FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017

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)

(502) 368-1661
(Registrant's Telephone Number, Including Area Code)

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

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

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

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

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

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

Indicate the number of shares issued and outstanding of each of the issuer's classes of common stock, as of August 6, 2017: 8,081,793.

INDUSTRIAL SERVICES OF AMERICA, INC. AND SUBSIDIARIES

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ITEM 1: CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

INDUSTRIAL SERVICES OF AMERICA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	June 30, 2017 (Unaudited)		December 31, 2016	
	(in thousands)			
Current assets				
Cash and cash equivalents	$	900	$	526
Income tax receivable		4		14
Accounts receivable – trade after allowance for doubtful accounts of $60.0 thousand and $35.0 thousand in 2017 and 2016, respectively		4,946		3,361
Receivables from related parties		45		150
Inventories		4,131		3,437
Prepaid expenses and other current assets		275		216
Total current assets		10,301		7,704
Net property and equipment		12,174		13,068
Other assets				
Deferred income taxes		27		27
Other non-current assets		213		57
Total other assets		240		84
Total assets	$	22,715	$	20,856

See accompanying notes to condensed consolidated financial statements.

INDUSTRIAL SERVICES OF AMERICA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
CONTINUED

LIABILITIES AND SHAREHOLDERS' EQUITY

	June 30, 2017 (Unaudited)	December 31, 2016
	(in thousands, except par value and share information)	
Current liabilities		
Current maturities of long-term debt	$ 5,647	$ 2,942
Current maturities of long-term debt, related parties	64	—
Current maturities of capital lease obligations	282	198
Checks in excess of bank	14	79
Accounts payable	1,563	1,605
Payables and accrued expenses to related parties	338	578
Other current liabilities	614	627
Total current liabilities	8,522	6,029
Long-term liabilities		
Long-term debt, related parties	1,569	1,504
Capital lease obligations, net of current maturities	940	1,050
Total long-term liabilities	2,509	2,554
Shareholders' equity		
Common stock, $0.0033 par value: 20.0 million shares authorized in 2017 and 2016; 8,081,793 and 8,074,541 shares issued and outstanding in 2017 and 2016, respectively	27	27
Additional paid-in capital	23,971	23,912
Stock warrants outstanding	1,025	1,025
Retained losses	(13,295)	(12,647)
Treasury stock at cost, 30,690 shares in 2017 and 2016	(44)	(44)
Total shareholders' equity	11,684	12,273
Total liabilities and shareholders' equity	$ 22,715	$ 20,856

See accompanying notes to condensed consolidated financial statements.

INDUSTRIAL SERVICES OF AMERICA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
THREE AND SIX MONTHS ENDED JUNE 30, 2017 AND 2016
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	For the three months ended		For the six months ended	
	June 30, 2017	**June 30, 2016**	**June 30, 2017**	**June 30, 2016**
Revenue from product sales	$ 13,560	$ 10,121	$ 26,571	$ 16,119
Cost of sales for product sales	12,880	9,406	24,960	15,581
Gross profit	680	715	1,611	538
Selling, general and administrative expenses	856	1,191	1,898	2,390
Loss before other income (expense)	(176)	(476)	(287)	(1,852)
Other income (expense)				
Interest expense, including loan fee amortization	(202)	(114)	(385)	(173)
Gain on sale of assets	—	—	28	—
Other income (expense), net	1	2	3	13
Total other income (expense)	(201)	(112)	(354)	(160)
Loss before income taxes	(377)	(588)	(641)	(2,012)
Income tax provision	—	39	7	40
Net loss	$ (377)	$ (627)	$ (648)	$ (2,052)
Basic loss per share	$ (0.05)	$ (0.08)	$ (0.08)	$ (0.26)
Diluted loss per share	$ (0.05)	$ (0.08)	$ (0.08)	$ (0.26)
Weighted average shares outstanding:				
Basic	8,075	8,038	8,075	8,029
Diluted	8,075	8,038	8,075	8,029

See accompanying notes to condensed consolidated financial statements.

INDUSTRIAL SERVICES OF AMERICA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2017
(UNAUDITED)

	Common Stock					Treasury Stock		
	Shares	Amount	Additional Paid-in Capital	Stock Warrants	Retained Losses	Shares	Cost	Total Shareholders' Equity
	(in thousands, except share information)							
Balance as of December 31, 2016	8,105,231	$ 27	$ 23,912	$ 1,025	$ (12,647)	(30,690)	$ (44)	$ 12,273
Common stock	7,252	—	—	—	—	—	—	—
Share-based compensation	—	—	59	—	—	—	—	59
Net loss	—	—	—	—	(648)	—	—	(648)
Balance as of June 30, 2017	8,112,483	$ 27	$ 23,971	$ 1,025	$ (13,295)	(30,690)	$ (44)	$ 11,684

See accompanying notes to condensed consolidated financial statements.

INDUSTRIAL SERVICES OF AMERICA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2017 AND 2016
(UNAUDITED)

	For the six months ended	
	June 30, 2017	**June 30, 2016**
	(in thousands)	
Cash flows from operating activities		
Net loss	$ (648)	$ (2,052)
Adjustments to reconcile net loss to net cash used in operating activities:		
Bad debt expense	25	—
Depreciation and amortization	1,135	1,119
Share-based compensation expense	59	336
Deferred income taxes	—	35
Gain on sale of assets	(28)	—
Amortization of loan fees included in interest expense	64	70
Change in assets and liabilities		
Receivables	(1,610)	(1,783)
Receivables from related parties	105	64
Inventories	(694)	(772)
Income tax receivable/payable	10	5
Other assets	(154)	83
Accounts payable	(42)	(426)
Payables and accrued expenses to related parties	(240)	73
Other current liabilities	(13)	131
Net cash used in operating activities	(2,031)	(3,117)
Cash flows from investing activities		
Proceeds from sale of property and equipment	28	—
Purchases of property and equipment	(75)	—
Net cash used in investing activities	(47)	—
Cash flows from financing activities		
Loan fees capitalized	(125)	(241)
Change in bank overdrafts	(65)	140
Payments on long-term debt	—	(20)
Payments on capital lease obligations	(63)	(9)
Proceeds from revolving line of credit, net	2,705	3,020
Net cash from financing activities	2,452	2,890
Net change in cash and cash equivalents	374	(227)
Cash and cash equivalents at beginning of period	526	642
Cash and cash equivalents at end of period	$ 900	$ 415

INDUSTRIAL SERVICES OF AMERICA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
CONTINUED
SIX MONTHS ENDED JUNE 30, 2017 AND 2016
(UNAUDITED)

	For the six months ended	
	June 30, 2017	June 30, 2016
	(in thousands)	
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 296	$ 82
Cash paid for taxes	2	—
Tax refunds received	5	—
Supplemental disclosure of noncash investing and financing activities:		
Conversion of related party payables to long-term debt, related parties	—	1,504
Equipment additions financed by capital lease obligations	37	1,285
Equipment financed by related party debt	129	—

See accompanying notes to condensed consolidated financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL

Industrial Services of America, Inc. (herein “ISA,” the “Company,” or other similar terms) is a Louisville, Kentucky-based company that buys, processes and markets ferrous and non-ferrous metals and other recyclable commodities and buys used autos in order to sell used auto parts. The Company purchases, processes and sells ferrous and non-ferrous scrap metal to steel mini-mills, integrated steel makers, foundries, refineries and processors. The Company purchases ferrous and non-ferrous scrap metal primarily from industrial and commercial generators of steel, aluminum, copper, brass, stainless steel and other metals as well as from scrap dealers and retail customers who deliver these materials directly to ISA facilities. The Company processes scrap metal through sorting, cutting, baling, and shredding operations. The shredding operations were restarted in May 2017. The non-ferrous scrap recycling operations consist primarily of collecting, sorting and processing various grades of copper, aluminum, stainless steel and brass. The used automobile yard primarily purchases automobiles so that retail customers can locate and remove used parts for purchase.

The Company's core business is 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, which includes the commercial restart of the Company's auto shredder in the second quarter of 2017. The Company intends to run the auto shredder in the normal course of business subject to market conditions and operating needs. ISA will also evaluate other various options and remain alert for possible strategic partnerships, joint ventures and mergers/acquisitions.

In connection with the evaluation of strategic alternatives, on September 30, 2016, the Company and Algar, Inc. ("Algar") mutually agreed to terminate the Management Services Agreement between them dated as of December 1, 2013 (the "Management Agreement"), pursuant to the Agreement to Terminate Management Services among the Company, Algar, and Sean Garber dated as of September 30, 2016 (the "Termination Agreement"). See Note 6 - Related Party Transactions for further details.

Effective September 30, 2016, 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.

Liquidity

During the first quarter of 2017, the Company amended and extended its working capital line of credit. The Company expects operating cash flow and borrowings under its working capital line of credit to be sufficient to meet its ongoing obligations. Influenced by the scrap metal market downturn from late 2014 through 2016, the Company's sources of liquidity during this time primarily consisted of proceeds from asset and equity sales as well as the idling of the auto shredder and refinancing of its working capital line of credit. Additional information, including the steps the Company took, is included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, on file with the Securities and Exchange Commission.

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

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

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. The Accounting Standards Codification ("ASC") as produced by the Financial Accounting Standards Board ("FASB") is the sole source of authoritative GAAP. The information furnished includes all adjustments, which are, in the opinion of management, necessary to present fairly our financial position as of June 30, 2017 and the results of our operations and changes in our cash flows for the periods ended June 30, 2017 and 2016. Results of operations for the period ended June 30, 2017 are not necessarily indicative of the results that may be expected for the entire year. Additional information, including the audited December 31, 2016 consolidated financial statements and the Summary of Significant Accounting Policies, is included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, on file with the Securities and Exchange Commission.

Estimates

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

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.

Fair Value

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

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

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

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

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

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

When determining the fair value measurements for financial assets and liabilities carried at fair value on a recurring basis, the Company considers the principal or most advantageous market in which it would transact and 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 and debt. All of our cash is defined as Level 1 and all our debt is defined as Level 2.

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

	Fair Value at Reporting Date Using		
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	
Assets:	Level 1	Level 2	Total
Cash and cash equivalents	$ 900	$ —	$ 900
Liabilities:			
Current maturities of long-term debt	$ —	$ (5,647)	$ (5,647)
Long-term debt, related parties	—	(1,323)	(1,323)

The Company had no transfers in or out of Levels 1 or 2 fair value measurements, and no activity in Level 3 fair value measurements for the six month periods ended June 30, 2017 or 2016.

Common Stock and Share-based Compensation Arrangements

The Company has a Long Term Incentive Plan adopted in 2009 ("LTIP") under which it may grant equity awards for up to 2.4 million shares of common stock, which are reserved by the Board of Directors for issuance of equity awards. The Company provides compensation benefits by granting stock options and other share-based awards to employees and directors. The exercise price of each option is equal to the market price of the Company's stock on the date of grant. The maximum term of the option is five years. The plan is accounted for based on FASB's authoritative guidance titled "ASC 718 - Compensation - Stock Compensation." The Company recognizes share-based compensation expense for the fair value of the awards, on the date granted, on a straight-line basis over their vesting term (service period). Compensation expense is recognized only for share-based payments expected to vest. The Company estimates forfeitures at the date of grant based on the Company's historical experience and future expectations.

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

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

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

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

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

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

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

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 6 - 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 7 - 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.

Other Comprehensive Income

The Company previously entered into interest rate swaps to assist in managing commodity price risk. The effective portions of changes in the fair value of the derivatives were recorded as a component of other comprehensive income. The Company fully settled the previously outstanding interest rate swap in December 2015. During 2016 and 2017, the Company did not use any derivative instruments, including commodity hedges to assist in managing commodity price risk. As such, the Company has no activity in other comprehensive income and has no Condensed Consolidated Statements of Comprehensive Income included in the financial statements.

Subsequent Events

The Company has evaluated the period from June 30, 2017 through the date the financial statements herein were issued and noted no subsequent events requiring recognition or disclosure in the financial statements.

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 is evaluating the potential impact of the adoption of ASU 2014-09 on the Condensed Consolidated Financial Statements. The Company does not expect a material impact from the adoption of ASU 2014-09 on the Condensed 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. The Company adopted ASU 2014-15 in the fourth quarter of 2016 and noted no material impact from the adoption on the Condensed 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 from the adoption on the Condensed 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. Upon adoption, ASU 2015-17 may be applied either prospectively or retrospectively. The Company adopted the standard in the first quarter of 2017 and noted no material impact from the adoption on the Condensed Consolidated Financial Statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases, to improve financial reporting about leasing transactions. This ASU will require organizations that lease assets (“lessees”) to recognize a lease liability and a right-of-use asset on its balance sheet for all leases with terms of more than twelve months. A lease liability is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis and a right-of-use asset represents the lessee’s right to use, or control use of, a specified asset for the lease term. The amendments in this ASU simplify the accounting for sale and leaseback transactions 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. Early adoption is permitted. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Company is evaluating the potential impact of ASU 2016-02 on the Condensed Consolidated Financial Statements.

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

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows, Classification of Certain Cash Receipts and Cash Payments, which provides guidance on eight specific cash flow issues. ASU 2016-15 is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. 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 Condensed Consolidated Financial Statements. The Company does not expect a material impact from the adoption of ASU 2016-15 on the Condensed Consolidated Financial Statements.

NOTE 2 – INVENTORIES

The Company's inventories primarily consist of ferrous and non-ferrous scrap metals, and are valued at the lower of average purchased cost or net realizable value ("NRV") based on the specific scrap commodity. See Impact of Recently Issued Accounting Standards at the end of Note 1. Quantities of inventories are determined based on the Company's inventory systems and are subject to periodic physical verification using estimation techniques including observation, weighing and other industry methods. The Company recognizes inventory impairment and related adjustments when the NRV, based upon current market pricing, falls below recorded value or when the estimated volume is less than the recorded volume of the inventory. The Company records the loss in cost of sales in the period during which the loss is identified.

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

The Company did not have a lower of cost or NRV inventory write-down in the six month period ended June 30, 2017.

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

Inventories for ferrous and non-ferrous materials as of June 30, 2017 and December 31, 2016 consist of the following:

	June 30, 2017 (unaudited)	December 31, 2016
	(in thousands)	
Raw materials	$ 3,019	$ 2,222
Finished goods	559	805
Processing costs	553	410
Total inventories for sale	$ 4,131	$ 3,437

NOTE 3 – LONG TERM DEBT AND NOTES PAYABLE TO BANK

Summary:

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

MidCap:

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

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 (4.25% as of June 30, 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, 2020 based on the amendment described below. The borrowings under the revolving credit agreement are classified as short-term obligations under GAAP as the agreement with MidCap contains a subjective acceleration clause and requires the Company to maintain a lockbox arrangement with the lender.

The Company is subject to a prepayment fee of $120.0 thousand if the 2016 Loan is terminated or prepaid prior to the one year anniversary of the loan. The Company is subject to a prepayment fee of $60.0 thousand if the 2016 Loan is terminated or prepaid subsequent to the one year anniversary of the loan, but prior to the maturity date. 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.

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

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 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.

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

The amended 2016 Loan had availability of $1.5 million as of June 30, 2017.

Related Party Notes:

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

Long term debt as of June 30, 2017 and December 31, 2016 consisted of the following:

	June 30, 2017	December 31, 2016
	(unaudited)	
	(in thousands)	
Revolving credit facility with MidCap, see above description for additional details	$ 5,647	$ 2,942
K&R, LLC related party notes (See Note 6 - Related Party Transactions)	1,013	884
7100 Grade Lane, LLC related party note (See Note 6 - Related Party Transactions)	620	620
	7,280	4,446
Less amounts classified as current maturities	5,711	2,942
	$ 1,569	$ 1,504

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

2018	$ 64
2019	65
2020	5,647
2021	1,504
2022	—
Total	$ 7,280

The Company paid and capitalized loan fees in the amount of $124.9 thousand during the six month period ended June 30, 2017.

NOTE 4 - LEASE COMMITMENTS

Operating Leases:

The Company leases a portion of its Louisville, Kentucky facility from a related party (see Note 6 - 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 responsible for real estate taxes, insurance, utilities and maintenance expense.

The Company signed a lease, effective December 1, 2014, to lease a facility in the Seymour, Indiana area. This lease 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 was 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 6 - Related Party Transactions) under an operating lease for a monthly payment of $5.0 thousand. The lease expired May 2016.

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

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

Future minimum lease payments for operating leases for the next five twelve-month periods ending June 30 of each year, in thousands, as of June 30, 2017 are as follows:

	Related Party	Other	Total
2018	$ 359	$ 42	$ 401
2019	29	—	29
2020	—	—	—
2021	—	—	—
2022	—	—	—
Future minimum lease payments	$ 388	$ 42	$ 430

Total lease expense for the six months ended June 30, 2017 and 2016 was $410.6 thousand and $564.0 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 remainder of the lease term. There is no bargain purchase option associated with the Crane Lease. Based on the new lease terms, the Company classified the Crane Lease as a capital lease. At inception, the Company recorded a capital lease obligation of $1.3 million. The Company used a weighted average cost of capital of 9.3% to calculate the capital lease obligation. For the six months ended June 30, 2017, the Company has recorded $128.5 thousand in depreciation expense and $57.3 thousand in interest expense related to the Crane Lease. The net book value of the cranes leased was $1.0 million at June 30, 2017.

NOTE 4 - LEASE COMMITMENTS, Continued

The Company entered into a capital lease, effective June 2017, to lease two pieces of equipment. The lease is for a period of six years and the payments are $0.7 thousand per month. The Company has the option to purchase the equipment for a purchase price of $1.00 per item of equipment upon the expiration of the lease. At inception, the Company recorded a capital lease obligation of $37.6 thousand. The Company used a weighted average cost of capital of 10.0% to calculate the capital lease obligation.

Future minimum lease payments for the next five twelve-months periods ending June 30 of each year, in thousands, as of June 30, 2017 are as follows:

	Total	Principal	Interest
2018	$ 384	$ 282	$ 102
2019	384	309	75
2020	384	339	45
2021	290	278	12
2022 and beyond	15	14	1
	$ 1,457	$ 1,222	$ 235

NOTE 5 – PER SHARE DATA

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

Six months ended June 30, 2017 compared to six months ended June 30, 2016:

	2017	2016
	(in thousands, except per share information)	
Basic loss per share		
Net loss	$ (648)	$ (2,052)
Weighted average shares outstanding	8,075	8,029
Basic loss per share	$ (0.08)	$ (0.26)
Diluted loss per share		
Net loss	$ (648)	$ (2,052)
Weighted average shares outstanding	8,075	8,029
Add dilutive effect of assumed exercising of stock options and warrants	—	—
Diluted weighted average shares outstanding	8,075	8,029
Diluted loss per share	$ (0.08)	$ (0.26)

Three months ended June 30, 2017 compared to three months ended June 30, 2016:

	2017	2016
	(in thousands, except per share information)	
Basic loss per share		
Net loss	$ (377)	$ (627)
Weighted average shares outstanding	8,075	8,038
Basic loss per share	$ (0.05)	$ (0.08)
Diluted loss per share		
Net loss	$ (377)	$ (627)
Weighted average shares outstanding	8,075	8,038
Add dilutive effect of assumed exercising of stock options and warrants	—	—
Diluted weighted average shares outstanding	8,075	8,038
Diluted loss per share	$ (0.05)	$ (0.08)

NOTE 6 - RELATED PARTY TRANSACTIONS

During the periods ended June 30, 2017 and 2016, the Company was involved in various transactions with related parties. A summary of transactions and related balances are as follows. The table at the end of this note should be used in referencing all below paragraphs.

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

The Company is involved in various transactions with K&R and 7100 LLC, which are wholly-owned by Kletter Holdings LLC, the sole member of which was Harry Kletter, the Company's founder and former Chief Executive Officer. After Mr. Kletter's passing in January 2014, 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 June 30, 2017, 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 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 2017, the Company deferred a portion of these lease payments. A portion of this deferral was converted into a term note during 2016 as described below.

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 June 30, 2017 and 2016, the Company had balances related to K&R and 7100 LLC pertaining to refundable lease and property deposits due to and from the Company, rents payable from the Company, notes payable due from the Company, accrued interest due from the Company, interest expense, and rent expense.

On February 29, 2016, K&R assigned its interest in the 7100 Lease to another entity, 7100 LLC, also controlled by Mr. Kletter’s estate. At that time, the total amount due to the estate’s various entities, which amounted to approximately $1.5 million and is inclusive of the $500.0 thousand noted above, became a subordinated, unsecured debt (the "Kletter Notes") owed by the Company. A portion of the amount, approximately $620.3 thousand, is owed to K&R, with the remaining amount, approximating $883.8 thousand, owed to 7100 LLC. Interest will accrue monthly at a per annum rate of 5.0%. Interest 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.

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

Under the Handler Agreement, the Company purchased a hydraulic scrap handler from K&R for a purchase price of $90,000, with a $9,000 down payment and a 24-month promissory note ("Handler Note") in the face principal amount of the remaining $81,000. The Handler Note is interest free and provides for payments in equal monthly installments of $3,375. Under the Handler Note, payments are to commence on July 1, 2017. Upon a default, the Handler Note will bear interest at 1% per annum.

Under the Crane Agreement, the Company purchased a 2011 Komatsu crane from K&R for a purchase price of $60,000, with a $12,000 down payment and a 24-month promissory note ("Crane Note") in the face principal amount of the remaining $48,000. The Crane Note is interest free and provides for payments in equal monthly installments of $2,000. Under the Crane Note, payments are to commence on July 1, 2017. Upon a default, the Crane Note will bear interest at 1% per annum.

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

Algar, Inc. ("Algar"):

Management Services Payments to 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.

NOTE 6 - RELATED PARTY TRANSACTIONS, Continued

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.

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, an entity owned by shareholders of Algar, including Mr. Garber. The bonus payable was further reduced on August 5, 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 provided 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 Company paid the Accrued Bonus Payment in the amount of $180.0 thousand on March 31, 2017. 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, the Company participated in various other transactions with Algar. The Company sold scrap to Algar, bought scrap from Algar, leased equipment to and from Algar, and provided logistical and IT services to Algar. Related to these transactions, the Company had related income and expense during 2016.

Board of Directors' fees and consulting fees:

The Company pays board and committee fees to non-employee directors. 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 June 30, 2017 and 2016.

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, 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), 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.

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.

NOTE 6 - RELATED PARTY TRANSACTIONS, Continued

MetalX:

During 2017 and 2016, the Company held accounts receivables balances from MetalX related to scrap sales. For additional information regarding MetalX, see Note 9 - Financing and Related Matters.

Related party balances are as follows, in thousands:

		2017	2016
K&R, LLC and 7100 LLC:			
Deposit amounts owed to the Company by related parties	(1)	$ 42	$ 42
Notes payable to related parties	(3)	1,633	1,504
Accrued interest to related parties	(2)	—	63
Facility rent payable to related parties	(2)	254	176
Equipment rent payable to related parties	(2)	10	15
Facility rent expense to related parties	(4)	323	323
Equipment rent expense to related parties	(4)	—	30
Interest expense to related parties	(4)	38	25
Algar, Inc.:			
Bonus payable to Algar	(2), (5)	$ —	$ 180
Revenue from logistical services to Algar	(4), (6)	—	48
Revenue from IT services to Algar	(4), (6)	—	12
Scrap material purchases from Algar	(4), (6)	—	771
Management fee expense	(4), (6)	—	125
Bonus expense to Algar	(4), (6)	—	168
Rental income from Algar	(4), (6)	—	17
Other expenses to Algar	(4), (6)	—	9
Board of Directors: *			
Accounts payable to the Board of Directors for fees	(2)	$ 73	$ 144
Board of director fee expense	(4)	124	62
LK Property Investments, LLC:			
Lease deposit to LK Property	(1)	$ 3	$ 3
Accounts payable to LK Property	(2)	1	—
Rent expense to LK Property**	(4)	18	18
MetalX, LLC:			
Accounts receivable from MetalX	(1)	$ —	$ 105
Revenue from product sales to MetalX	(4)	188	74

* Excludes insignificant amount of travel reimbursement.

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

(1) Included in receivable from related parties on the Condensed Consolidated Balance Sheets; balances are as of June 30, 2017 and December 31, 2016.
(2) Included in payable to related parties on the Condensed Consolidated Balance Sheets; balances are as of June 30, 2017 and December 31, 2016.
(3) Included in long-term liabilities on the Condensed Consolidated Balance Sheets; balance is as of June 30, 2017 and December 31, 2016.
(4) Included in the Condensed Consolidated Statements of Operations; amounts are for the six months ended June 30, 2017 and June 30, 2016.
(5) 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. The bonus payable was paid on March 31, 2017.
(6) The Company excluded all 2017 balances related to Algar as the related party relationship ended on September 30, 2016.

NOTE 7– SHARE-BASED COMPENSATION AND OTHER COMPENSATION AGREEMENTS

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

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, 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
Expired	(90)	4.94	—	1.71
Outstanding at June 30, 2017	412	$ 4.75	1.94 years	$ 2.59
Exercisable at June 30, 2017	412	$ 4.75	1.94 years	$ 2.59
Securities available for grant at June 30, 2017*	1,636			

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

Option Grants:

As described in Note 1 - Summary of Significant Accounting Policies and General and Note 6 - 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, 2013. 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 increased 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 6 - Related Party Transactions for further details.

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.

Restricted Stock Unit Grants:

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 Condensed Consolidated Statement of Operations. Each RSU vested on April 1, 2016 and represents the right to receive one share of the Company's common stock upon the vesting of the RSU, subject to the terms and conditions set forth in the RSU Agreement and the Plan.

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.

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 June 30, 2017 and the related 67,500 RSUs vested and became nonforfeitable.

Following is a summary of RSU activity:

Restricted Stock Units	Number of shares (in thousands)	Weighted Average Remaining Contractual Term	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2016	45	1.05 years	$ 2.23
Vested	(11)		
Outstanding at June 30, 2017	34	0.74 years	$ 2.28

<u>*Non-Equity Transactions:*</u>

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 December 31, 2016 bonus of $100.0 thousand was paid during the three month period ended March 31, 2017. 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 evaluates the liability on an ongoing basis, and will expense the liability through December 31, 2017 unless determined otherwise. The Company has accrued $79.6 thousand as of June 30, 2017.

NOTE 8 - LEGAL PROCEEDINGS

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

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

NOTE 9 - FINANCING AND RELATED MATTERS

Securities Purchase Agreement

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

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

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

Director Designation Agreement

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

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

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

Cautionary Statement Regarding Forward-Looking Statements
The following discussion and analysis contains certain financial predictions, forecasts and projections which constitute "forward-looking statements" within the meaning of the federal securities laws. Actual results could differ materially from those financial predictions, forecasts and projections and there can be no assurance that we will achieve such financial predictions, forecasts and projections. Factors that could affect financial predictions, forecasts and projections include availability of liquidity, fluctuations in commodity prices and any conditions internal to our major customers, including loss of their accounts and other factors as listed in our Form 10-K for the year ended December 31, 2016, as filed with the Securities and Exchange Commission.

General

Industrial Services of America, Inc. (herein "ISA," the "Company," "we," "us," "our," or other similar terms) is a Louisville, Kentucky-based company that buys, processes and markets ferrous and non-ferrous metals and other recyclable commodities and buys used autos in order to sell used auto parts. We purchase, process and sell ferrous and non-ferrous scrap metal to steel mini-mills, integrated steel makers, foundries, refineries and processors. We purchase ferrous and non-ferrous scrap metal primarily from industrial and commercial generators of steel, aluminum, copper, brass, stainless steel and other metals as well as from scrap dealers and retail customers who deliver these materials directly to our facilities. We process scrap metal through our sorting, cutting, baling, and shredding operations. The shredding operations were restarted in May 2017. Our non-ferrous scrap recycling operations consist primarily of collecting, sorting and processing various grades of copper, aluminum, stainless steel and brass. Our used automobile yard primarily purchases automobiles so that retail customers can locate and remove used parts for purchase.

Our core business is 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, which includes the commercial restart of our auto shredder in the second quarter of 2017. We intend to run the auto shredder in the normal course of business subject to market conditions and operating needs. We will also evaluate other various options and 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 Note 3 - Long Term Debt and Notes Payable to Bank in the accompanying Notes to Condensed Consolidated Financial Statements. On April 26, 2017, certain borrowing base restrictions were satisfied with MidCap which resulted in an increase in availability of $1.75 million.

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.

Liquidity and Capital Resources

Our cash requirements generally consist of working capital, capital expenditures and debt service. Influenced by the scrap metal market downturn from late 2014 through 2016, our sources of liquidity during this time primarily consisted of proceeds from asset and equity sales as well as the idling of the auto shredder and refinancing of our working capital line of credit. Additional information, including the steps the Company took, is included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, on file with the Securities and Exchange Commission.

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

Cash flows generated from operations and our revolving credit facility are significant sources of ongoing liquidity. We have also been able to manage liquidity by deferring certain rent payments made to related parties, as well as deferring capital expenditures. See Note 6 - Related Party Transactions in the accompanying Notes to Condensed Consolidated Financial Statements for additional information. We actively manage our working capital and associated cash requirements and continually seek more effective use of cash. As of June 30, 2017, we held cash and cash equivalents of $0.9 million. We drew $2.7 million on our revolving credit facility during the six month period ended June 30, 2017. We expect operating cash flow and borrowings under our working capital line of credit to be sufficient to meet our ongoing obligations.

Credit facilities and notes payable

During 2015, the Company had certain loans with KY Bank and 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 in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 on file with the Securities and Exchange Commission, the Company took steps to pay down debt and increase liquidity.

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

Results of Operations

Six months ended June 30, 2017 compared to six months ended June 30, 2016

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

	Six months ended June 30, 2017	Six months ended June 30, 2016
Statements of Operations Data:		
Total revenue	100.0 %	100.0 %
Total cost of sales	93.9 %	96.7 %
Selling, general and administrative expenses	7.1 %	14.8 %
Loss before other expenses	(1.1)%	(11.5)%

Total revenue increased $10.5 million or 64.8% to $26.6 million in the second quarter of 2017 compared to $16.1 million in the same period in 2016. The increase was due in part to the startup of the shredder operations and largely a result of higher average selling prices (ASP) coupled with a related increase in nonferrous and ferrous volumes. Nonferrous material shipments increased by 4.7 million pounds, or 34.2%, along with an increase in the ASP of nonferrous material of $0.13 per pound, or 17.1%, for the six months ended June 30, 2017 compared to six months ended June 30, 2016. For the six months ended June 30, 2017 compared to six months ended June 30, 2016, the Company experienced an increase in the ASP of ferrous material of $82 per gross ton, or 44.5%. For the six months ended June 30, 2017 compared to six months ended June 30, 2016, the Company experienced an increase in ferrous material shipments of 6.0 thousand tons, or 18.7%.

Total cost of sales increased $9.4 million or 60.2% to $25.0 million in the six month period ended 2017 compared to $15.6 million for the same period in 2016. The increase in cost of sales is directly related to the increase in revenue.

Total cost of sales as a percent of revenue was lower during the six month period ended 2017 as compared to the same period in 2016. The metals commodity markets improved during the second quarter of 2017 as compared to the same period in 2016, which allowed for improved gross margins, partially offset by startup expenses the Company incurred due to the restart of the shredder operations. These startup expenses consisted primarily of repairs and maintenance expenses, utilities expenses, and personnel expenses.

SG&A expenses decreased $0.5 million to $1.9 million in the six month period ended 2017 compared to $2.4 million in the same period in 2016. SG&A expenses decreased primarily due to a decrease in share based compensation expense of $307.2 thousand related to share based compensation expense for Algar options and a decrease in amounts paid to Algar for management expense of $125.0 thousand.

Other income (expense) was expense of $354.0 thousand for the six month period ended June 30, 2017 compared to expense of $160.0 thousand for the six month period ended June 30, 2016. This $194.0 thousand change is a result of (i) a $212.0 thousand increase in interest expense, which is a result of the increased outstanding balance on the line of credit offset by (ii) a $28.0 thousand increase in the gain on sale of assets, which was primarily due to a gain on a vehicle sold during the first quarter of 2017.

The income tax provision decreased $33.0 thousand to $7.0 thousand in the six month period ended 2017 compared to $40.0 thousand in the same period in 2016. The effective tax rates in 2017 and 2016 were (1.1)% and (2.0)%, respectively, based on federal and state statutory rates. Due to recurring operating losses being incurred, at December 31, 2013, we recorded nearly a full valuation allowance, which is continuing through June 30, 2017. We also have several state and franchise taxes payable based on gross receipts. The Company is currently under a property tax audit and has accrued an estimate of potential assessments.

Three months ended June 30, 2017 compared to three months ended June 30, 2016

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

	Three months ended June 30,	
	2017	**2016**
Statements of Operations Data:		
Total revenue	100.0 %	100.0 %
Total cost of sales	95.0 %	92.9 %
Selling, general and administrative expenses	6.3 %	11.8 %
Loss before other expenses	(1.3)%	(4.7)%

Total revenue increased $3.4 million or 34.0% to $13.6 million in the second quarter of 2017 compared to $10.1 million in the same period in 2016. The increase was primarily a result of the startup of the shredder operations and higher average selling prices (ASP) coupled with a related increase in nonferrous and ferrous volumes. Nonferrous material shipments increased by 1.4 million pounds, or 17.6%, along with an increase in the ASP of nonferrous material of $0.10 per pound, or 11.9%, for the three months ended June 30, 2017 compared to three months ended June 30, 2016. For the three months ended June 30, 2017 compared to three months ended June 30, 2016, the Company experienced an increase in the ASP of ferrous material of $70 per gross ton, or 34.4%. For the three months ended June 30, 2017 compared to three months ended June 30, 2016, the Company experienced an increase in ferrous material shipments of 0.1 thousand tons, or 4.0%.

Total cost of sales increased $3.5 million or 36.9% to $12.9 million in the three month period ended 2017 compared to $9.4 million for the same period in 2016. The increase in cost of sales is primarily related to the increase in revenue.

Total cost of sales as a percent of revenue increased during the three month period ended 2017 as compared to the same period in 2016. The increase primarily relates to startup expenses the Company incurred due to the restart of the shredder operations. These startup expenses consisted primarily of repairs and maintenance expenses, utilities expenses, and personnel expenses.

SG&A expenses decreased $0.3 million to $0.9 million in the three month period ended 2017 compared to $1.2 million in the same period in 2016. SG&A expenses decreased primarily due to a decrease in share based compensation expense of $199.2 thousand related to share based compensation expense for Algar options and a decrease in amounts paid to Algar for management expense of $66.4 thousand.

Other income (expense) was expense of $201.0 thousand for the three month period ended June 30, 2017 compared to expense of $112.0 thousand for the three month period ended June 30, 2016. This $89.0 thousand change is a result of an $88.0 thousand increase in interest expense, which is a result of the increased outstanding balance on the line of credit.

The income tax provision decreased $39.0 thousand to zero in the three month period ended 2017 compared to $39.0 thousand in the same period in 2016. The effective tax rates in 2017 and 2016 were 0.0% and (6.6)%, respectively, based on federal and state statutory rates. Due to recurring operating losses being incurred, at December 31, 2013, we recorded nearly a full valuation allowance, which is continuing through June 30, 2017. We also have several state and franchise taxes payable based on gross receipts. The Company is currently under a property tax audit and has accrued an estimate of potential assessments.

Financial condition at June 30, 2017 compared to December 31, 2016

Cash and cash equivalents increased $374.0 thousand to $900.0 thousand as of June 30, 2017 from $526.0 thousand as of December 31, 2016.

Net cash used in operating activities was $2.0 million for the six month period ended June 30, 2017. The net cash used in operating activities is primarily due to a net loss of $0.6 million, an increase in receivables of $1.6 million, an increase in inventories of $0.7 million, an increase in other assets of $0.2 million, and a decrease in payables and accrued expenses to related parties of $0.2 million; partially offset by a decrease in receivables from related parties of $105.0 thousand, depreciation of $1.1 million, and stock option expense of $59.0 thousand. The Company had $75.0 thousand of capital expenditures in 2017.

Net cash from financing activities was $2.5 million for the six month period ended June 30, 2017. In the six month period ended June 30, 2017, we received net proceeds from debt of $2.7 million less capitalized loan fees in the amount of $125.0 thousand.

Accounts receivable trade increased $1.6 million or 47.2% to $4.9 million as of June 30, 2017 compared to $3.4 million as of December 31, 2016 due to a substantial increase in volume in the quarter ended June 30, 2017, as well as modest commodity price increases. In general, the accounts receivable balance fluctuates due to the timing of shipments and receipt of customer payments.

Accounts receivables from related parties decreased $105.0 thousand to $45.0 thousand as of June 30, 2017 compared to $150.0 thousand as of December 31, 2016. This decrease was due to timing of cash receipts.

Inventories consist principally of ferrous and nonferrous scrap materials. We value inventory at the lower of cost or net realizable value. Inventory increased $0.7 million, or 20.2%, to $4.1 million as of June 30, 2017 compared to $3.4 million as of December 31, 2016. This increase is primarily driven by seasonality resulting in increased volumes and inventory levels during the second quarter of 2017 compared to the fourth quarter of 2016.

Inventory aging for the period ended June 30, 2017 (Days Outstanding):

	(in thousands, except days information)				
Description	**1 - 30**	**31 - 60**	**61 - 90**	**Over 90**	**Total**
Ferrous and non-ferrous materials	$ 3,617	$ 322	$ 52	$ 140	$ 4,131

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

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

Inventory in the "1-30 days" category increased by $606.0 thousand from December 31, 2016 to June 30, 2017. This increase is primarily due to increased seasonal volumes during June 2017 as compared to December 2016.

Accounts payable trade decreased $42.0 thousand or 2.6% to $1.6 million as of June 30, 2017 compared to $1.6 million as of December 31, 2016. The accounts payable balance fluctuates due to timing of purchases from and payments made to our vendors.

Payables and accrued expenses to related parties decreased $0.2 million to $0.3 million as of June 30, 2017 compared to $0.6 million as of December 31, 2016. This decrease is largely a result of a decrease in the bonus payable to Algar of $180.0 thousand. See Note 6 - Related Party Transactions for additional information

Working capital increased $0.2 million to $1.8 million as of June 30, 2017 compared to $1.7 million as of December 31, 2016 as a result of the above noted items.

Contractual Obligations

The following table provides information with respect to our known contractual obligations for the quarter ended June 30, 2017.

	Payments due by period (in thousands)				
	Total	Less than 1 year	1 - 2 years	3 - 5 years	More than 5 years
Obligation Description:					
Long-term debt obligations	$ 7,280	$ 64	$ 5,712	$ 1,504	$ —
Operating lease obligations (1)	430	401	29	—	—
Capital lease obligations (1)	1,222	282	648	292	—
Total	$ 8,932	$ 747	$ 6,389	$ 1,796	$ —

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

On February 29, 2016, the Company entered into a subordinated, unsecured debt with related parties, which converted amounts previously held as related party payables, in the amount of $1.5 million. See Note 6 - Related Party Transactions for additional information.

On June 23, 2017, the Company entered into a debt agreement with K&R for the purchase of equipment to be used in the operation of the Company's business. See Note 6 - Related Party Transactions for additional information.

On May 1, 2016, the Company entered into an amendment to a previous operating lease, whereby the lease is extended through April 30, 2021. Based on the new lease terms, the Company classified the amended lease as a capital lease. At inception, the Company recorded a capital lease obligation of $1.3 million. As of June 30, 2017, the Company has recorded $128.5 thousand in depreciation expense and $57.3 thousand in interest expense related to the capital lease. See Note 4 - Lease Commitments for additional information.

The Company entered into a capital lease, effective June 2017, to lease two pieces of equipment. The lease is for a period of six years and the payments are $0.7 thousand per month. The Company has the option to purchase the equipment for a purchase price of $1.00 per item of equipment upon the expiration of the lease. At inception, the Company recorded a capital lease obligation of $37.6 thousand. See Note 4 - Lease Commitments for additional information.

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 is evaluating the potential impact of the adoption of ASU 2014-09 on the Condensed Consolidated Financial Statements. The Company does not expect a material impact from the adoption of ASU 2014-09 on the Condensed 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. The Company adopted ASU 2014-15 in the fourth quarter of 2016 and noted no material impact from the adoption on its Condensed 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 Condensed 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. Upon adoption, ASU 2015-17 may be applied either prospectively or retrospectively. The Company adopted the standard in the first quarter of 2017 and noted no material impact on its Condensed Consolidated Financial Statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases, to improve financial reporting about leasing transactions. This ASU will require organizations that lease assets ("lessees") to recognize a lease liability and a right-of-use asset on its balance sheet for all leases with terms of more than twelve months. A lease liability is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis and a right-of-use asset represents the lessee's right to use, or control use of, a specified asset for the lease term. The amendments in this ASU simplify the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. This ASU leaves the accounting for the organizations that own the 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. Early adoption is permitted. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Company is evaluating the potential impact of ASU 2016-02 on its Condensed Consolidated Financial Statements.

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

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows, Classification of Certain Cash Receipts and Cash Payments, which provides guidance on eight specific cash flow issues. ASU 2016-15 is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. 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 its Condensed Consolidated Financial Statements. The Company does not expect a material impact from the adoption of ASU 2016-15 on the Condensed Consolidated Financial Statements.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

N/A - Not required for smaller reporting companies.

ITEM 4: CONTROLS AND PROCEDURES

(a) Disclosure controls and procedures.

ISA's management, including ISA's principal executive officer and principal financial officer, have evaluated the effectiveness of our "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934. Based upon their evaluation, our principal executive officer and principal financial officer concluded that, as of June 30, 2017, ISA's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that ISA files under the Exchange Act with the Securities and Exchange Commission (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to ISA's management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding the required disclosure.

(b) Changes to internal control over financial reporting.

There were no changes in ISA's internal control over financial reporting during the six months ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect ISA's internal control over financial reporting.

Item 1. Legal Proceedings.

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

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

Item 1A. Risk Factors.

There have been no material changes in our risk factors as previously disclosed in Part 1, "Item 1A. Risk Factors" of our Annual Report on Form 10-K, for the fiscal year ended December 31, 2016. You should carefully consider the risk factors in our 2016 Form 10-K, which could materially affect our business, financial condition or future results.

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

None.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

See Index to Exhibits.

SIGNATURES

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

	INDUSTRIAL SERVICES OF AMERICA, INC.
Date: August 9, 2017	By /s/ Orson Oliver
	Orson Oliver
	Chairman of the Board and Interim Chief Executive Officer
	(Principal Executive Officer)
Date: August 9, 2017	By /s/ Todd L. Phillips
	Todd L. Phillips, President and Chief Financial Officer
	(Principal Financial and Accounting Officer)

INDEX TO EXHIBITS

Exhibit Number		Description of Exhibits
10.1	*	934 Crane Purchase Agreement dated June 23, 2017 by and between the Company and K&R, LLC (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K as filed on June 23, 2017)(File No. 0-20979)
10.2	*	Komatsu Purchase Agreement dated June 23, 2017 by and between the Company and K&R, LLC (incorporated by reference to Exhibit 10.2 of the Company's Form 8-K as filed on June 23, 2017)(File No. 0-20979)
31.1		Rule 13a-14(a) Certification of Orson Oliver for the Form 10-Q for the quarter ended June 30, 2017.
31.2		Rule 13a-14(a) Certification of Todd L. Phillips for the Form 10-Q for the quarter ended June 30, 2017.
32.1		Section 1350 Certification of Orson Oliver and Todd L. Phillips for the Form 10-Q for the quarter ended June 30, 2017.
101.INS		XBRL Instance Document – the instance document does not appear in the Interactive Data File as the XBRL tags are embedded within the Inline XBRL document.
101.SCH		XBRL Taxonomy Extension Schema Document
101.CAL		XBRL Taxonomy Extension Calculation Document
101.DEF		XBRL Taxonomy Extension Definitions Document
101.LAB		XBRL Taxonomy Extension Labels Document
101.PRE		XBRL Taxonomy Extension Presentation Document

*Previously filed.

Exhibit 31.1

CERTIFICATIONS

I, Orson Oliver, certify that:

1. I have reviewed this Form 10-Q for the quarter ended June 30, 2017 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.

August 9, 2017	By /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-Q for the quarter ended June 30, 2017 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.

August 9, 2017	By /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 9th day of August 2017, that the Form 10-Q for the quarter ended June 30, 2017, 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-Q fairly presents, in all material respects, the financial condition and results of operations of Industrial Services of America, Inc.

By /s/ Orson Oliver

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

By /s/ Todd L. Phillips

Todd L. Phillips, President and Chief Financial Officer