

INDUSTRIAL SERVICES OF AMERICA INC /FL
Form 10-K
March 31, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

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

For Fiscal Year Ended December 31, 2007

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

For the transition period from _____ to _____

Commission File No.: 0-20979

INDUSTRIAL SERVICES OF AMERICA, INC.

(Exact name of registrant as specified in its charter)

Florida
(State or other jurisdiction of
incorporation or organization)

59-0712746
(I.R.S. Employer
Identification No.)

7100 Grade Lane
P.O. Box 32428
Louisville, Kentucky 40232
(502) 368-1661

(Address, including zip code, and telephone number,
including area code, of registrant's principal executive offices)

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

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

Common Stock, \$.005 par value
(Title of class)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

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

Yes No

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

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

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

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

Aggregate market value of the 1,978,699 shares of voting Common Stock held by non-affiliates of the registrant at the closing sales price on June 30, 2007: \$27,323,851.

Number of shares of Common Stock, \$.005 par value, outstanding as of the close of business on March 31, 2008: 3,620,899.

DOCUMENT INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the 2008 Annual Meeting of Shareholders are incorporated by reference into Item 10 through Item 14 of Part III of this report.

PART I

Item 1. Business.

General

Industrial Services of America, Inc. (herein "ISA," the "Company," "we," "us," "our," or other similar terms), is a Louisville, Kentucky-based logistic management services company that offers total package waste and recycling management services to commercial, industrial and logistic customers nationwide, as well as providing recycling and scrap processing and waste handling equipment sales and service.

Available Information

We make available, free of charge, through our website www.isa-inc.com, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, and amendments to those reports as soon as reasonably practicable after we have electronically filed with the Securities and Exchange Commission. We also make available on our website our audit committee charter, our Business Ethics Policy and Code of Conduct and our Code of Ethics for the CEO, CFO and senior financial officers. Please note that our Internet address is included in this annual report on Form 10-K as an inactive textual reference only. Information contained on our website www.isa-inc.com is not

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

incorporated by reference into this annual report on Form 10-K and should not be considered a part of this report.

Our principal products and services are ferrous and non-ferrous scrap metals, management services, and waste equipment sales, rental and service. Our goal is to remain dedicated to the recycling, management services, and equipment industry while sustaining steady growth at an acceptable profit, adding to our net worth, and providing positive returns for our stockholders.

ISA Recycling Operating Division

Since October 2005, we have focused much of our attention on our recycling business segment. We sell processed ferrous and non-ferrous scrap material to end-users such as steel mini-mills, integrated steel makers and foundries and refineries. We purchase ferrous and non-ferrous scrap material primarily from industrial and commercial generators of steel, iron, aluminum, copper, stainless steel and other metals as well as from other scrap dealers who deliver these materials directly to our facilities. We process these materials by sorting, shearing, cutting and/or baling. We also continue to focus on initiating growth in our management services business segment and our waste and recycling equipment sales, service and leasing division.

Ferrous Operations

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

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

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

Shearing or Cutting - Pieces of oversized ferrous scrap material, such as obsolete steel girders and used pipe, which are too large for other processing are cut with hand torches, crane-mounted alligator shears or stationary guillotine shears.

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

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

Ferrous Scrap Sales - We sell processed ferrous scrap material to end-users such as steel mini-mills, integrated steel makers and foundries, and brokers who aggregate materials for other large users. Most customers purchase processed ferrous scrap material through negotiated spot sales contracts, which establish the quantity purchased for the month and the pricing. The price we charge for ferrous scrap materials depends upon market supply and demand, as well as quality and grade of the scrap material.

Non-Ferrous Operations

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

Non-Ferrous Scrap Processing - We prepare non-ferrous scrap metals, principally aluminum, copper, brass and stainless steel to sell by sorting, shearing, cutting or baling.

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

Shearing or Cutting - Pieces of oversized non-ferrous scrap material, which are too large for other processing methods, are cut with alligator shears.

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

Non-Ferrous Scrap Sales - We sell processed non-ferrous scrap material to end-users such as foundries, aluminum sheet and ingot manufacturers, copper refineries and smelters, and brass and bronze ingot manufacturers. Prices for the majority of non-ferrous scrap materials change based upon the daily publication of spot and futures prices on COMEX or the London Metals Exchange.

Management Services Operations -- Computerized Waste Systems (CWS)

Our management services operations are in the business of commercial, retail and industrial waste and recycling management services. CWS offers a "total package" concept to commercial, retail and industrial customers for their waste and recycling management needs. Combining waste reduction and diversion, and waste equipment technology, CWS creates waste and recycling programs tailored to each customer's needs. The services we offer include locating and contracting with a hauling company and recycler at a reasonable cost for each participating location. CWS does not own waste-transporting trucks or landfills. We do not operate or partner with any of the national hauling or recycling companies, and none of these companies own us. We are able to maintain a neutral position for the benefit of our customers. We have designed and

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

developed proprietary computer software that provides our personnel with relevant information on each customer's locations, as well as pertinent information on service providers, disposal rates, costs of equipment, including installation and shipping, disposal rates and recycling prices. This software has allowed us to build a database for serving our customers that have locations nationwide as well as Canada and Mexico. This software enables us to generate detailed monthly customized billing reports, and price tracking to accommodate our customers' needs.

Our management services division provides our customers evaluation, management, monitoring, auditing and cost reduction of non-hazardous solid waste removal and recycling activities. CWS has developed a network of over 2,300 hauling, landfill, recycling and equipment manufacturing and maintenance service providers throughout the United States and Canada. Through this network, we are able to provide pricing estimates for current and potential customers. CWS customer service representatives have access to this information through the computer software designed and developed to enhance the value offered to our customers. Through this information retrieval system and database, customer service representatives can review the accuracy of recent billings for hauling, landfill and recycling rates.

Waste and Recycling Equipment Sales and Services Operations-WESSCO-Waste and Sales Service Company

Our waste equipment sales and services operation, WESSCO, is in the business of commercial and industrial waste and recycling handling equipment sales, rental and maintenance. By offering competitively priced waste and recycling handling equipment from a number of different manufacturers, we are able to tailor equipment packages for individual customer needs. We do not manufacture any equipment, but we do refurbish, recondition and add options when necessary. We sell, rent and repair all types of industrial and commercial waste and recycling handling equipment such as compactors, balers and containers.

"Total Package" Concept

We record revenues and costs in the period of delivery. Our management services division has third party service providers providing same day service for all waste removal and recycling services for our customers. Our recycling division purchases ferrous and nonferrous materials, cardboard and paper on a daily basis. We record these purchases in the period received. We record revenue and cost in the period of delivery. The products or services have value to the customer on a standalone basis. These services make up the "total package" concept.

Company Background

ISA was incorporated in October 1953 in Florida under the name Alson Manufacturing, Inc. From the date of incorporation through January 5, 1975, Alson designed and manufactured various forms of electrical products. In 1979, the Board of Directors and the shareholders of Alson commenced liquidation of all the tangible assets of Alson. On October 27, 1983, Harry Kletter, our Chairman of the Board and Chief Executive Officer, acquired 419,500 shares of ISA Common Stock. The existing directors resigned and five new directors were elected.

On July 1, 1984, we began a solid waste handling and disposal equipment sales organization under the name Waste Equipment Sales and Services Company, which we refer to as WESSCO. On January 1, 1985, we merged with Computerized Waste Systems, Inc., a Massachusetts corporation. CWS was a corporation specializing in offering solid waste management consultations for large multi-location companies involved in the retail, restaurant and industrial sectors. At the time of the merger, CWS was concentrating on large retail chains, but has changed its emphasis to include commercial and industrial customers. This strategy created an additional target market for us. Subsequent to the merger with CWS, we moved the CWS headquarters from Springfield, Massachusetts to Louisville, Kentucky. At the time of the merger, much of the customer base and marketing efforts were concentrated in the Northeast. With the move to Louisville, we began to expand our marketing

efforts, which are now nationwide as well as in Canada.

On July 1, 1997, we acquired the assets of a non-ferrous scrap metal recycling facility located at 7100 Grade Lane, Louisville, Kentucky, thus expanding our recycling product lines.

In January 1998, we acquired the business of a ferrous scrap and corrugated paper recycling facility located at 7100 Grade Lane, Louisville, Kentucky. This acquisition was the beginning of our ferrous scrap metal, non-ferrous scrap metal and corrugated paper processing segment known as ISA Recycling.

On June 1, 1998, we acquired all of the business, property, rights and assets of a ferrous and non-ferrous scrap metal recycling facility located in North Vernon, Indiana. On July 8, 2002, we acquired a five-acre tract at 1565 East 4th Street, Seymour Indiana. In the fourth quarter of 2002, we moved our metal recycling facilities from North Vernon, Indiana to Seymour, Indiana.

On February 15, 2005 we added a location in Lexington, Kentucky. We were using this property as a transfer station for ferrous and nonferrous material. There were no processing operations at this facility. We discontinued operations at this location in the first quarter of 2007 and currently sublease the location to an unaffiliated party.

During 2007, we added a location in New Albany, Indiana across the Ohio River from Louisville, Kentucky, the site of our headquarters. We use this property as a transfer station for nonferrous material.

During 2007, we entered into an asset purchase agreement for \$1,300,000 funded primarily by a note payable to Industrial Logistic Services, LLC, the sole member of which is Brian Donaghy, our president and chief operating officer, whereby we pay \$20,000 per month for 60 months for various assets including tractor trailers, trucks and containers. The note payable reflects a seven percent (7%) interest payment on the outstanding balance plus principal amortization. We also paid ILS \$100,000 cash as a portion of the purchase price at the time of execution of the asset purchase agreement.

Industry Background

Our operations primarily involve the collection and processing of ferrous and non-ferrous scrap metals. We collect industrial scrap metal and obsolete scrap metal, process it into reusable forms and supply the recycled scrap metals to our customers.

We manage non-hazardous solid waste and recyclables for retail, commercial and industrial customers. As such, the multi-billion dollar solid waste collection and disposal business drives the industry. The size of this industry has increased for the past several years and should continue to increase as landfill space decreases. Although society and industry have developed an increased awareness of environmental issues and recycling has increased, waste production also continues to increase. Because of environmental concerns, new regulations and cost factors, it has become difficult to obtain the necessary permits to build any new landfills. Management believes that with the consolidation taking place in the waste industry, it will become increasingly difficult for a customer to receive a fair price. We are, therefore, in a position to represent the

best interest of the customer; this fact can only enhance our business.

In addition to increasing landfill costs, regulatory measures and more stringent control of material bound for disposal ("flow control") are making the management of solid waste an increasingly difficult problem. The United States Environmental Protection Agency is expected to continue the present trend of restricting the amount of potentially recyclable material bound for landfills. Many states have passed, or are contemplating, measures that would require industrial and commercial companies to recycle a minimum percentage of their waste stream and restrict the percentage of recyclable materials in any commercial load of waste material. Many states have already passed restrictive regulations requiring a plan for the reduction of waste or the segregation of recyclable materials from the waste stream at the source. ISA management believes that these restrictions may create additional marketing opportunities as waste disposal needs become more specialized. Some large industrial and commercial companies have hired in-house staff to handle the solid waste management and recycling responsibilities, but have found that without adequate resources and staff support, in-house handling of these responsibilities may not be an effective alternative. We offer these establishments a solution to this increasing burden.

Competition

On a commercial/industrial waste management level, we have competition from a variety of sources. Much of it is from companies that concentrate their efforts on a regional level. We believe that with the proprietary database of regional and national pricing, we will maintain our edge on a national basis.

There has been increased competition from national hauling and recycling companies. The large national hauling and recycling companies often attempt to handle all locations for a "national chain" customer. This scenario poses a potential conflict of interest since these hauling companies and recyclers can attain greater profitability from increases in hauling and disposal revenues and fluctuations in recycling prices. In addition to having an interest in higher hauling and disposal rates, the national hauling companies do not have operations in every community. Additionally, we have encountered evidence of some reluctance from independent hauling and recycling companies to work with national hauling and recycling companies for locations not serviced by these national companies.

There is also competition from some equipment manufacturers. The primary interest of these companies is selling, leasing and renting equipment and offering management services in order to secure these sales or leases. There is a cost involved in using the equipment and the money saved must justify the amount spent on this equipment.

The metal recycling business is highly competitive and is subject to significant changes in economic and market conditions. Certain ISA competitors have greater financial, marketing and physical resources. There can be no assurance that we will be able to obtain our desired market share based on the competitive nature of this industry.

An important difference between us and the majority of our competition is our management process. Our systematic approach attempts to provide consistent results for the customer. At the implementation stage, we actively bid out every location that a new customer requests. We repeat this bidding process any time a customer receives notice of an undocumented price increase or at regular intervals as indicated in the contract. At subsequent stages, we will evaluate a customer's solid waste and recycling program and provide alternatives for improvement.

We have developed a network of maintenance, hauling, disposal, equipment and recycling companies throughout the country and in Canada, and due to the volume of business we have awarded to them, these companies will often offer us discounted hauling, disposal and maintenance rates

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

and increased recycling prices. However, no company or service provider in the hauling, disposal, recycling, equipment and/or maintenance industries owns or controls us. We deal with those companies and service providers that can supply quality service and products at a favorable price and understand that as long as we serve our customers well, we and our service providers will have the opportunity to bid on future accounts.

Few, if any, of our competitors have a national network of service providers similar to the one we have developed over our years of operation. Although the major hauling and recycling companies have operating companies in most major and intermediate-sized cities, they do not have nationwide geographic coverage. Therefore, for large commercial and industrial clients, they must obtain bids from local hauling, disposal and recycling companies that may perceive them to be future competitors. We have positioned ourselves to negotiate with the haulers, landfill operators and recyclers while servicing our customers on a nationwide basis.

Employees

As of December 31, 2007, ISA had one hundred nineteen (119) full-time employees as follows: recycling 72, management services 14, sales/leasing 5, drivers 19, mechanics 1, and administration/information technology 8. None of our employees is a member of a union.

Effect of State and Federal Environmental Regulations

Any environmental regulatory liability relating to our operations is generally borne by the customers with whom we contract and the service providers in their capacity as transporters, disposers and recyclers. Our policy is to use our best efforts to secure indemnification for environmental liability from our customers and service providers. Although we believe that our business does not subject us to potential environmental liability, we continue to use our best efforts to be in compliance with federal, state and local environmental laws, including but not limited to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, the Hazardous Materials Transportation Act, as amended, the Resource Conservation and Recovery Act, as amended, the Clean Air Act, as amended, and the Clean Water Act. Such compliance has not historically constituted a material expense to us.

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

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

Each state in which we operate has its own laws and regulations governing solid waste disposal, water and air pollution and, in most cases, releases and cleanup of hazardous substances and liability for such matters. Several states have enacted laws that will require counties to adopt

comprehensive plans to reduce, through waste planning, composting, recycling, or other programs, and the volume of solid waste landfills. Several states have recently enacted these laws. Legislative and regulatory measures to mandate or encourage waste reduction at the source and waste recycling also are under consideration by Congress and the EPA.

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

ITEM 1A. RISK FACTORS

Risk Factors

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

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

Risks Related to Our Operations

Our business has increasing involvement in ferrous, non-ferrous and fiber recycling. Currently, the prices of metals are high, but changes in demand, including foreign demand, regulation, economic slowdowns or increased competition could result in a reduction of our revenue and consequent decrease in our common stock price.

Many companies offer or are engaged in the development of products or the provisions of services that may be or are competitive with our current products or services, although we do not believe any competition offers the unique mixture of the services and products we provide in the waste management area. Many entities have substantially greater financial, technical, manufacturing, marketing, distribution and other resources than we possess. In addition, the industry is constantly changing as a result of consolidation that may create additional competitive pressures in our business environment.

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

Our operations are dependent upon fuel, which we generally purchase in the open market on a daily basis. Direct fuel costs include the cost of fuel and other petroleum-based products used to operate our fleet of cranes and heavy equipment. We are also susceptible to increases in indirect fuel costs which include fuel surcharges from vendors. During 2005, 2006 and 2007, we experienced increases in the cost of fuel and other petroleum-based products. A portion of these increases we passed on to our customers. However, because of the competitive nature of the industry, there can be no assurance that we will be able to pass on current or future increases in fuel prices to our customers. Due to political instability in oil-producing countries, fuel prices may continue to increase in 2008. A significant increase in fuel costs could adversely affect our business.

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

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

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

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

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

Our success is dependent on the management and leadership skills of our senior management team. We have not entered into employment agreements with any of our senior management personnel with the exception of our president and chief operating officer, Brian Donaghy, and our vice president of ISA Recycling, James Wiseman III. The loss of any members of our management team or the failure to attract and retain additional qualified personnel could prevent us from implementing our business strategy and continuing to grow our business at a rate necessary to maintain future profitability.

Seasonal changes may adversely affect our business and operations.

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

Risks Related to Our Common Stock

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

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

The market price for our common stock may be volatile.

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

- our quarterly operating results or the operating results of our companies in the waste management or ferrous, non-ferrous and fiber recycling industry;
- changes in general conditions in the economy, the financial markets or the ferrous, non-ferrous and fiber recycling industry;
- loss of significant customers and
- increases in materials and other costs.

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

Item 2. Properties.

Related Parties Agreements --K&R

On February 16, 1998 our Board of Directors ratified and formalized an existing relationship in connection with (i) our leasing of facilities from K&R, LLC and (ii) the provision of consulting services from K&R to us. K&R is our affiliate because our Chief Executive Officer is our principal shareholder and he owns 100% of K&R.

Lease Agreement. This K&R lease, effective as of January 1, 1998, covers approximately 20.5 acres of land and the improvements thereon, which are located at 7100 Grade Lane in Louisville, Kentucky. The principal improvements consist of the following:

- an approximately 22,750 square foot building used as the corporate and CWS offices;
- an approximately 8,286 square foot building used for sales/leasing and information technology offices;
- an approximately 13,995 square foot building used as the paper recycling plant;
- an approximately 12,000 square foot building used for the metals recycling plant;
- an approximately 51,760 square foot building used as the recycling offices and warehouse space;
- and the remaining 15,575 square feet of space contained in five (5) buildings ranging in size from approximately 256 to 8,000 square feet.

The initial term of the K&R lease is for ten years with two five-year option periods available thereafter. In 2007, we extended this lease agreement for five years per the terms of the lease. The base rent for the first five years was \$450,000 per annum. The rent for the second five years, beginning January 1, 2003, became \$505,272 per annum, payable at the beginning of each month in an amount equal to \$42,106. The rent for the third five years, beginning January 1, 2008, became \$582,000 per annum, payable at the beginning of each month in an amount equal to \$48,500. This fixed minimum rent adjusts each five years, including for each of the option periods, in accordance with the consumer price index. The fixed minimum rent also increases to \$750,000 per annum, in an amount equal to \$62,500 per month in the event of our change in control. We must pay, as additional rent, all real estate taxes, insurance, utilities, maintenance and repairs, replacements (including replacement of roofs if necessary) and other expenses. The K&R lease provides for our indemnification of K&R for all damages arising out of our use of or the condition of the leased premises excepting from K&R's negligence.

In 2004, we paid for repairs totaling \$302,160 that we made to the buildings and property that we lease from K&R, located at 7100 Grade Lane, Louisville, Kentucky. K&R executed an unsecured promissory note, dated March 25, 2005 but effective December 31, 2004, to us for the principal sum of \$302,160. K&R makes payments on the promissory note of principal and interest in ninety-six (96) monthly installments of \$3,897.66. The rate of interest is five and one-half percent (5.5%) per annum. Failure of K&R to make any payment when due under this note within fifteen (15) days of its due date shall constitute a default. After the fifteen day period, the note shall bear interest at a rate equal to fifteen percent (15%) per annum and we have the right to exercise our remedies to collect full payment of the note.

In an addendum to the K&R lease as of January 1, 2005, the rent was increased \$4,000 as a result of the improvements made to the property in 2004. For years 2006 and 2007, the payments to K&R by the Company of \$4,000 for additional rent and the monthly payment from K&R to the Company of \$3,897.66 for the promissory note were offset. In 2007, we extended this lease agreement for five years per the terms of the lease.

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

K&R Consulting Agreement. The K&R consulting agreement remains in effect until December 31, 2007, with automatic annual renewals thereafter unless one party provides written notice to the other party of its intent not to renew at least six months in advance of the next renewal date. We have renewed this consulting agreement for one year. K&R shall provide strategic planning for mergers and acquisitions. We are responsible for all of K&R's expenses and pay to K&R \$240,000 in equal monthly installments of \$20,000 in connection with the K&R consulting activities.

The K&R consulting agreement terminates upon a non-defaulting party providing written notice to the other party of its intent to terminate. The recipient of the notice has 10 days to cure monetary defaults and 30 days to cure non-monetary defaults. Upon termination, K&R agrees not to engage, directly or indirectly, in the business conducted by, or hire our employees for a period of five years and within 100 miles of any of our operations.

We compensate our principal shareholder and Chief Executive Officer through consulting fees paid pursuant to the K&R consulting agreement.

Lease and Sublease Agreements -- Lexington

We have subleased the Lexington property to an unaffiliated party for a term that commenced March 1, 2007 and ends December 31, 2012 for \$4,500 per month. We currently lease this property from an unrelated party for \$4,500 per month; the lease terminates December 31, 2012. If for any reason the sub lessee defaults, we remain liable for the remainder of the lease payments through December 31, 2012.

Lease Agreement , Louisiana

On February 6, 2007, we leased 7.7 acres of real property, including a 38,000 square foot warehouse and a 400 square foot office, in Pineville, Louisiana for \$5,250 per month for twenty-four months beginning March 1, 2007 and ending February 28, 2009, with an option to purchase the property for a purchase price of \$575,000. On January 18, 2008, we sold our position in this property, including the lease and the option, for \$25,000.

Property Purchase, New Albany

During 2007, we added a location in New Albany, Indiana across the Ohio River from Louisville, Kentucky, the site of our headquarters. We use this property as a transfer station for nonferrous material.

Item 3. Legal Proceedings.

In May 2006, All American Recycling ("AAR") and its owners, R.D. Burton and Donna Burton filed an action against us and K & R Resources LLC in All American Recycling, Inc. and RD Burton and Donna Burton vs. Industrial Services of America, Inc., Jefferson County, Kentucky Circuit Court, Case No. 06C04701. In May 2007 AAR amended its complaint to identify Harry Kletter, Brian Donaghy, Ronald Kletter and

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

Edward List as individual defendants in this action. The causes of action alleged against the individual defendants and us include breach of contract, misrepresentation, fraud, malicious, willful and reckless conduct and trespass. The dispute arises from two agreements among the parties in December 2004 in settlement of prior litigation between AAR and us. One of the two agreements called for us to refer to AAR a retail customer. AAR, in turn, agreed to then sell all of its non-ferrous metals to us based on an agreed pricing schedule. AAR alleges that we breached the agreement by not referring the retail customer to AAR and paid AAR on a basis other than the basis provided in the agreement. Our counterclaim alleges that we paid AAR on the basis provided for in the agreement and that AAR breached the agreement by selling its metals to third party purchasers. The complaint does not allege any specific amount of damages. The case is in the discovery stage with the plaintiff having made a motion for summary judgment to which we recently responded. A trial date is set for May 27, 2008. Currently we believe that the case is without merit.

On January 4, 2007, Lennox Industries, Inc., a commercial heating and air-conditioning manufacturer, filed suit against us in the Arkansas County, Arkansas Circuit Court in the case styled Lennox Industries, Inc. v. Industrial Services of America, Inc., Case No. CV-2007-004. Because of settlement negotiations, Lennox did not serve us until May 23, 2007. Lennox alleges that we breached a 2001 contract with Lennox where we agreed to act as agent for Lennox, by our failure to properly evaluate, categorize, classify and value the production scrap and waste of Lennox, thereby brokering such products at prices below market value. Lennox also alleges negligence and breach of fiduciary duty related to the same alleged failure. The Lennox complaint does not state any specific monetary damages. We have filed an answer denying all claims. The litigation is in its discovery phase. We currently believe that the claims have no merit.

On December 22, 2006, Container Recyclers, Inc., Allied Drum, Inc., and Columbus Recyclers, Inc., Ohio drum recyclers, initiated a lawsuit in the Hamilton County, Ohio, Court of Common Pleas in the case styled Container Recyclers, Inc., et al vs. Industrial Services of America, Inc., Case No. A0611218. Allied Drum and Columbus Drum alleged that we failed to make payments to them in the alleged amount in excess of \$256,000 with interest in accordance with the terms of contracts dated July 30, 1999, and March 21, 2002. Under these contracts we purchased recycled metal drums from the plaintiffs from July 1999 and March 2002, until June 2006.

The parties entered into settlement negotiations resulting in our payment in full of \$287,500 to the plaintiffs, collectively, on December 28, 2007 at which time the Hamilton County Court entered a final order with respect to this case.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 4a. ISA Executive Officers.

<u>Name</u>	<u>Served as an Executive Officer From</u>	<u>Age</u>	<u>Position with the Registrant and Other Principal Occupations</u>
Harry Kletter	1983	81	ISA Chairman of the Board and Chief Executive Officer from May 2, 2000 to 2007. ISA Chairman of the Board and Chief Visionary Officer from February 3, 2000 to May 2, 2000. Mr. Kletter served as Chairman of the Board and Chief Executive Officer from July 31, 1992 to February 3, 2000, President of ISA from July 31, 1992 to December 1997, from January 1990 to July 1991, and from October 1983 to January 1988; Mr. Kletter is also Chairman and sole shareholder of K&R, LLC.

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

Brian Donaghy	August 2007	32	President and Chief Operating Officer since August 2007. Mr. Donaghy served as ISA's acting COO from January 1, 2007 through August 2007. Prior to his appointment to that position, Mr. Donaghy was a consultant to ISA Recycling. From 2001 to 2007, he owned and operated Industrial Logistic Services, LLC, a scrap metal and waste transportation company located at ISA's Louisville headquarters, the assets of which he has sold to ISA in 2007.
Alan L. Schroering	2000	43	ISA Chief Financial Officer since May, 2001. Mr. Schroering served as an ISA board member from June 2000 to May 2001. Mr. Schroering has served as Treasurer from October 2001 to present. Mr. Schroering served in several accounting positions with National Processing Company from April 1998 to May 2000. Mr. Schroering served previously in several accounting positions with ISA from November 1984 to March 1998.
James K. Wiseman, III	August 2007	54	Vice President of ISA Recycling since August 2007. Midwest Metals, Inc. in Louisville, Kentucky employed Mr. Wiseman from May 1997 to March 2007 as general manager of the physical scrap operation and trader of non-ferrous metals.

None of the above officers is related to any other. With respect to certain arrangements with certain officers of ISA relating to executive compensation, see section entitled "Executive Compensation - Certain Transactions" in ISA's Proxy Statement for the 2008 Annual Meeting of Shareholders as incorporated herein by reference at Item 11.

PART II

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

Effective August 29, 1996, the \$.01 par value ISA common stock became listed on the Small Cap Market (the "Small Cap Market") of the NASDAQ Stock Market under the symbol "IDSA." Prior to August 29, 1996, our common stock traded on the Over the Counter Bulletin Board operated by the National Association of Securities Dealers, Inc. High and low sales price of the common stock price is summarized as follows:

<u>Quarter Ended</u>	<u>2007</u>		<u>2006</u>		<u>2005</u>	
	High	Low	High	Low	High	Low
March 31	\$ 7.22	\$ 5.37	\$ 5.20	\$3.22	\$ 7.50	\$5.94
June 30	\$17.19	\$ 6.84	\$ 8.00	\$4.82	\$ 6.10	\$3.70
September 30	\$14.51	\$ 8.76	\$ 6.31	\$5.58	\$ 6.60	\$3.69

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

December 31	\$13.38	\$ 7.36	\$ 6.72	\$5.26	\$ 3.70	\$2.85
-------------	---------	---------	---------	--------	---------	--------

There were approximately 380 shareholders of record as of December 31, 2007.

Until August 8, 2000, we had always had a policy intending that we would retain earnings to help finance our expansion programs. On August 8, 2000, our Board of Directors approved a change in the dividend policy whereby our Board of Directors could declare dividends. The Board of Directors, at our May 15, 2007 annual meeting, declared a cash dividend payment of ten cents per share for shareholders of record as of June 15, 2007 with a payment date of July 20, 2007.

Our Board of Directors has the discretionary power to declare dividends within the constraints of our loan agreement with the Branch Banking and Trust Company.

On November 15, 2005, our Board of Directors authorized a new program to repurchase up to 200,000 shares of our common stock at current market prices. In 2007 we repurchased 40,000 shares, in 2006 we repurchased 5,509 shares and in 2005 we repurchased 10,000 shares. We repurchased 673,400 shares of our common stock in a prior stock repurchase program that began in August 2000.

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

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as part of Publicly Announced Plans or Programs	Maximum Number of Shares that may yet be Purchased Under the Plans or Programs
Oct-05	-			
Nov-05	10,000	\$ 2.9762	10,000	190,000
Dec-05	-			
Jan-06	5,509	\$ 2.9658	15,509	184,491
Aug-07	20,000	\$ 9.9229	35,509	164,491
Dec-07	20,000	\$ 7.7257	55,509	144,491

Item 6. Selected Financial Data.**Selected Financial Data**

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
(Amounts in Thousands, Except Per Share Data)					
Year ended December 31:					
Total revenue	\$ <u>76,956</u>	\$ <u>62,082</u>	\$ <u>117,382</u>	\$ <u>139,588</u>	\$ <u>118,494</u>
Net income (loss)	<u>2,564</u>	<u>2,188</u>	<u>1,102</u>	<u>1,497</u>	<u>668</u>
Earnings (loss) per common share:					
Basic	\$ <u>0.71</u>	\$ <u>0.61</u>	\$ <u>0.31</u>	\$ <u>0.43</u>	\$ <u>0.21</u>
Diluted	\$ <u>0.71</u>	\$ <u>0.61</u>	\$ <u>0.31</u>	\$ <u>0.42</u>	\$ <u>0.21</u>
Cash dividends declared per common share *	\$ <u>0.10</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>0.10</u>	\$ <u>-</u>
At year end:					
Total assets	\$ <u>26,285</u>	\$ <u>19,332</u>	\$ <u>17,884</u>	\$ <u>21,079</u>	\$ <u>19,988</u>
Long-term debt and capital lease obligations, net of current maturities	\$ <u>8,495</u>	\$ <u>2,858</u>	\$ <u>153</u>	\$ <u>1,272</u>	\$ <u>3,748</u>

* adjusted for two-for-one stock split effective February 26, 2004

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

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

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

General

We are focusing our attention now and in the future towards our recycling business segment. We sell processed ferrous and non-ferrous scrap material to end-users such as steel mini-mills, integrated steel makers, foundries and refineries. We purchase ferrous and non-ferrous scrap material primarily from industrial and commercial generators of steel, iron, aluminum, copper, stainless steel and other metals as well as from other scrap dealers who deliver these materials directly to our facilities. We process these materials by sorting, shearing, cutting and/or baling. We will also continue to focus on initiating growth in our management services business segment and our waste and recycling equipment sales, service and leasing division.

We continue to pursue a growth strategy in the waste management services arena by adding new locations of existing customers as well as marketing our services to potential customers. Currently, we service 2,271 customer locations throughout the United States and we utilize an active database of over 6,500 vendors to provide timely, thorough and cost-effective service to our customers.

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

We have operating locations in Louisville, Kentucky, and Seymour and New Albany, Indiana. We closed the Lexington, Kentucky location in the first quarter of 2007 and our location in Pineville, Louisiana in January 2008. We do not have operating locations outside the United States.

Liquidity and Capital Resources

As of December 31, 2007, we held cash and cash equivalents of \$1,501,685.

On December 22, 2006, ISA executed a revolving credit facility with BB&T increasing the borrowing line from \$5.0 million to \$10.0 million to provide ISA with working capital to support the current needs of our business. This revolving credit facility has a three year term, provides for advances of up to eighty percent (80%) of ISA's eligible accounts receivable and up to the forty percent (40%) of eligible inventory, and up to one hundred (100%) of ISA's net book value of eligible equipment less an outstanding indebtedness on the equipment. The revolving credit facility bears interest at the one month Libor rate, as published in the Wall Street Journal, plus two and twenty-five one-hundredths percent (2.25%) per annum, 6.85% as of December 31, 2007, and is secured by all ISA assets (except rental fleet equipment). The revolving credit facility contains certain restrictive and financial covenants. At December 31, 2007, ISA was in compliance with all restrictive covenants.

We also have a \$2.0 million loan with Fifth Third Bank secured by our rental fleet equipment. Indebtedness under this loan agreement accrues interest at a fixed interest rate of 6.83%. The maturity date under this agreement is June 2011 with a ten-year amortization schedule. As of December 31, 2007 we had borrowed \$1,779,585 and as of December 31, 2006, we had borrowed \$1,929,016 against this loan. The terms of the loan agreement place certain restrictive covenants on us, including maintenance of a specified tangible net worth, debt to net worth and EBITDA ratio. Consequently, these covenants restrict our ability to incur as much additional debt as we may desire for future growth. At December 31, 2007, we were in compliance with all restrictive covenants.

During 2007, we paid \$2,169,829 cash and \$1,229,929 funded via a note payable for land, improvements, property and equipment. We paid \$297,166 for property in New Albany, Indiana, located across the Ohio River from Louisville, Kentucky, the site of our headquarters. We use this New Albany property for nonferrous materials. We paid \$545,236 for property improvements to our Louisville location. In the recycling segment we incurred expenditures of \$1,935,300 for cranes, shear rebuild, scales, trailers, and other operating equipment. In the equipment sales, leasing and service segment, we purchased \$531,243 in rental equipment that we located at customer sites. This rental fleet equipment consists of solid waste handling and recycling equipment such as compactors, pre-crushers, containers and balers. It is our intention to continue to pursue this market. We purchased \$90,813 of office equipment.

On August 2, 2007, we entered into an asset purchase agreement for \$1,300,000 funded primarily by a note payable to ILS, the sole member of which is Brian Donaghy, our president and chief operating officer, whereby we pay \$20,000 per month for 60 months for various assets including tractor trailers, trucks and containers. The note payable reflects a seven percent (7%) interest payment on the outstanding balance plus principal amortization. We also paid ILS \$100,000 cash as a portion of the purchase price at the time of execution of the asset purchase agreement. We recorded a note payable of \$1,010,040 with an outstanding balance at December 31, 2007 of \$953,112.

Also, the Board of Directors at its June 21, 2007 meeting announced authorization to proceed with the purchase of a TSC 80 SXS shredder system and complementary facility improvements totaling five million dollars. The selection of the TSC 80 SXS shredding plant will allow us to provide better quality scrap to our consumers, while at the same time broadening the type of scrap that we can process. Our intention is to process many types of heavy grades of scrap that we presently process by shearing and to make specialty shredder grades of material for specific consumers. We plan to finance the purchase of the shredder system using our \$10 million senior revolving credit facility with BB&T or securing a fixed rate bank loan. As of December 31, 2007 we had spent \$2,173,076 toward the shredder system. The project is scheduled for completion in 2008.

We implemented the use of a purchasing card with a credit limit of \$6.0 million in the second quarter of 2004. We have included the balance due on the purchasing card as part of accounts payable. The outstanding balance on the purchasing card at December 31, 2007 was \$885,537 with a due date of January 25, 2008; the entire balance was paid before the due date. The card accrues interest at prime plus 5.9% after the first twenty-five days of the purchase; our intention is to pay off the full balance every month so as to not incur finance charges. To date we have not incurred any interest charges on this purchasing card. The card requires monthly minimum payments on any balance outstanding at month end. We receive rebates on an annual basis for all purchases made with the card.

We expect that existing cash flow from operations and available credit under our existing credit facilities, including the purchasing card, will be sufficient to meet our cash needs in 2008.

Critical Accounting Policies

In preparing financial statements in conformity with accounting principles generally accepted in the United States, we make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. We believe that we consistently apply judgments and estimates and that such consistent application results in financial statements and accompanying notes that fairly represent all periods presented. However, any errors in these judgments and estimates may have a material impact on our statement of operations and financial condition. Critical accounting policies, as defined by the Securities and Exchange Commission, are those that are most important to the portrayal of our financial condition and results of operations and require our most difficult and subjective judgments and estimates of matters that are inherently uncertain.

Revenue recognition

We recognize revenues from processed ferrous and non-ferrous scrap metal sales when title passes to the customer. We recognize revenues from services as the service is performed. We accrue sales adjustments related to price and weight differences and allowances for uncollectible receivables against revenues as incurred.

Accounts receivable and allowance for doubtful accounts receivable

Accounts receivable consist primarily of amounts due from customers from product and brokered sales. The allowance for doubtful accounts receivable totaled \$100,000 at December 31, 2007 and 2006. Our determination of the allowance for doubtful accounts receivable includes a number of factors, including the age of the balance, past experience with the customer account, changes in collection patterns and general industry conditions.

Potential credit losses from our significant customers could adversely affect our results of operations or financial condition. General weakness in the steel and metals sectors in the past led to bankruptcy filings by many of our customers, which caused us to recognize additional allowances for doubtful accounts receivable. While we believe our allowance for doubtful accounts is adequate, changes in economic conditions or any weakness in the steel and metals industries could adversely impact our future earnings.

Inventory

Our inventories primarily consist of ferrous and non-ferrous scrap metals and we value at the lower of average purchased cost or market. We determine quantities of inventories based on our inventory systems, which are subject to periodic physical verification using estimation techniques including observation, weighing and other industry methods. Prices of commodities we own may be volatile. We are exposed to risks associated with fluctuations in the market price for both ferrous and non-ferrous metals, which are at times volatile. We attempt to mitigate this risk by seeking to rapidly turn our inventories.

Property and Equipment

We carry the value of land on our books at cost. We report premises and equipment at cost less accumulated depreciation and amortization. We charge depreciation and amortization for financial reporting purposes to operating expense using the straight-line method over the estimated useful lives of the assets. Estimated useful lives are up to 40 years for buildings and leasehold improvements, 1 to 10 years for office and operating equipment, and 5 years for rental equipment. Our determination of estimated useful life includes past experience and normal deterioration. We include maintenance and repairs in selling, general and administrative expenses. We include gains and losses on disposition of premises and equipment in gain (loss) on sale of assets.

Valuation of long-lived assets and goodwill

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

We regularly review the carrying value of certain long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be realizable. If an evaluation is required, we compare the estimated future undiscounted cash flows associated with the asset to the asset's carrying amount to determine if an impairment of such asset is necessary. The effect of any impairment would be to expense the difference between the fair value of such asset and its carrying value. During the year ended December 31, 2007, we determined no impairment existed.

We review goodwill at least annually for impairment based on the fair value method prescribed in Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill." At December 31, 2007, we determined, based on current industry and other market information, that no impairment existed.

Income Taxes

We account for income taxes under the asset and liability method. We recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. We measure deferred tax assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which we expect to recover or settle those temporary differences. We recognize the effect on deferred tax assets and liabilities of a change in tax rates in income in the period that includes the enactment date.

Results of Operations

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

<u>Year ended December 31,</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Consolidated Statements of Income Data:			
Total revenue	100.0%	100.0%	100.0%
Total cost of goods sold.....	84.5%	85.4%	93.5%
Selling, general and administrative Expenses	10.1%	9.0%	5.0%
Income before other income (expense).....	5.4%	5.6%	1.5%

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

Total revenue increased \$14,873,493 or 24.0% to \$76,955,541 in 2007 compared to \$62,082,048 in 2006. Recycling revenue increased \$12,636,048 or 28.1% to \$57,603,071 in 2007 compared to \$44,967,023 in 2006. This change is due to an increase of 8% in the volume of shipments and an increase of 18% in average price per ton. Management services revenue increased \$1,846,953 or 12.0% to \$17,234,194 in 2007 compared to \$15,387,241 in 2006. This change is primarily due to new customers. Equipment, service and leasing revenue increased \$390,492 or 22.60% to \$2,118,276 in 2007 compared to \$1,727,784 in 2006. This increase is primarily due to growth in equipment rental

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

revenue due to new customers.

Total cost of goods sold increased \$12,018,470 or 22.6% to \$65,014,911 in 2007 compared to \$52,996,441 in 2006. Recycling cost of goods sold increased \$10,958,115 or 27.8% to \$50,407,072 in 2007 compared to \$39,448,957 in 2006 due to an increase in the volume of shipments as well as an increase in the volume of purchases of 4% and an increase in average cost per ton of 18.3%. Management services cost of goods sold increased \$1,663,466 or 13.0% to \$14,375,539 in 2007 compared to \$12,712,073 in 2006. This change is primarily due to new customers. We also reduced CWS cost of goods sold by \$858,249 in 2007 and \$1,272,241 in 2006 due to a change in management's estimate related to the liability associated with this operation. Equipment, service and leasing cost of goods sold decreased \$603,111 or 72.2% to \$232,300 in 2007 compared to \$835,411 in 2006. This decrease is primarily due to the decreases in equipment costs, such as containers and compactors, purchased for resale and a decrease in service and repair expense.

Selling, general and administrative expenses increased \$2,156,956 or 38.4% to \$7,766,915 in 2007 compared to \$5,609,959 in 2006. The increase in SG&A is primarily due to costs associated with the ILS asset purchase, including stock bonus and increase in truck driver labor and overtime, an increase in fuel costs, and an increase in legal costs due to the settlement of a lawsuit. As a percentage of total revenue, selling, general and administrative expenses were 10.1% in 2007 compared to 9.0% in 2006.

Interest expense increased \$77,967 or 36.7% to \$290,689 in 2007 compared to \$212,722 in 2006 due to an increase in long term debt in 2007 compared to 2006. Other income was \$22,741 in 2007 compared to other income of \$32,930 in 2006, a decrease of \$10,189.

Significant components of other income (expense) are as follows:

Description	Fiscal Year Ended December 31	
	2007	2006
Reversal of tax accrual for rental containers	\$ 20,670	-
Bankruptcy recoveries	-	22,787
Interest on K&R note	-	6,845
Other	2,071	3,298
Total other income, net	\$ 22,741	\$ 32,930

The income tax provision is 36.2% for the year ended December 31, 2007 compared to 37.7% for the year ended December 31, 2006. The impact of the tax credit of \$99,358 was to lower the provision by 2.5%.

Financial Condition at December 31, 2007 compared to December 31, 2006

Cash and cash equivalents increased \$169,878 to \$1,501,685 as of December 31, 2007 compared to \$1,331,807 as of December 31, 2006.

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

Net cash from operating activities increased \$1,853,222 to \$636,299 as of December 31, 2007 compared to net cash used of (\$1,216,923) as of December 31, 2006. This increase was primarily due to net income of \$2,563,833 and noncash stock transactions of \$426,364 offset by increases in accounts receivable and inventory of \$1,738,410 and \$1,199,055, respectively.

We used net cash from investing activities of \$4,251,092 for the year ending December 31, 2007 compared to \$2,058,807 for the same period in 2006. The difference of \$2,192,285 was primarily due to the \$2,173,076 deposit for the shredder system.

Net cash from financing activities increased \$1,114,235 to \$4,000,471 for the year ending December 31, 2007 compared to \$2,886,236 for the same period in 2006. Proceeds from long term debt totaled \$7,850,000 in 2007 and \$10,710,875 in 2006, and payments on long-term debt were \$3,010,306 in 2007 and \$7,770,984 in 2006.

On December 22, 2006, we executed a new revolving credit facility with BB&T increasing the borrowing line from \$5.0 million to \$10.0 million to provide us with working capital to support the current needs of our business. This revolving credit facility has a three year term expiring December 22, 2009, and provides for advances of up to eighty percent (80%) of ISA's eligible accounts receivable and up to the forty percent (40%) of eligible inventory, and up to one hundred (100%) of ISA's net book value of eligible equipment less an outstanding indebtedness on the equipment. The revolving credit facility bears interest at the one month Libor rate, as published in the Wall Street Journal, plus two and twenty-five one-hundredths percent (2.25%) per annum, and is secured by all our assets (except rental fleet equipment). As of December 31, 2007 we had borrowed \$6,000,000 and as of December 31, 2006 we had borrowed \$1,010,875 against the credit facility. The revolving credit facility contains certain restrictive and financial covenants. At December 31, 2007, we were in compliance with all restrictive covenants.

We also have a \$2.0 million loan with Fifth Third Bank secured by our rental fleet equipment. Indebtedness under this loan agreement accrues interest at a fixed interest rate of 6.83%. The maturity date under this agreement is June 2011 with a ten-year amortization schedule. As of December 31, 2007 we had borrowed \$1,779,585 and as of December 31, 2006 we had borrowed \$1,929,016 against this loan. The terms of the loan agreement place certain restrictive covenants on us, including maintenance of a specified tangible net worth, debt to net worth and EBITDA ratio. Consequently, these covenants restrict our ability to incur as much additional debt as we may desire for future growth. At December 31, 2007, we were in compliance with all restrictive covenants.

We implemented the use of a purchasing card with a credit limit of \$6.0 million in the second quarter of 2004. We include the balance due on the purchasing card as part of accounts payable. The outstanding balance on the purchasing card at December 31, 2007 was \$885,537.

We believe our principal sources of liquidity from available funds on hand, cash generated from operations and the availability of borrowing under our senior revolving credit facility and purchasing card will be sufficient to fund operations in fiscal year 2008. Our primary sources of funds are our ability to generate cash from operations and the availability of borrowing under our senior revolving credit facility to meet our liquidity obligations, which could be affected by factors such as a decline in demand for our products, loss of key contract customers such as occurred with Home Depot in 2005, our ability to generate profits and other unforeseen circumstances. The availability of our revolving credit facility is contingent on complying with certain debt covenants. We do not expect the covenants to limit or restrict our ability to borrow on the facility in fiscal year 2008.

Trade accounts receivable after allowances for doubtful accounts increased \$1,738,410 or 34% to \$6,764,851 as of December 31, 2007. The primary reason for the increase in trade accounts receivable after allowances for doubtful accounts is an increase in the volume of shipments and an increase in the selling prices in the recycling segment.

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

Recycling accounts receivable increased \$910,290 or 23% to \$4,813,971 as of December 31, 2007 compared to \$3,903,681 as of December 31, 2006. This change is primarily due to an increase in the volume of shipments and an increase in the selling prices in the recycling segment. On average, volume of ferrous shipments in gross tons increased 7% as of December 31, 2007 compared to December 31, 2006. On average, sales prices increased \$12 per gross ton or 4% to \$256 as of December 31, 2007 compared to \$244 as of December 31, 2006. On average, volume of nonferrous shipments in pounds increased 29% as of December 31, 2007 compared to December 31, 2006. On average, sales prices increased 9.7% as of December 31, 2007 compared to December 31, 2006.

CWS accounts receivable increased \$779,020 or 71% to \$1,868,100 as of December 31, 2007 compared to \$1,089,080 as of December 31, 2006. This change is primarily due to new customers.

WESSCO accounts receivable increased \$69,960 or 100% to \$69,960 as of December 31, 2007 compared to \$0 as of December 31, 2006. This change is primarily due to increased rental revenues from new customers.

Inventories consist principally of ferrous and nonferrous scrap materials and waste equipment machinery held for resale. We value inventory at the lower of cost or market. Inventory increased \$1,199,055 or 34% to \$4,627,281 as of December 31, 2007 compared to \$3,428,226 as of December 31, 2006. Inventories as of December 31, 2007 and December 31, 2006 consist of the following:

	December 31, <u>2007</u>	December 31, <u>2006</u>
Ferrous	\$ 1,848,445	\$ 1,667,937
Non-Ferrous	2,715,703	1,678,655
Waste equipment machinery	36,498	56,200
Other	<u>26,635</u>	<u>25,434</u>
 Total inventories	 <u>\$ 4,627,281</u>	 <u>\$ 3,428,226</u>

For the year ended December 31, 2007, we shipped 81,947 gross tons of ferrous material. During the same period, we purchased 76,659 gross tons of ferrous material. For the year ended December 31, 2006, we shipped 76,331 gross tons of ferrous material. During the same period, we purchased 72,475 gross tons of ferrous material. As of December 31, 2007, ferrous inventory consisted of 7,713 gross tons at a unit cost of \$239.65 per gross ton. As of December 31, 2006, ferrous inventory consisted of 9,400 gross tons at a unit cost of \$177.44 per gross ton. For the year ended December 31, 2007, the purchase price plus processing costs of ferrous material averaged \$201.13 per gross ton compared to \$157.25 per gross ton in 2006.

For the year ended December 31, 2007, we shipped 28,840,349 pounds of nonferrous material. During the same period, we purchased 24,314,589 pounds of nonferrous material. For the year ended December 31, 2006, we shipped 22,258,977 pounds of nonferrous material. During the same period, we purchased 20,362,645 pounds of nonferrous material. As of December 31, 2007, nonferrous inventory consisted of 1,992,954 pounds with a unit cost of \$1.3626 per pound. As of December 31, 2006, nonferrous inventory consisted of 1,601,554 pounds at a unit cost of \$0.960 per pound. For the year ended December 31, 2007, the purchase price plus processing costs of non-ferrous material has averaged \$1.363 per pound compared to \$0.960 per pound in 2006.

Year	Inventory Type	Gross Tons	Unit Cost	Amount
------	----------------	------------	-----------	--------

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

2007	Ferrous	7,713	\$ 239.65	\$1,848,445
2006	Ferrous	9,400	177.44	1,667,937

Year	Inventory Type	Pounds	Unit Cost	Amount
2007	Nonferrous	1,992,954	1.36	\$ 2,715,703
2006	Nonferrous	1,748,600	0.96	1,678,655

Inventory Aging for the year ended December 31, 2007 (Days Outstanding)

Description	1-30	31-60	61-90	Over 90	Total
Equipment & parts	\$ 36,498	\$ -	\$ -	\$ -	\$ 36,498
Ferrous Materials	1,163,306	566,774	78,183	40,182	1,848,445
Non-ferrous materials	1,885,783	553,049	129,552	147,319	2,715,703
Other	26,635	-	-	-	26,635
	\$3,112,222	\$1,119,823	\$ 207,735	\$187,501	\$4,627,281

Inventory aging for the year ended December 31, 2006 (Days Outstanding):

Description	1-30	31-60	61-90	Over 90	Total
Equipment & parts	\$ 33,720	\$ 22,480	\$ -	\$ -	\$ 56,200
Ferrous Materials	864,489	448,842	166,509	188,097	1,667,937
Non-ferrous materials	1,467,679	41,840	42,989	126,147	1,678,655
Other	25,434	-	-	-	25,434
	\$2,391,322	\$513,162	\$ 209,498	\$314,244	\$3,428,226

Accounts payable trade increased \$120,574 or 2.6% to \$4,665,631 as of December 31, 2007 compared to \$4,545,057 as of December 31, 2006. Recycling accounts payable increased \$33,750 or 2.5% to \$1,332,287 as of December 31, 2007 compared to \$1,298,537 as of December 31, 2006. This increase is primarily due to the increase in volume of commodity purchases at respective year-ends and increased commodity purchase prices of ferrous and nonferrous materials. Our accounts payable payment policy in the recycling segment is consistent between years.

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

CWS accounts payable increased \$94,580 or 3.1% to \$3,063,832 as of December 31, 2007 compared to \$2,969,252 as of December 31, 2006. This change is primarily due to new customers.

WESSCO accounts payable decreased \$120,784 or 58.8% to \$84,384 as of December 31, 2007 compared to \$205,168 as of December 31, 2006.

Working capital increased \$4,316,584 to \$7,840,682 as of December 31, 2007 compared to \$3,524,098 as of December 31, 2006. Net income of \$2,464,475, depreciation of \$1,954,023 and an increase in inventories of \$1,199,055 were positive contributors to working capital in 2007. During 2007, we used these positive working capital contributors to purchase property and equipment of \$2,169,829.

Contractual Obligations

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

The following table provides information with respect to our known contractual obligations for the year ended December 31, 2007.

Obligation Description	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations	\$8,732,697	\$338,913	\$6,752,189	\$1,641,595	0
Capital lease obligations (1)	235,244	133,675	101,569	0	0
Operating lease obligations (2)	3,207,375	663,375	1,272,000	1,272,000	0
Total	\$12,175,316	\$1,135,963	\$8,125,758	\$2,913,595	\$0

(1) We lease various pieces of equipment that qualify for capital lease treatment. These lease arrangements require monthly lease payments expiring at various dates through August 2012.

(2) We lease the Louisville, Kentucky facility from a related party under an operating lease expiring December 2012 with automatic annual renewals thereafter unless one party provides written notice to the other party of its intent not to renew at least six months in advance of the next renewal date. We have monthly rental payments of \$48,500 through December 2012. In the event of a change of control, the monthly payments become \$62,500. See Item 1. Business -- Related Parties Agreements.

-- We also lease a management services operations facility and various pieces of equipment in Dallas, Texas for which monthly payments of \$2,750 are due through September 2009.

-- We have subleased the Lexington property to an unaffiliated third party for a term commencing March 1, 2007 and ending December 31, 2012 for \$4,500 per month. We currently lease this property from an unrelated party for \$4,500 per month; the lease terminates December 31, 2012. If for any reason the sub lessee defaults, we remain liable for the remainder of the lease payments through December 31, 2012.

--On February 6, 2007, we leased 7.7 acres of real property, including a 38,000 square foot warehouse and a 400 square foot office, in Pineville, Louisiana for \$5,250 per month for twenty-four months beginning March 1, 2007 and ending February 28, 2009, with an option to purchase the property for a purchase price of \$575,000. On January 18, 2008, we sold our position in this property, including the lease and the option, for \$25,000.

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

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

Total revenue decreased \$55,299,811 or 47.1% to \$62,082,048 in 2006 compared to \$117,381,859 in 2005. Management services revenue decreased \$67,888,697 or 84.2% to \$12,712,073 in 2006 compared to \$84,451,367 in 2005.

This change is primarily due to the loss of Home Depot as a customer in October 2005. Recycling revenue increased \$15,014,085 or 50.1% to \$44,967,023 in 2006 compared to \$29,952,938 in 2005. This change is due to an increase of 19% in the volume of shipments and an increase of 36% in average cost per ton. Equipment, service and leasing revenue decreased \$1,249,770 or 42.0% to \$1,727,784 in 2006 compared to \$2,977,554 in 2005. This decrease is primarily due to decreases in equipment sales and service revenue, offset by growth in equipment rental revenue.

Total cost of goods sold decreased \$56,780,120 or 51.7% to \$52,996,441 in 2006 compared to \$109,776,561 in 2005. Management services cost of goods sold decreased \$67,888,697 or 84.2% to \$12,712,073 in 2006 compared to \$80,600,770 in 2005. This change is primarily due to the loss of Home Depot as a customer. Additionally, we reduced cost of goods sold by \$1,272,241 in 2006 due to a change in management's estimate related to the liability associated with this operation which includes the contract settlement with our former customers. Recycling cost of goods sold increased \$12,177,245 or 44.7% to \$39,448,957 in 2006 compared to \$27,271,712 in 2005 due to an increase in the volume of shipments as well as an increase in the volume of purchases of 8% and an increase in average cost per ton of 55.6%. Equipment, service and leasing cost of goods sold decreased \$1,068,668 or 56.1% to \$835,411 in 2006 compared to \$1,904,079 in 2005. This decrease is primarily due to the decrease in equipment sales.

Selling, general and administrative expenses decreased \$206,646 or 3.6% to \$5,609,959 in 2006 compared to \$5,816,605 in 2005. The decrease in SG&A is due to a decrease in labor and related benefits (\$306,000) offset by an increase in bad debt expense (\$93,464).

-- Labor and related benefits decreased \$306,000 due to the loss of Home Depot as a customer.

-- Bad debt expense increased \$93,464 primarily due to the write-off of All County & Delta Management in 2006.

As a percentage of total revenue, selling, general and administrative expenses were 9.0% in 2006 compared to 5.0% in 2005.

Interest expense increased \$138,706 or 187% to \$212,722 in 2006 compared to \$74,016 in 2005 due to an increase in long term debt in 2006 compared to a payoff of debt during 2005. Other income was \$32,930 in 2006 compared to other income of \$3,424 in 2005. This increase of \$29,506 is primarily due to bankruptcy recoveries.

Significant components of other income (expense) are as follows:

Description	Fiscal Year Ended December 31	
	2006	2005
Bankruptcy recoveries	\$ 22,787	\$ 12,061
Interest on K&R note	6,845	(11,782)
Other	3,298	3,145
Total other income (expense), net	\$ 32,930	\$ 3,424

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

Income tax provision increased \$585,496 to \$1,323,929 in 2006 compared to \$740,433 in 2005. The effective tax rate in 2006 was 37.7 % compared to approximately 40.2% in 2005 based on federal and state statutory rates. The provision for income taxes increased 4.2% to 37.7% for the year ended December 31, 2006 compared to 33.5% for the nine months ended September 30, 2006. The provision for income taxes increased 4.2% to 37.7% for the year ended December 31, 2007 compared to 33.5% for the nine months ended September 30, 2006.

The parties agreed mutually to decrease the taxable base of the common stock awarded to Andrew M. Lassak on June 15, 2006. Based on the increase in profit in the fourth quarter of 2006, the impact of the tax benefit of the common stock had less impact on the income tax provision for the year ended December 31, 2006 compared to the income tax provision for the nine months ended September 30, 2006.

Financial Condition at December 31, 2006 compared to December 31, 2005

Cash and cash equivalents decreased \$389,494 to \$1,331,807 as of December 31, 2006 compared to \$1,721,301 as of December 31, 2005.

Net cash from operating activities decreased \$5,075,653 to net cash used of (\$1,216,923) as of December 31, 2006 compared to \$3,858,730 as of December 31, 2005. This decrease was directly related to the decrease in accounts payable of \$3.7 million which is primarily due to the loss of Home Depot as a customer in October 2005.

We used net cash from investing activities of \$2,058,807 for the year ending December 31, 2006 compared to \$1,678,318 for the same period in 2005. The difference of \$380,489 was primarily due to \$348,446 more in property and equipment purchases in 2006 than in 2005.

Net cash from financing activities increased \$4,475,037 to \$2,886,236 for the year ending December 31, 2006 compared to net cash used of (\$1,588,801) for the same period in 2005. Proceeds from long term debt totaled \$10,710,875 in 2006, and payments on long-term debt were \$7,770,984 in 2006 and \$1,000,000 in 2005.

On December 22, 2006, we executed a new revolving credit facility with BB&T increasing the borrowing line from \$5.0 million to \$10.0 million to provide us with working capital to support the current needs of our business. This revolving credit facility has a three year term expiring December 22, 2009, and provides for advances of up to eighty percent (80%) of ISA's eligible accounts receivable and up to the forty percent (40%) of eligible inventory, and up to one hundred (100%) of ISA's net book value of eligible equipment less an outstanding indebtedness on the equipment. The revolving credit facility bears interest at the one month Libor rate, as published in the Wall Street Journal, plus two and twenty-five one-hundredths percent (2.25%) per annum, and is secured by all our assets (except rental fleet equipment). As of December 31, 2006 we had borrowed \$1,010,875 and as of December 31, 2005, there were no borrowings against the credit facility. The revolving credit facility contains certain restrictive and financial covenants. At December 31, 2006, we were in compliance with all restrictive covenants.

We also have a \$2.0 million loan with Fifth Third Bank secured by our rental fleet equipment. Indebtedness under this loan agreement accrues interest at a fixed interest rate of 6.83%. The maturity date under this agreement is June 2011 with a ten-year amortization schedule. As of December 31, 2006 we had borrowed \$1,929,016 and as of December 31, 2005, there were no borrowings against this loan. The terms of the loan agreement place certain restrictive covenants on us, including maintenance of a specified tangible net worth, debt to net worth and EBITDA ratio. Consequently, these covenants restrict our ability to incur as much additional debt as we may desire for future growth. At December 31, 2006, we were in compliance with all restrictive covenants.

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

We implemented the use of a purchasing card with a credit limit of \$6.0 million in the second quarter of 2004. We include the balance due on the purchasing card as part of accounts payable. The outstanding balance on the purchasing card at December 31, 2006 was \$687,437.

We believe our principal sources of liquidity from available funds on hand, cash generated from operations and the availability of borrowing under our senior revolving credit facility and purchasing card will be sufficient to fund operations in fiscal year 2007. Our primary sources of funds are our ability to generate cash from operations and the availability of borrowing under our senior revolving credit facility to meet our liquidity obligations, which could be affected by factors such as a decline in demand for our products, loss of key contract customers such as occurred with Home Depot in 2005, our ability to generate profits and other unforeseen circumstances. The availability of our revolving credit facility is contingent on complying with certain debt covenants. We do not expect the covenants to limit or restrict our ability to borrow on the facility in fiscal year 2007.

Trade accounts receivable after allowances for doubtful accounts increased \$523,596 or 11.6% to \$5,026,441 as of December 31, 2006. The primary reason for the increase in trade accounts receivable after allowances for doubtful accounts is an increase in the volume of shipments and an increase in the selling prices in the recycling segment.

Recycling accounts receivable increased \$1,307,628 or 50.4% to \$3,903,681 as of December 31, 2006 compared to \$2,596,053 as of December 31, 2005. This change is primarily due to an increase in the volume of shipments and an increase in the selling prices in the recycling segment. On average, volume of ferrous shipments in gross tons increased 15% as of December 31, 2006 compared to December 31, 2005. On average, sales prices increased \$20 per gross ton or 8.9% to \$244 as of December 31, 2006 compared to \$224 as of December 31, 2005. On average, volume of nonferrous shipments in pounds increased 13% as of December 31, 2006 compared to December 31, 2005. On average, sales prices increased 57.0% as of December 31, 2006 compared to December 31, 2005.

CWS accounts receivable decreased \$704,467 or 39.3% to \$1,089,080 as of December 31, 2006 compared to \$1,793,547 as of December 31, 2005. This change is primarily due to the loss of Home Depot as a customer.

WESSCO accounts receivable decreased \$85,431 or 100% to \$0 as of December 31, 2006 compared to \$85,431 as of December 31, 2005. This change is primarily due to a decrease in equipment sales.

Inventories consist principally of ferrous and nonferrous scrap materials and waste equipment machinery held for resale. We value inventory at the lower of cost or market. Inventory increased \$939,617 or 37.8% to \$3,428,226 as of December 31, 2006 compared to \$2,488,609 as of December 31, 2005. Inventories as of December 31, 2006 and December 31, 2005 consist of the following:

	December 31, <u>2006</u>	December 31, <u>2005</u>
Ferrous	\$ 1,667,937	\$ 1,380,050
Non-Ferrous	1,678,655	961,085
Waste equipment machinery	56,200	120,922

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

Other	<u>25,434</u>	<u>26,552</u>
Total inventories	<u>\$ 3,428,226</u>	<u>\$ 2,488,609</u>

For the year ended December 31, 2006, we shipped 76,331 gross tons of ferrous material. During the same period, we purchased 72,475 gross tons of ferrous material. For the year ended December 31, 2005, we shipped 66,155 gross tons of ferrous material. During the same period, we purchased 66,947 gross tons of ferrous material. We did not write down ferrous inventory in 2006. As of December 31, 2005, ferrous inventory consisted of 7,750 gross tons at a unit cost of \$178.07 per gross ton. As of December 31, 2006, ferrous inventory consisted of 9,400 gross tons at a unit cost of \$177.44 per gross ton. For the year ended December 31, 2006, the purchase price plus processing costs of ferrous material averaged \$157.25 per gross ton compared to \$136.31 per gross ton in 2005.

For the year ended December 31, 2006, we shipped 22,258,977 pounds of nonferrous material. During the same period, we purchased 20,362,645 pounds of nonferrous material. For the year ended December 31, 2005, we shipped 19,622,793 pounds of nonferrous material. During the same period, we purchased 18,660,006 pounds of nonferrous material. We did not write down nonferrous inventory in 2006. As of December 31, 2006, nonferrous inventory consisted of 1,601,554 pounds with a unit cost of \$0.960 per pound. As of December 31, 2005, nonferrous inventory consisted of 1,569,770 pounds at a unit cost of \$0.612 per pound. For the year ended December 31, 2006, the purchase price plus processing costs of non-ferrous material has averaged \$0.960 per pound compared to \$0.608 per pound in 2005.

Year	Inventory Type	Gross Tons	Unit Cost	Amount
2005	Ferrous	7,750	\$178.07	\$1,380,050
2006	Ferrous	9,400	177.44	1,667,937

Year	Inventory Type	Pounds	Unit Cost	Amount
2005	Nonferrous	1,569,770	\$0.61	\$ 961,085
2006	Nonferrous	1,748,600	0.96	1,678,655

Inventory Aging for the year ended December 31, 2006 (Days Outstanding)

Description	1-30	31-60	61-90	Over 90	Total
Equipment & parts	\$ 33,720	\$ 22,480	\$ -	\$ -	\$ 56,200
Ferrous Materials	864,489	448,842	166,509	188,097	1,667,937
Non-ferrous materials	1,467,679	41,840	42,989	126,147	1,678,655
Other	25,434	-	-	-	25,434
	\$2,391,322	\$ 513,162	\$ 209,498	\$ 314,244	\$3,428,226

Inventory aging for the year ended December 31, 2005 (Days Outstanding):

Description	1-30	31-60	61-90	Over 90	Total
Equipment & parts	\$ 29,437	\$ 22,400	\$ -	\$ 69,085	\$ 120,922
Ferrous Materials	731,924	353,962	182,650	111,514	1,380,050
Non-ferrous materials	737,190	108,394	53,300	62,201	961,085
Other	26,552	-	-	-	26,552
	\$1,525,103	\$ 484,756	\$ 235,950	\$ 242,800	\$2,488,609

Accounts payable trade decreased \$3,737,224 or 45.1% to \$4,545,057 as of December 31, 2006 compared to \$8,282,281 as of December 31, 2005. Recycling accounts payable increased \$202,592 or 18.5% to \$1,298,537 as of December 31, 2006 compared to \$1,095,945 as of December 31, 2005. This increase is primarily due to the increase in volume of commodity purchases at respective year-ends and increased commodity purchase prices of ferrous and nonferrous materials. Our accounts payable payment policy in the recycling segment is consistent between years.

CWS accounts payable decreased \$3,886,325 or 56.7% to \$2,969,252 as of December 31, 2006 compared to \$6,855,577 as of December 31, 2005. This change is primarily due to the loss of Home Depot as a customer.

WESSCO accounts payable decreased \$51,159 or 20.0% to \$205,168 as of December 31, 2006 compared to \$256,327 as of December 31, 2005. This change is due to a decrease in equipment sales.

Working capital increased \$4,415,407 to \$3,524,098 as of December 31, 2006 compared to a deficit of \$861,309 as of December 31, 2005. Net income of \$2,188,579, depreciation of \$1,745,905, and pay down of accounts payable of \$3,737,224 were positive contributors to working capital in 2006. During 2006, we used these positive working capital contributors to purchase property and equipment of \$2,166,331.

Inflation and Prevailing Economic Conditions

To date, inflation has not and is not expected to have a significant impact on our operation in the near term. We have no long-term fixed-price contracts and we believe we will be able to pass through most cost increases resulting from inflation to our customers. We are susceptible to the cyclical nature of the commodity business. In response to these economic conditions, we have focused on the management consulting area of the business and are working to liquidate inventories while we make efforts to enhance gross margins.

Impact of Recently Issued Accounting Standards

Effective January 1, 2007, we adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), an interpretation of Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." FIN 48 requires that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not (i.e., a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Our adoption of FIN 48 did not have a material impact on our financial statements.

The Financial Accounting Standards Board has published SFAS No. 157, Fair Value Measurements, to eliminate the diversity in practice that exists due to the different definitions of fair value and the limited guidance for applying those definitions in GAAP that are dispersed among the many accounting pronouncements that require fair value measurements. SFAS No. 157 defines fair value 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 (an exit price). SFAS No. 157 also stipulates that, as a market-based measurement, fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability, and establishes a fair value hierarchy that distinguishes between (a) market participant assumptions developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (b) the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs).

SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, although earlier application is encouraged. Additionally, prospective application of the provisions of SFAS No. 157 is required as of the beginning of the fiscal year in which it is initially applied, except when certain circumstances require retrospective application. Our adoption of this standard as of January 1, 2008 did not have a material impact on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 provides companies with an option to report selected financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. SFAS 159 is effective for fiscal years beginning after November 15, 2007, the year beginning January 1, 2008 for us. While we continue to review the provisions of SFAS 159, we have not yet identified any assets or liabilities for which we currently believe we will elect the fair value reporting option.

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

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

We are exposed to interest rate risk on our floating rate borrowings. As of December 31, 2007, variable rate borrowings consisted of outstanding borrowings of \$6,000,000 under our credit agreement with BB&T. This revolving credit facility bears interest at the one month LIBOR rate, as published in the Wall Street Journal, plus two and twenty-five one-hundredths percent (2.25%) per annum which was 6.85% as of December 31, 2007. We do not have any interest rate swaps or caps in place, which would mitigate our exposure to fluctuations in the interest rate on this indebtedness. Based on our average anticipated borrowings under our credit agreement in fiscal 2007, a hypothetical increase or decrease in the LIBOR rate by 1% would increase or decrease interest expense on our variable borrowings by approximately \$60,000 per year, with a corresponding change in cash flows.

Item 8. Consolidated Financial Statements and Supplementary Data.

Our consolidated financial statements required to be included in this Item 8 are set forth in Item 15 of this report.

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

None

Item 9A(T) Controls and Procedures.

(a) Disclosure controls and procedures.

ISA's management, including ISA's principal executive officer and principal financial officer, have evaluated the effectiveness of our "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934. Based upon their evaluation, our principal executive officer and principal financial officer concluded that, as of December 31, 2007, 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 specific in the SEC's rules and forms, and (2) is accumulated and communicated to ISA's management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding the required disclosure.

(b) Internal controls over financial reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance to our management and Board of Directors regarding the reliability of financial report and the preparation and fair presentation of published financial statements for external purposes in accordance with generally accepted accounting principles in the United States.

Our internal control over financial reporting includes those policies and procedures that:

-- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of our assets;

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

-- provide reasonable assurance that our transactions are recorded as necessary to permit preparation of our financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

-- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

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

Our management conducted an evaluation of the effectiveness of our internal control over financial reporting, based on the framework and criteria established in Internal Control -- Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management assessed the effectiveness of our internal control over financial reporting for the year ended December 31, 2007, and concluded that such internal control over financial reporting was effective as of December 31, 2007.

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

(c) Changes to internal control over financial reporting

There were no changes in ISA's internal control over financial reporting during the three months ended December 31, 2007 that have materially affected, or are reasonably likely to affect ISA's internal control over financial reporting.

Item 9B. Other Information.

None

PART III

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

Item 11. Executive Compensation *

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

Item 13. Certain Relationships and Related Transactions. *

Item 14. Principal Accountant Fees and Services. *

* The information required by Items 10, 11, 12, 13 and 14 is or will be set forth in the definitive proxy statement relating to the 2007 Annual Meeting of Shareholders of ISA which is to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after ISA's year end for the year covered by this report under the Securities Exchange Act of 1934, as amended. Such definitive proxy statement relates to an annual meeting of shareholders and the portions therefrom required to be set forth in this Form 10-K by Items 10, 11, 12, 13 and 14 are incorporated herein by reference pursuant to General Instruction G(3) to Form 10-K.

PART IV

Item 15. Exhibits and Consolidated Financial Statement Schedules.

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

	<u>Page</u>
Report of Independent Registered Public Accounting Firms	F-1
Consolidated Balance Sheets as of December 31, 2007 and 2006	F-3
Consolidated Statements of Income for the years ended December 31, 2007, 2006 and 2005	F-4
Consolidated Statements of Shareholders' Equity for the years ended December 31, 2007, 2006 and 2005	F-5
Consolidated Statements of Cash Flows for the years ended December 31, 2007, 2006 and 2005	F-6

(a)(2) Consolidated Financial Statement Schedules.

Schedule II--Valuation and Qualifying Accounts for the
years ended December 31, 2007, 2006 and 2005

F-28

(a)(3) List of Exhibits

Exhibits filed with, or incorporated by reference herein, this report are identified in the Index to Exhibits appearing in this report. The Management Agreement and the Consulting Agreement required to be filed as exhibits to this Form 10-K pursuant to Item 14(c) are noted by an asterisk (*) in the Index to Exhibits.

(b) Exhibits.

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

(c) Consolidated Financial Statement Schedules.

Schedule II--Valuation and Qualifying Accounts for the year ended December 31, 2007, 2006 and 2005 are incorporated by reference at page F-28 of the ISA Consolidated Financial Statements.

SIGNATURES

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

INDUSTRIAL SERVICES OF AMERICA, INC.

Dated: March 31, 2008

By :

/s/ Harry Kletter
 Harry Kletter, Chairman of the Board
 and Chief Executive Officer

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ Harry Kletter Harry Kletter	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	March 31, 2008
/s/ Alan L. Schroering Alan L. Schroering	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 31, 2008
/s/ Orson Oliver Orson Oliver	Director	March 31, 2008
/s/ Roman Epelbaum Roman Epelbaum	Director	March 31, 2008
/s/ Albert Cozzi Albert Cozzi	Director	March 31, 2008
/s/ Richard Ferguson Richard Ferguson	Director	March 31, 2008

INDEX TO EXHIBITS

**Exhibit
Number**

Description of Exhibits

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

- 3.1 ** Certificate of Incorporation of ISA is incorporated by reference to Exhibit 3.1 of ISA's report on Form 10-KSB for the year ended December 31, 1995.
- 3.2 ** Bylaws of ISA are incorporated by reference to Exhibit 3.2 of ISA's report on Form 10-KSB for the year ended December 31, 1995.
- 10.1 ** Independent Consulting Services Agreement, dated as of March 31, 1995, and executed on June 25, 1996, by and between ISA and Douglas I. Maxwell, III ("Maxwell"), is incorporated by reference to Exhibit 4(a) of ISA Statement on Form S-8 of the Registration, filed on June 26, 1996 (File No. 333-06915).
- 10.2 ** Confidential Information and Non-Competition Agreement Independent Contractor, dated as of March 31, 1995, and executed on June 26, 1996, by and between ISA and Maxwell, is incorporated by reference to Exhibit 10.1 of Registration Statement on Form S-8 of ISA, filed on June 26, 1996 (File No. 333-06915).
- 10.3 ** Stock Option Agreement, dated as of March 31, 1995, and executed on June 26, 1996, by and between ISA and Maxwell, is incorporated by reference to Exhibit 4(b) of Registration Statement on Form S-8 of ISA, filed on June 26, 1996 (File No. 333-06915).
- 10.4 ** Independent Consulting Services Agreement, dated as of March 31, 1995, and executed on June 26, 1996, by and between ISA and Neil C. Sullivan ("Sullivan"), is incorporated by reference to Exhibit 4(a) of Registration Statement on Form S-8 of ISA, filed on June 26, 1996 (File No. 333-06909).