and 14(n) hereof) and any Mortgage relating to such Real Property, unless Lender, in its Permitted Discretion, otherwise waives such requirement in the determination of Eligible Real Property; and

(H) such Real Property is not deemed by Lender in its Permitted Discretion to be ineligible hereunder pursuant to the provisions of this Agreement.

(x) "**FIRREA**" shall mean the Financial Institution Reform, Recovery and Enforcement Act of 1989, as amended from time to time.

(xi) "**First Amendment**" means the Amendment No. 1 to Loan and Security Agreement, dated as of March 29, 2017, by and among Borrowers, the other Loan Parties and Lender.

(xii) "**Hard Costs**" shall mean, with respect to the purchase by any Borrower of an item of Eligible Equipment, the net cash amount actually paid to acquire title to such item, net of all incentives, trade in allowances, discounts and rebates, and exclusive of freight, delivery charges, installation costs and charges, software costs, charges and fees, warranty costs, taxes, insurance and other incidental costs or expenses and all indirect costs or expenses of any kind.

(xiii) "**Net Forced Liquidation Value**" shall mean, with respect to Eligible Equipment, the estimated most probable net amount, expressed in terms of currency, which could typically be realized at a public auction sale of such Eligible Equipment under forced sale conditions and under present-day economic trends, as of the effective date of the most recent acceptable appraisal of equipment received by Lender in accordance with this Agreement, net of all direct auction expenses and exclusive of a buyer's premium.

(xiv) "**Net Orderly Liquidation Percentage**" shall mean the percentage of the Value of a Borrower's inventory that is estimated to be recoverable in an orderly liquidation of such inventory as set forth in the most recent acceptable appraisal received by Lender and upon which Lender may rely, net of all operating expenses and associated costs and expenses of such liquidation, such percentage to be as determined from time to time by an appraisal company selected or approved by Lender with such most recent acceptable appraisal to be in form, scope, methodology and content acceptable to Lender.

(xv) "**Permitted Discretion**" shall mean a determination made in the exercise of reasonable (from the perspective of a secured lender) business judgment.

(xvi) "**Prime Rate**" shall mean the Prime Rate as published from time to time in the "Money Rates" section of *The Wall Street Journal* or any successor publication, or in the event that such rate is no longer published in *The Wall Street Journal,* a comparable index or reference selected by Lender. The Prime Rate need not and may not necessarily be the lowest or most favorable rate. Interest shall be payable in lawful money of the United States of America to Lender, or as Lender shall direct, without set-off, deduction or counterclaim monthly, in arrears, on the first day of each month, commencing on the first day of the month next succeeding the date hereof.

(xvii) "**Qualified Accounts**" shall have the meaning set forth in Section 6 below.

(xviii) "**Value**" shall mean, as determined by Lender in its Permitted Discretion, with respect to inventory, the lower of (A) cost computed on a first-in, first-out basis in accordance with GAAP or (B) market value; provided, that, for purposes of the calculation of the Borrowing Base, (1) the Value of the inventory shall not include: (x) the portion of the value of inventory equal to the profit earned by any Affiliate on the sale thereof to any Borrower or (y) write-ups or write-downs in value with respect to currency exchange rates, and (2) notwithstanding anything to the contrary contained herein, the cost of the inventory shall be computed in the same manner and consistent with the most recent appraisal of the inventory received and accepted by Lender, if any."

2.2 General Agreements of Borrowers and/or Loan Parties. Section 14(c) of the Loan Agreement is hereby amended and restated in its entirety as follows:

"(c) Although, as above set forth, Lender has a continuing Lien in all of Borrowers' Collateral and in the proceeds thereof, each Borrower will at all times maintain as the minimum security hereunder a Borrowing Base not less than the aggregate unpaid principal of all loans made hereunder to such Borrower and if such Borrower fails to do so, such Borrower will immediately make the necessary reduction in the unpaid principal amount of said loans so that the loans outstanding hereunder do not in the aggregate exceed the Borrowing Base of such Borrower. In addition, (i) if Lender obtains an appraisal of the Eligible Equipment at any time as permitted under this Agreement, and such appraisal shows the aggregate unpaid principal amount of the Equipment Sub-Line to exceed forty percent (40%) of the Net Forced Liquidation Value of the Eligible Equipment, then Lender may require Borrowers to immediately pay the unpaid principal of the Equipment Sub-Line in the amount or, at the option of Lender, Lender may establish a Borrowing Base Reserve in the amount, of such excess, and (ii) if Lender obtains an appraisal of the Eligible Real Property at any time as permitted under this Agreement, and such appraisal shows the aggregate unpaid principal amount of the Real Property Sub-Line to exceed forty-five percent (45%) of the Appraised Value of the Eligible Real Property, then Lender may require Borrowers to immediately pay the unpaid principal of the Real Property Sub-Line, in the amount or, at the option of Lender, Lender may establish a Borrowing Base Reserve in the amount, of such excess."

2.3 Loan Parties' Negative Covenants; Definitions. Section 15(n)(v) of the Loan Agreement is hereby amended and restated in its entirety as follows:

"(v) "**FCCR Trigger Event**" shall mean the date that Lender shall have received a certificate, executed and delivered by a senior financial officer of Borrower Representative, certifying to Lender that Loan Parties have achieved a Fixed Charge Coverage Ratio, on a consolidated basis, measured on monthly basis from the date hereof utilizing a rolling average of actual monthly results and expressed on an annualized basis, equal to or greater than 1.1 to 1.0."

2.4 Termination. Section 21(a) of the Loan Agreement is hereby amended and restated in its entirety as follows:

"(a) Unless sooner terminated by Lender as a result of the occurrence of an Event of Default, Borrowers' eligibility to request loans hereunder shall commence on the date hereof and shall continue for a period through and including February 28, 2020 (the "**Term**"). If Borrowers desire to terminate this Agreement prior to the end of the Term, Borrowers shall give at least sixty (60) days prior written notice to Lender of Borrowers' intention to do so and shall pay to Lender the termination charge set forth below. Borrowers' eligibility to request loans may be extended after the Term (and after any Renewal Term, as defined below) only with the express written consent of both Borrowers and Lender. Any such extension (and any further extension) shall be made only with the express written consent of both Borrowers and Lender (each being a "**Renewal Term**"). At the end of the Term (or at the end of a Renewal Term, if applicable), Borrowers shall pay the entire balance of the loans and all other outstanding Obligations. Further, upon termination of this Agreement, all of the rights, interests and remedies of Lender and Obligations of Borrowers shall survive and Borrowers shall have no right to receive, and Lender shall have no obligation to make, any further loans. Upon full, final and indefeasible payment of the Obligations to Lender, all rights and remedies of Borrowers and Lender hereunder shall cease, so long as any payment so made to Lender and applied to the Obligations is not thereafter recovered from or repaid by Lender in whole or in part in any Insolvency or Liquidation Proceeding instituted by or against any Borrower, whereupon this Agreement shall be automatically reinstated without any further action by Borrowers and Lender and shall continue to be fully applicable to such Obligations to the same extent as though the payment so recovered or repaid had never been originally made on such Obligations."

2.5 Customer Credit Limits. Exhibit 2 of the Loan Agreement is hereby amended and restated in its entirety as set forth on Exhibit A hereto.

Section 3. Conditions Precedent. The effectiveness of this Amendment is subject to the satisfaction of the following conditions precedent:

3.1 this Amendment shall have been duly authorized, executed and delivered by Loan Parties, and a counterpart hereof as so executed or acknowledged shall have been received by Lender;

3.2 after giving effect to this Amendment, all of the representations and warranties set forth in the Loan Agreement will be true and correct in all material respects (without duplication of any materiality qualifier contained therein) on and as of the date hereof as though made on and as of the date hereof, except to the extent that such representations and warranties expressly related to an earlier date, in which case such representations and warranties shall be true and correct in all material respects (without duplication of any materiality qualifier contained therein) as of such earlier date and no Event of Default shall exist;

3.3 Lender shall have received, for each parcel comprising the Eligible Real Property, the following: (a) a current, FIRREA-compliant appraisal conducted by an independent appraiser engaged by Lender or otherwise acceptable to Lender in its Permitted Discretion, and (b) an updated phase-I environmental report, the scope of which, and results thereof, to be acceptable by Lender in its Permitted Discretion; and

3.4 Lender shall have received an amendment fee in an amount of Twenty Thousand and No/100 Dollars ($20,000.00), which fee shall be fully earned and payable as of the date hereof.

Section 4. **Miscellaneous.**

4.1 Successors and Assigns. This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

4.2 Severability. Any provision of this Amendment that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

4.3 Loan Documents Unaffected. Each reference to the Loan Agreement in any Loan Document shall hereafter be construed as a reference to the Loan Agreement as modified hereby. Except as otherwise specifically provided, this Amendment shall not by implication or otherwise limit, impair, constitute a waiver of, or otherwise affect the rights and remedies of any party under, the Loan Agreement or any other Loan Document, nor alter, modify, amend or in any way affect any provision of the Loan Agreement or any other Loan Document, including, without limitation, the guarantees, pledges and grants of security interests, as applicable, under each of the Loan Documents, all of which are ratified and affirmed in all respects and shall continue in full force and effect. This Amendment is a Loan Document.

4.4 Entire Agreement. This Amendment, together with the Loan Agreement and the other Loan Documents, integrates all the terms and conditions mentioned herein or incidental hereto and supersede all oral representations and negotiations and prior writings with respect to the subject matter hereof.

4.5 Governing Law; Jury Trial Waiver. THE VALIDITY OF THIS AMENDMENT, THE CONSTRUCTION, INTERPRETATION, AND ENFORCEMENT HEREOF, AND THE RIGHTS OF THE PARTIES HERETO AND THERETO WITH RESPECT TO ALL MATTERS ARISING HEREUNDER OR RELATED HERETO, AS WELL AS ALL CLAIMS, CONTROVERSIES OR DISPUTES ARISING UNDER OR RELATED TO THIS AMENDMENT SHALL BE DETERMINED UNDER, GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CONNECTICUT WITHOUT REGARD TO THE CONFLICTS OF LAWS PRINCIPLES THEREOF.

4.6 Jury Trial Waiver. EACH OF THE PARTIES TO THIS AMENDMENT HEREBY IRREVOCABLY WAIVES ALL RIGHT TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS AMENDMENT OR ANY OF THE OTHER LOAN DOCUMENTS (INCLUDING, WITHOUT LIMITATION, ANY AMENDMENTS, WAIVERS OR OTHER MODIFICATIONS RELATING TO ANY OF THE FOREGOING), OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY.

4.7 Counterparts. This Amendment may be executed by the parties hereto separately in one or more counterparts, each of which when so executed shall be deemed to be an original, but all of which when taken together shall constitute one and the same agreement. Transmission by a party to another party (or its counsel) via facsimile, electronic mail or other method of electronic communication of a signed copy of this Amendment (or a signature page of this Amendment) shall be as fully effective as delivery by such transmitting party to the other parties hereto of a counterpart of this Amendment that had been manually signed by such transmitting party

[*Signature page follows***]**

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their proper and duly authorized officers as of the date first above written.

BORROWER:

INDUSTRIAL SERVICES OF AMERICA, INC., a Florida corporation

By: /s/ Todd L. Phillips
Name: Todd L. Phillips
Title: President
Address: 7100 Grade Lane, Building 1
Louisville, Kentucky 40213
Attention: Todd Phillips
Telephone: 502-367-7100
Telecopier: None
Email: TPhillips@isa-inc.com

[SIGNATURES CONTINUED ON THE FOLLOWING PAGE.]

[SIGNATURES CONTINUED FROM THE PREVIOUS PAGE.]

GUARANTORS:

ISA INDIANA INC.,
an Indiana corporation

By: /s/ Todd L. Phillips
Name: Todd L. Phillips
Title: President

ISA LOGISTICS LLC,
a Kentucky limited liability company

By: /s/ Todd L. Phillips
Name: Todd L. Phillips
Title: President

ISA REAL ESTATE, LLC,
a Kentucky limited liability company

By: /s/ Todd L. Phillips
Name: Todd L. Phillips
Title: President

ISA INDIANA REAL ESTATE, LLC,
a Kentucky limited liability company

By: /s/ Todd L. Phillips
Name: Todd L. Phillips
Title: President

7021 GRADE LANE LLC,
a Kentucky limited liability company

By: /s/ Todd L. Phillips
Name: Todd L. Phillips
Title: President

[SIGNATURES CONTINUED ON THE FOLLOWING PAGE.]

[SIGNATURES CONTINUED FROM THE PREVIOUS PAGE.]

GUARANTORS:

7124 GRADE LANE LLC,
a Kentucky limited liability company

By: /s/ Todd L. Phillips
Name: Todd L. Phillips
Title: President

7200 GRADE LANE LLC,
a Kentucky limited liability company

By: /s/ Todd L. Phillips
Name: Todd L. Phillips
Title: President

[SIGNATURES CONTINUED ON THE FOLLOWING PAGE.]

[SIGNATURES CONTINUED FROM THE PREVIOUS PAGE.]

LENDER:

MIDCAP BUSINESS CREDIT LLC,
a Texas limited liability company

By: /s/ Steven A. Samson
Name: Steven A. Samson
Title: President

Address: 433 South Main Street
West Hartford, Connecticut 06110
Attention: Portfolio Manager for Industrial Services of America, Inc.
Telephone: 860-503-1629
Telecopier: 800-217-0500
Email: ssamson@midcapcredit.com

EXHIBIT A

TO

AMENDMENT NO. 1 TO LOAN AND SECURITY AGREEMENT

CUSTOMER CREDIT LIMITS

EXHIBIT 2

Customer Credit Limits

ACCOUNT NAME	CREDIT LIMIT
Waupaca Foundry	$800,000
Alumisource Corporation	$250,000
Metal Conversions Ltd	$250,000
Versatile Processing Group	$350,000
Metalx	$250,000
Trinity Metals	$350,000
Cooper Iron & Metal	$350,000
Moskowitz Brothers	$250,000
Cobra Trading	$350,000
Cohen Brothers	$350,000
I Schumann	$350,000
Pro Trade	$350,000
Stickland	$350,000
Novelis	$350,000
J Solotken	$350,000

EXHIBIT 21

INDUSTRIAL SERVICES OF AMERICA, INC.
LIST OF SUBSIDIARIES
AS OF DECEMBER 31, 2016

NAME OF ENTITY	STATE OF INCORPORATION
ISA Indiana, Inc.	Indiana
ISA Indiana Real Estate, LLC	Indiana
ISA Logistics LLC	Kentucky
ISA Real Estate, LLC	Kentucky
7021 Grade Lane LLC	Kentucky
7124 Grade Lane LLC	Kentucky
7200 Grade Lane LLC	Kentucky

EXHIBIT 23

CPAs & ADVISORS

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-200652) of Industrial Services of America, Inc. (the "Company") of our report dated March 31, 2017, relating to our audit of the consolidated financial statements of the Company, which appears in the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2016.

Mountjoy Chilton Medley LLP

/s/ Mountjoy Chilton Medley LLP

Louisville, Kentucky
March 31, 2017

Exhibit 31.1

CERTIFICATIONS

I, Orson Oliver, certify that:

1. I have reviewed this Form 10-K for the year ended December 31, 2016 of Industrial Services of America, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in the report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 31, 2017	/s/ Orson Oliver
Date	Orson Oliver, Chairman of the Board and Interim Chief Executive Officer
	(Principal Executive Officer)

Exhibit 31.2

CERTIFICATIONS

I, Todd L. Phillips, certify that:

1. I have reviewed this Form 10-K for the year ended December 31, 2016 of Industrial Services of America, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in the report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 31, 2017	/s/ Todd L. Phillips
Date	Todd L. Phillips, President and Chief Financial Officer
	(Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATIONS

Orson Oliver, being the Chairman of the Board and Interim Chief Executive Officer, and Todd L. Phillips, being the President and Chief Financial Officer, of Industrial Services of America, Inc., hereby certify as of this 31st day of March, 2017, that the Form 10-K for the year ended December 31, 2016, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Industrial Services of America, Inc.

/s/ Orson Oliver

Orson Oliver, Chairman of the Board and Interim Chief Executive Officer

/s/ Todd L. Phillips

Todd L. Phillips, President and Chief Financial Officer