

INDUSTRIAL SERVICES OF AMERICA INC /FL  
Form 10-Q  
November 14, 2007

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

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

For the quarterly period ended September 30, 2007

OR

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

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

Commission File Number 0-20979

INDUSTRIAL SERVICES OF AMERICA, INC.

(Exact Name of Registrant as specified in its Charter)

Florida

(State or other jurisdiction of  
Incorporation or Organization)

59-0712746

(IRS Employer  
Identification No.)

7100 Grade Lane, PO Box 32428  
Louisville, Kentucky 40232  
(Address of principal executive offices)

(502) 368-1661

(Registrant's Telephone Number, Including Area Code)

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

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

(Check one): Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of September 30, 2007: 3,640,899.

INDUSTRIAL SERVICES OF AMERICA, INC. AND SUBSIDIARIES

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Part I -- FINANCIAL INFORMATION

ITEM 1: Condensed CONSOLIDATED FINANCIAL STATEMENTS.

INDUSTRIAL SERVICES OF AMERICA, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	<u>September 30,</u> <u>2007</u> <u>(Unaudited)</u>	<u>December 31,</u> <u>2006</u>
Current assets		
Cash and cash equivalents	\$ 749,759	\$ 1,331,807
Accounts receivable - trade (after allowance for doubtful accounts of \$100,000 in 2007 and 2006)	6,891,603	5,026,441
Net investment in sales-type leases	62,034	50,586
Inventories	4,438,181	3,428,226
Deferred income taxes	150,819	106,725
Other	<u>267,588</u>	<u>88,113</u>
Total current assets	12,559,984	10,031,898
Net property and equipment	9,608,545	8,152,606
Other Assets		
Goodwill	560,005	560,005
Net investment in sales-type leases	138,247	186,215
Notes receivable -- related party	212,860	238,566
Other assets (Note 10)	<u>1,225,388</u>	<u>162,527</u>
	<u>2,136,500</u>	<u>1,147,313</u>
	<u>\$ 24,305,029</u>	<u>\$ 19,331,817</u>

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See accompanying notes to consolidated financial statements.

3.

## CONDENSED CONSOLIDATED BALANCE SHEETS

CONTINUED

LIABILITIES AND STOCKHOLDERS' EQUITY

	<u>September 30,</u> <u>2007</u> <u>(Unaudited)</u>	<u>December 31,</u> <u>2006</u>
Current liabilities		
Current maturities of long term debt	\$ 333,118	\$ 149,431
Current maturities of capital lease obligation	184,263	228,533
Accounts payable	4,240,514	4,545,057
Income tax payable	107,890	1,185,717
Other current liabilities	<u>564,880</u>	<u>399,062</u>
Total current liabilities	5,430,665	6,507,800
Long-term liabilities		
Long-term debt	6,980,716	2,790,460
Capital lease obligation	121,932	67,853
Deferred income taxes	<u>164,059</u>	<u>219,399</u>
	7,266,707	3,077,712
Commitments (Note 6)		
Stockholders' equity		
Common stock, \$.005 par value, 10,000,000 shares authorized, 4,295,000 shares issued in 2007 and 2006, 3,640,899 shares outstanding in 2007 and 2006	21,575	21,475
Additional paid-in capital	3,599,524	3,194,816
Retained earnings	8,868,438	7,234,990
Treasury stock, 654,101 shares at average cost in 2007 and 2006	<u>(881,880)</u>	<u>(704,976)</u>
	<u>11,607,657</u>	<u>9,746,305</u>
	<u>\$ 24,305,029</u>	<u>\$19,331,817</u>

See accompanying notes to consolidated financial statements.

4.

INDUSTRIAL SERVICES OF AMERICA, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

(UNAUDITED)

	<u>2007</u>	<u>2006</u>
Revenue from services	\$ 4,311,553	\$ 4,094,753
Revenue from product sales	<u>13,617,257</u>	<u>11,236,482</u>
Total revenue	17,928,810	15,331,235
Cost of goods sold for services	3,841,742	3,865,193
Cost of goods sold for product sales	11,980,863	9,760,509
Reduction of cost of goods sold	<u>(337,516)</u>	<u>(150,000)</u>
Total cost of goods sold	15,485,089	13,475,702
Selling, general and administrative expense	<u>1,791,116</u>	<u>1,344,366</u>
Income before other income (expense)	652,605	511,167
Other income (expense)		
Interest expense	(91,096)	(39,486)
Interest income	30,238	38,293
Gain/(loss) on sale of assets	9,782	(15,555)
Other income	<u>193</u>	<u>1,595</u>
	<u>(50,883)</u>	<u>(15,153)</u>
Income before income taxes	601,722	496,014
Income tax provision	<u>218,563</u>	<u>56,446</u>
Net income	<u>\$ 383,159</u>	<u>\$ 439,568</u>
Basic earnings per share	<u>\$ 0.11</u>	<u>\$ 0.12</u>
Diluted earnings per share	<u>\$ 0.11</u>	<u>\$ 0.12</u>
Weighted shares outstanding:		
Basic	<u>3,640,899</u>	<u>3,634,160</u>
Diluted	<u>3,640,899</u>	<u>3,639,461</u>

See accompanying notes to consolidated financial statements.

5.

INDUSTRIAL SERVICES OF AMERICA, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

(UNAUDITED)

	<u>2007</u>	<u>2006</u>
Revenue from services	\$ 11,804,056	\$ 11,808,646
Revenue from product sales	<u>43,557,599</u>	<u>35,709,243</u>
Total revenue	55,361,655	47,517,889
Cost of goods sold for services	10,769,624	11,036,806
Cost of goods sold for product sales	36,909,805	30,579,195
Reduction of cost of goods sold	<u>(480,060)</u>	<u>(450,000)</u>
Total cost of goods sold	47,199,369	41,166,001
Selling, general and administrative expense	<u>4,804,324</u>	<u>4,144,503</u>
Income before other income (expense)	3,357,962	2,207,385
Other income (expense)		
Interest expense	(204,948)	(136,455)
Interest income	92,002	102,869
Gain/(loss) on sale of assets	(1,606)	9,371
Other income	<u>22,551</u>	<u>11,649</u>
	<u>(92,001)</u>	<u>(12,566)</u>
Income before income taxes	3,265,961	2,194,819
Income tax provision	<u>1,268,423</u>	<u>735,968</u>
Net income	<u>\$ 1,997,538</u>	<u>\$ 1,458,851</u>
Basic earnings per share	<u>\$ 0.55</u>	<u>\$ 0.41</u>

Diluted earnings per share	<u>\$ 0.55</u>	<u>\$ 0.41</u>
Weighted shares outstanding:		
Basic	<u>3,640,899</u>	<u>3,590,057</u>
Diluted	<u>3,640,899</u>	<u>3,603,719</u>

See accompanying notes to consolidated financial statements.

6.

INDUSTRIAL SERVICES OF AMERICA, INC.  
AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
NINE MONTHS ENDED SEPTEMBER 30, 2007  
(UNAUDITED)

	<u>Common Stock</u>		<u>Additional</u>	<u>Retained</u>	<u>Treasury Stock</u>		<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u>	<u>Earnings</u>	<u>Shares</u>	<u>Cost</u>	
			<u>Capital</u>				
<b>Balance as of December 31, 2006</b>	4,295,000	\$21,475	\$3,194,816	\$7,234,990	(654,101)	\$ (704,976)	\$9,746,305
Cash dividend	-	-	-	(364,090)	-	-	(364,090)
Repurchase of common stock	-	-	-	-	(20,000)	(198,460)	(198,460)
Stock bonus	-	100	194,144	-	20,000	21,556	215,800
Tax benefits related to common stock options			210,564				210,564
Net income	-	-	-	1,997,548	-	-	1,997,538
<b>Balance as of September 30, 2007</b>	4,295,000	\$21,575	\$3,599,524	\$8,868,438	(654,101)	\$ (881,880)	\$11,607,657

See accompanying notes to consolidated financial statements.

7.

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INDUSTRIAL SERVICES OF AMERICA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

(UNAUDITED)

	<b><u>2007</u></b>	<b><u>2006</u></b>
Cash flows from operating activities		
Net income	\$ 1,997,538	\$ 1,458,851
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	1,431,764	1,302,973
Deferred income taxes	(99,434)	(267,278)
Tax benefits related to common stock options	210,564	-
(Gain)/loss on sale of property and equipment	1,606	(9,371)
Change in assets and liabilities		
Receivables	(1,865,162)	(1,475,752)
Net investment in sales-type leases	36,520	55,135
Inventories	(1,009,955)	(1,203,116)
Other assets	(176,826)	(84,640)
Accounts payable	(304,543)	(2,676,217)
Other liabilities	<u>(912,009)</u>	<u>155,076</u>
Net cash from operating activities	(689,937)	(2,744,339)
Cash flows from investing activities		
Proceeds from sale of property and equipment	57,300	35,600
Purchases of property and equipment	(1,716,680)	(1,115,275)
Deposit for shredder system	(1,065,510)	-
Payments from related party	<u>25,706</u>	<u>17,488</u>
Net cash from investing activities	(2,699,184)	(1,062,187)
Cash flows from financing activities		
Purchases of common stock	(198,460)	(16,338)
Issuance of common stock	215,800	111,653
Payments on capital lease obligation	(210,080)	(108,651)
Payment of cash dividend	(364,090)	-



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Proceeds from long-term debt	6,350,000	6,000,000
Payments on long-term debt	<u>(2,986,097)</u>	<u>(3,035,190)</u>
Net cash from financing activities	<u>2,807,073</u>	<u>2,951,474</u>
Net decrease in cash and cash equivalents	(582,048)	(855,052)
Cash at beginning of period	<u>1,331,807</u>	<u>1,721,301</u>
Cash and cash equivalents at end of period	<u>\$ 749,759</u>	<u>\$ 866,249</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 204,948	\$ 133,241
Cash paid for taxes	2,235,377	464,262
Supplemental disclosure of noncash investing and financing activities:		
Equipment purchased under capital leases	219,889	120,395
Equipment purchased through seller financing	1,010,040	-

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See accompanying notes to consolidated financial statements.

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INDUSTRIAL SERVICES OF AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

**NOTE 1 -- BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U. S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U. S. generally accepted accounting principles for complete consolidated financial statements. The information furnished includes all adjustments, which are, in the opinion of management, necessary to present fairly our financial position as of September 30, 2007 and the results of our operations and changes in our cash flows for the periods ended September 30, 2007 and 2006. Results of operations for the period ended September 30, 2007 are not

necessarily indicative of the results that may be expected for the entire year. Additional information, including the audited December 31, 2006 consolidated financial statements and the Summary of Significant Accounting Policies, is included our Annual Report on Form 10-K for the year ended December 31, 2006 on file with the Securities and Exchange Commission.

## **NOTE 2 -- ESTIMATES**

In preparing the condensed consolidated financial statements in accordance with U. S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X, management must make estimates and assumptions. These estimates and assumptions affect the amounts reported for assets, liabilities, revenues and expenses, as well as affecting the disclosures provided. Future results could differ from the current estimates.

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

On December 22, 2006, we executed a new revolving credit facility with Branch Banking and Trust Company 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 our eligible accounts receivable and up to forty percent (40%) of eligible inventory, and up to one hundred percent (100%) of the net book value of our 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 which was 7.57% as of September 30, 2007, and is secured by all our assets (except rental fleet equipment). The balance of the credit facility at September 30, 2007 was \$4,500,000. The revolving credit facility contains certain restrictive and financial covenants. At September 30, 2007, we were in compliance with all restrictive covenants and the entire amount of our credit facility less our outstanding borrowings was available for borrowings.

We also have a note payable to Fifth Third Bank secured by our rental fleet equipment with a fixed interest rate of 6.83% and monthly payments of \$23,047. The maturity date under this agreement is June 2011 with a ten-year amortization schedule. The balance on the note was \$1,817,902 at September 30, 2007 and \$1,929,016 at December 31, 2006.

## **NOTE 4 -- SEGMENT INFORMATION**

Our operations include three primary segments: ISA Recycling, Computerized Waste Systems (CWS), and Waste Equipment Sales & Service (WESSCO). ISA Recycling provides products and services to meet the needs of its customers related to ferrous, non-ferrous and fiber recycling at several locations in the Midwest. CWS provides waste

disposal services including contract negotiations with service providers, centralized billing, invoice auditing, and centralized dispatching. WESSCO sells, leases, and services waste handling and recycling equipment.



Our three reportable segments are determined by the products and services that each offers. The recycling segment generates its revenues based on buying and selling of ferrous, non-ferrous and fiber scrap; CWS's revenues consist of charges to customers for waste disposal services; and WESSCO sales and lease income comprise the primary source of revenue for this segment. The components of the column labeled "other" are selling, general and administrative expenses that are not directly related to the three primary segments.



We evaluate segment performance based on gross profit or loss and the evaluation process for each segment includes only direct expenses and selling, general and administrative costs, omitting any other income and expense and income taxes.

<b>FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007</b>	<b>ISA RECYCLING</b>	<b>COMPUTERIZED WASTE SYSTEMS</b>	<b>WASTE EQUIPMENT SALES &amp; SERVICES</b>	<b>OTHER</b>	<b>SEGMENT TOTALS</b>
Recycling revenues	\$ 42,015,848	\$ -	\$ -	\$ -	\$42,015,848
Equipment sales, service and leasing revenues	-	-	1,541,751	-	1,541,751
Management fees	-	11,804,056	-	-	11,804,056
Cost of goods sold	(36,280,146)	(10,289,564)	(629,659)	-	(47,199,369)
Selling, general and administrative expenses	<u>(1,393,658)</u>	<u>(981,102)</u>	<u>(520,397)</u>	<u>(1,909,167)</u>	<u>(4,804,324)</u>
Segment profit (loss)	<u>\$ 4,342,044</u>	<u>\$ 533,390</u>	<u>\$ 391,695</u>	<u>\$(1,909,167)</u>	<u>\$ 3,357,962</u>

<b>FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006</b>	<b>ISA RECYCLING</b>	<b>COMPUTERIZED WASTE SYSTEMS</b>	<b>WASTE EQUIPMENT SALES &amp; SERVICES</b>	<b>OTHER</b>	<b>SEGMENT TOTALS</b>
Recycling revenues	\$ 34,339,091	\$ -	\$ -	\$ -	\$ 34,339,091
Equipment sales, service and leasing revenues	-	-	1,370,152	-	1,370,152
Management fees	-	11,808,646	-	-	11,808,646
Cost of goods sold	(29,937,505)	(10,586,806)	(641,690)	-	(41,166,001)
Selling, general and administrative expenses	<u>(1,017,619)</u>	<u>(1,106,109)</u>	<u>(407,176)</u>	<u>(1,613,599)</u>	<u>(4,144,503)</u>
Segment profit (loss)	<u>\$ 3,383,967</u>	<u>\$ 115,731</u>	<u>\$ 321,286</u>	<u>\$(1,613,599)</u>	<u>\$ 2,207,385</u>
Segment assets	<u>\$ 12,107,905</u>	<u>\$ 2,009,541</u>	<u>\$ 2,216,955</u>	<u>\$ 3,354,641</u>	<u>\$19,689,042</u>

<b>FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2007</b>	<b>ISA RECYCLING</b>	<b>COMPUTERIZED WASTE SYSTEMS</b>	<b>WASTE EQUIPMENT SALES &amp; SERVICES</b>	<b>OTHER</b>	<b>SEGMENT TOTALS</b>
Recycling revenues	\$ 13,120,062	\$ -	\$ -	\$ -	\$ 13,120,062
Equipment sales, service and leasing revenues	-	-	497,195	-	497,195
Management fees	-	4,311,553	-	-	4,311,553
Cost of goods sold	(11,781,279)	(3,504,226)	(199,584)	-	(15,485,089)
Selling, general and administrative expenses	<u>(402,237)</u>	<u>(435,056)</u>	<u>(167,553)</u>	<u>(786,270)</u>	<u>(1,791,116)</u>
Segment profit (loss)	<u>\$ 936,546</u>	<u>\$ 372,271</u>	<u>\$ 130,058</u>	<u>\$(786,270)</u>	<u>\$ 652,605</u>



Segment assets	<u>\$ 15,713,728</u>	<u>\$ 3,293,727</u>	<u>\$2,224,422</u>	<u>\$ 3,073,152</u>	<u>\$24,305,029</u>
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	<b>FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2006</b>	<b>ISA RECYCLING</b>	<b>COMPUTERIZED WASTE SYSTEMS</b>	<b>WASTE EQUIPMENT SALES &amp; SERVICES</b>	<b>OTHER</b>	<b>SEGMENT TOTALS</b>
Recycling revenues	\$ 10,772,707		\$ -	\$ -	\$ -	\$10,772,707
Equipment sales, service and leasing revenues	-	-	-	463,775	-	463,775
Management fees	-	-	4,094,753	-	-	4,094,753
Cost of goods sold	(9,554,641)	(3,715,193)	(3,715,193)	(205,868)	-	(13,475,702)
Selling, general and administrative expenses	<u>(363,598)</u>	<u>(337,530)</u>	<u>(337,530)</u>	<u>(106,455)</u>	<u>(536,783)</u>	<u>(1,344,366)</u>
Segment profit (loss)	<u>\$ 854,468</u>	<u>\$ 42,030</u>	<u>\$ 151,452</u>	<u>\$ (536,783)</u>	<u>\$ 511,167</u>	
Segment assets	<u>\$ 12,107,905</u>	<u>\$ 2,009,541</u>	<u>\$ 2,216,955</u>	<u>\$ 3,354,641</u>	<u>\$19,689,042</u>	

**NOTE 5 -- INVENTORIES**

Our inventories primarily consist of ferrous and non-ferrous scrap metals and are valued at the lower of average purchased cost or market. Quantities of inventories are determined based on our inventory systems and are subject to periodic physical verification using estimation techniques including observation, weighing and other industry methods. We would recognize inventory impairment when the market value, based upon current market pricing, falls below recorded value or when the estimated volume is less than the recorded volume of the inventory. We would record the loss in cost of goods sold in the period during which we identified the loss.

Some commodities are in saleable condition at acquisition. We purchase these commodities in small amounts until we have a truckload of material available for shipment. Some commodities are not in saleable condition at acquisition. These commodities must be torched, sheared or baled. We do not have work-in-process inventory that needs to be manufactured to become finished goods. We include processing costs in inventory for all commodities. Ferrous inventory of \$1,820,449 at September 30, 2007 was comprised of \$950,008 in raw materials and \$870,441 of finished goods. Non-ferrous inventory of \$2,503,405 at September 30, 2007 was comprised of \$846,740 in raw materials and \$1,656,665 of finished goods. Ferrous inventory of \$1,667,937 at December 31, 2006 was comprised of \$382,445 in raw materials and \$1,285,492 of finished goods. Non-ferrous inventory of \$1,678,655 at December 31, 2006 was comprised of \$451,289 in raw materials and \$1,227,366 of finished goods. We charged \$2,008,203 in general and administrative processing costs to cost of sales for the nine months ended September 30, 2007 and \$2,353,435 for the year ended December 31, 2006.

Inventory also includes all types of industrial waste handling equipment and machinery held for resale such as compactors, balers, and containers. Other inventory includes cardboard and baling wire. Inventories as of September 30, 2007 and December 31, 2006 consist of the following:

	<b>September 30, <u>2007</u></b>	<b>December 31, <u>2006</u></b>
Ferrous materials	\$ 1,820,449	\$ 1,667,937
Non-ferrous materials	2,503,405	1,678,655
Waste equipment machinery	84,036	56,200
Other	<u>30,291</u>	<u>25,434</u>
 Total inventories	 <u>\$ 4,438,181</u>	 <u>\$ 3,428,226</u>

## NOTE 6 -- LEASE COMMITMENTS

### Operating Leases:

We lease our Louisville, Kentucky facility from a related party under an operating lease expiring December 2007. The rent was adjusted in January 2003 per the agreement to monthly payments of \$42,106 through December 2007. In addition, we are also responsible for real estate taxes, insurance, utilities and maintenance expense.

We lease a facility in Dallas, Texas for management services operations. The agreement provided that we make monthly payments of \$2,457 through September 2005. The lease was renewed effective October 1, 2005 for a period of two years with monthly payments of \$2,525, and renewed again October 1, 2007 for a period of one year with monthly payments of \$969. We also lease other machinery and equipment under operating leases which expire through July 2009.

We lease a facility in Lexington, Kentucky for \$4,500 per month; the lease terminates December 31, 2012. We have subleased this property for a term commencing March 1, 2007 and ending December 31, 2012 for \$4,500 per month. If for any reason the sublessee 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.

Future minimum lease payments for operating leases as of September 30, 2007 are as follows:

2007	\$ 308,500
2008	108,882
2009	54,000
2010	54,000
2011	<u>18,000</u>
Future minimum lease payments	<u>\$ 543,382</u>

Total rent expense for the nine months ended September 30, 2007 and 2006 was \$637,741 and \$585,237, respectively.

Capital Leases:

We lease various pieces of equipment which qualify as capital leases. These lease arrangements require monthly lease payments expiring at various dates through June 2010.

The following is a summary of assets held under capital leases which are included in property and equipment:

	2007	2006
Equipment	\$ 1,269,222	\$ 861,730
Less accumulated depreciation	<u>254,894</u>	<u>304,199</u>
	<u>\$ 1,014,328</u>	<u>\$ 557,531</u>

The following is a schedule of future annual minimum lease payments under the capitalized lease arrangements, together with the present value of net minimum lease payments at September 30, 2007.

2007	\$ 184,263
2008	73,296
2009	70,822
2010	<u>31,700</u>
Total future minimum lease payments	360,081
Less amount representing interest	<u>(53,887)</u>
Present value of net minimum lease payments	306,195
Less current portion	<u>(184,263)</u>
Capital Lease Obligations	<u>\$ 121,932</u>

**NOTE 7 -- CASH DIVIDEND**

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.

**NOTE 8 -- PER SHARE DATA**

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

Nine months ended September 30, 2007 compared to nine months ended September 30, 2006:

	<u>2007</u>	<u>2006</u>
Basic earnings per share		
Net income	\$ 1,997,538	\$ 1,458,851
Weighted average shares outstanding	<u>3,640,899</u>	<u>3,590,057</u>
Basic earnings per share	\$ <u>.55</u>	\$ <u>.41</u>
Diluted earnings per share		
Net income	<u>\$ 1,997,538</u>	<u>\$ 1,458,851</u>
Weighted average shares outstanding	3,640,899	3,590,057
Add dilutive effect of assumed exercising of stock options	<u>-</u>	<u>13,662</u>
Diluted weighted average shares outstanding	<u>3,640,899</u>	3,603,719
Diluted earnings per share	<u>\$ .55</u>	<u>\$ .41</u>

Three months ended September 30, 2007 compared to three months ended September 30, 2006:

	<u>2007</u>	<u>2006</u>
Basic earnings per share		
Net income	\$ 383,159	\$ 439,568
Weighted average shares outstanding	<u>3,640,899</u>	<u>3,634,160</u>
Basic earnings per share	\$ <u>.11</u>	\$ <u>.12</u>
Diluted earnings per share		
Net income	<u>\$ 383,159</u>	<u>\$ 439,568</u>
Weighted average shares outstanding	3,640,899	3,634,160
Add dilutive effect of assumed exercising of stock options	<u>-</u>	<u>5,301</u>
Diluted weighted average shares outstanding	<u>3,640,899</u>	<u>3,639,461</u>
Diluted earnings per share	<u>\$ .11</u>	<u>\$ .12</u>

**NOTE 9 -- SIGNIFICANT EVENTS**

On August 2, 2007, we named Brian G. Donaghy, age 31, ISA President and Chief Operating Officer for an initial term commencing on August 2, 2007 and ending on the termination date of December 31, 2011. Mr. Donaghy had served as our acting COO from January 1, 2007 until August 2, 2007. From 2001 to present, Mr. Donaghy owned and operated Industrial Logistic Services, LLC, a scrap metal and waste transportation company that leases property from ISA. From May 2004 to December 2006, Mr. Donaghy assisted ISA as a consultant in its ferrous and non ferrous operations.

In connection with his selection as President and Chief Operating Officer, ISA entered into an executive employment agreement with him. The executive employment agreement stipulates that Mr. Donaghy will receive a base salary of \$3,000 per week plus benefits. Mr. Donaghy will be entitled to participate in all medical and hospitalization, group life insurance, retirement, and any and all other welfare and fringe benefits. We will provide Mr. Donaghy with a term life insurance policy with a death benefit not to exceed \$50,000. We will also provide Mr. Donaghy with a monthly car payment allowance the amount of which will not exceed \$1,000 per month, which will be used by Mr. Donaghy to acquire an automobile selected by him with our concurrence.

Additionally, during the initial term of the agreement, Mr. Donaghy will be entitled to receive 20,000 shares of ISA's common stock per year, provided that certain conditions have been met, including that Mr. Donaghy has completed a full year of employment and that our EBITDA exceeds \$4.5 million for the previous fiscal year. In no event will Mr. Donaghy receive more than 100,000 shares of ISA's common stock under this agreement.

On August 2, 2007, we entered into an asset purchase agreement funded by a note payable to ILS whereby we pay \$20,000 per month for 60 months for various assets including tractor trailers, trucks and containers. The note payable reflects seven percent (7%) interest payment on the outstanding balance plus principal amortization. We also paid ILS \$100,000 cash as a signing bonus at the time of execution of the asset purchase agreement. We recorded a related party note payable of \$1,010,040 with an outstanding balance at September 30, 2007 of \$820,076, which is included in long-term debt caption on the consolidated balance sheet.

**NOTE 10 -- SHREDDER SYSTEM COMMITMENT**

The Board of Directors, at its June 21, 2007 meeting, announced authorization to proceed with the purchase of a shredder system and complimentary facility improvements totaling five million dollars. On July 30, 2007, the Company entered into a contract with The Shredder Company located in Canutillo, Texas to purchase a shredder system for \$3,551,700. To date, we have made deposit payments totaling \$1,065,510 classified as other assets. We are financing the purchase of the shredder system with our \$10.0 million senior revolving credit facility. This project is scheduled to be completed in 2008.

**NOTE 11 -- CHANGE IN ESTIMATE**

As disclosed in our annual report for the year ended December 31, 2006, management changed an estimate in 2006 relating to the cost of goods sold associated with the Computerized Waste Systems (CWS) segment. As a result of this change in estimate, we recorded a reduction in the cost of goods sold of \$337,516 for the third quarter ending September 30, 2007 and \$480,060 for nine months ending September 30, 2007. In the third quarter of 2007, as a result of the reduction of \$337,516, income before other income (expense) increased \$337,516, net income increased by \$214,930, and earnings per share increased \$.059 per share. For the first nine months of 2007, as a result of the reduction of \$480,060, income before other income (expense) increased \$480,060, net income increased by \$293,616, and earnings per share increased \$.081 per share.

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

*The following discussion and analysis should be read in conjunction with our 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. Factors that could affect financial predictions, forecasts and projections include the fluctuations in the commodity price index and any conditions internal to our major customers, including loss of their accounts and other factors as listed in our Form 10-K for the year ended December 31, 2006, as filed with the Securities and Exchange Commission.*

**General**

We are primarily 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 2,293 customer locations throughout the United States and we utilize an active database of over 6,300 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, Seymour, Indiana, New Albany, Indiana and Dallas, Texas and property in Pineville, Louisiana. We do not have operating locations outside the United States.

### **Liquidity and Capital Resources**

As of September 30, 2007 we held cash and cash equivalents of \$749,759.

We currently maintain a \$10.0 million senior revolving credit facility with the Branch Banking and Trust Company. This revolving credit facility has a three year term, provides for advances of up to eighty percent (80%) of our eligible accounts receivable and up to forty percent (40%) of eligible inventory, and up to one hundred percent (100%) of our net book value of eligible equipment less 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, 7.57% as of September 30, 2007, and is secured by all our assets (except rental fleet equipment). As of September 30, 2007 we had borrowed \$4,500,000 and as of December 31, 2006 we had borrowed \$1,010,875 against this credit line. The revolving credit facility contains certain restrictive and financial covenants. At September 30, 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 September 2011 with a ten-year amortization schedule. As of September 30, 2007 we had borrowed \$1,817,902 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 September 30, 2007, we were in compliance with all restrictive covenants.

During the first three quarters of 2007, we paid \$1,716,680 cash and \$1,229,929 funded via a combination of capital leases and seller provided note payable for land, improvements, property and equipment. We paid \$264,846 for



property in New Albany, Indiana, located across the Ohio River from Louisville, Kentucky, the site of our headquarters. We paid \$501,348 for property improvements to our Louisville location. In the recycling segment we paid \$1,014,336 for cranes, shear rebuild, scales, trailers, and other operating equipment. In the equipment sales, leasing and service segment, we purchased \$394,861 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.

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 or by attracting new capital. The project is scheduled for completion in 2008.

We have a purchasing card with a credit limit of \$6.0 million. We included the balance due on the purchasing card as part of accounts payable. The outstanding balance on the purchasing card at September 30, 2007 was \$636,612 with a due date of October 27, 2007. 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 will be sufficient to meet our cash needs during the remainder of 2007.

## **Results of Operations**

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

	<b><u>Nine months ended September 30,</u></b>	
	<b><u>2007</u></b>	<b><u>2006</u></b>
Statements of Operations Data:		
Total Revenue .....	100.0%	100.0%
Cost of goods sold.....	85.2%	86.6%
Selling, general and administrative expenses .....	8.7%	8.7%
Income before other expenses.....	6.1%	4.7%

Nine months ended September 30, 2007 compared to nine months ended September 30, 2006

Total revenue increased \$7,843,766 or 16.5% to \$55,361,655 in 2007 compared to \$47,517,889. in 2006. Recycling revenue increased \$7,676,757 or 22.4% to \$42,015,848 in 2007 compared to \$34,339,091 in 2006. This is primarily due to a 14% increase in price of commodities in the recycling market. Management services revenue decreased \$4,590 or 0.1% to \$11,804,056 in 2007 compared to \$11,808,646 in 2006 due to new customers. Equipment sales, service and leasing revenue increased \$171,599 or 12.5% to \$1,541,751 in 2007 compared to \$1,370,162 in 2006. This increase is due to an increase in rental revenue.

Total cost of goods sold increased \$6,033,368 or 14.7% to \$47,199,369 in 2007 compared to \$41,166,001 in 2006. Recycling cost of goods sold increased \$6,342,641 or 21.2% to \$36,280,146 in 2007 compared to \$29,937,505 in 2006. This is primarily due to 25% higher commodity purchase prices in the recycling market. Management services cost of goods sold decreased \$297,242 or 2.8% to \$10,289,564 in 2007 compared to \$10,586,806 in 2006 due to new customers. Additionally, we reduced cost of goods sold by \$480,060 in 2007 and by \$450,000 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. Equipment sales, service and leasing cost of goods sold decreased \$12,031 or 1.9% to \$629,659 in 2007 compared to \$641,690 in 2006.

Selling, general and administrative expenses increased \$659,821 or 16.0% to \$4,804,324 in 2007 compared to \$4,144,503 in 2006. As a percentage of revenue, selling, general and administrative expenses were 8.7% in 2007 compared to 8.7% in 2006. The primary driver of the increase in total expenses is property repairs and maintenance, which increased \$215,308 due to repairs to the premises.

Other expense increased \$79,435 to other expense of \$92,001 in 2007 compared to other expense of \$12,566 in 2006. This was primarily due to an increase in loss on disposal of assets of \$10,977 and an increase in interest expense of \$68,493.

Income tax provision increased \$532,455 to \$1,268,423 in 2007 compared to \$735,968 in 2006. The effective tax rate in 2007 was 39% compared to 34% in 2006 based on federal and state statutory rates. This increase in the overall effective tax rate for 2007 was due to the 2006 recognition of a tax benefit of \$270,000 for the exercise of stock options by a consultant.

Three months ended September 30, 2007 compared to three months ended September 30, 2006

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Total revenue increased \$2,597,575 or 17.0% to \$17,928,810 in 2007 compared to \$15,331,235 in 2006. Recycling revenue increased \$2,347,355 or 21.8% to \$13,120,062 in 2007 compared to \$10,772,707 in 2006. This is primarily due to a 28% increase in price of commodities in the recycling market. Management services revenue increased \$216,800 or 5.3% to \$4,311,553 in 2007 compared to \$4,094,753 in 2006 due to new customers. Equipment sales, service and leasing revenue increased \$33,420 or 7.2% to \$497,195 in 2007 compared to \$463,775 in 2006. This increase is due to an increase in rental revenue.

Total cost of goods sold increased \$2,009,3875 or 15.0% to \$15,485,089 in 2007 compared to \$13,475,702 in 2006. Recycling cost of goods sold increased \$2,226,638 or 23.3% to \$11,781,279 in 2007 compared to \$9,554,641 in 2006. This is due to 53% higher commodity purchase prices in the recycling market. Management services cost of goods sold decreased \$210,967 or 5.7% to \$3,504,226 in 2007 compared to \$3,715,193 in 2006 due to new customers. Additionally, we reduced cost of goods sold by \$337,516 in 2007 and by \$150,000 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. Equipment sales, service and leasing cost of goods sold decreased \$6,284 or 3.1% to \$199,584 in 2007 compared to \$205,868 in 2006.

Selling, general and administrative expenses increased \$446,750 or 33.3% to \$1,791,116 in 2007 compared to \$1,344,366 in 2006. As a percentage of revenue, selling, general and administrative expenses were 10.0% in 2007 compared to 8.8% in 2006. The primary driver of the increase in total expenses is the \$215,800 stock bonus paid to Brian Donaghy, our new president and chief operating officer, \$56,200 increase in fuel and lubricants, \$38,000 increase in truck driver labor, and \$33,200 increase in equipment repair and maintenance.

Other expense increased \$35,730 to \$50,883 in 2007 compared to \$15,153 in 2006 primarily due to a \$51,610 increase in interest expense.

Income tax provision increased \$162,117 to \$218,563 in 2007 compared to a provision of \$56,446 in 2006. The effective tax rate for the third quarter of 2007 was 36% compared to 11% in the third quarter of 2006 based on federal and state statutory rates. This increase in the effective tax rate for 2007 was due to the 2006 recognition of a tax benefit of \$270,000 for the exercise of stock options by a consultant.

Financial condition at September 30, 2007 compared to December 31, 2006

Cash and cash equivalents decreased \$582,048 to \$749,759 as of September 30, 2007 compared to \$1,331,807 as of December 31, 2006.

We used net cash from operating activities of \$689,937 for the nine months ended September 30, 2007. Primarily this was due to increases in accounts receivable and inventory of \$1,865,162 and \$1,009,955, respectively, offset by net income of \$1,997,538.

We used net cash from investing activities of \$2,699,184 for the nine months ended September 30, 2007. We purchased recycling and rental fleet equipment of \$1,716,680. The rental fleet equipment consists of solid waste handling and recycling equipment such as compactors, containers and balers. It is our intention to continue to pursue this market. We also made a deposit of \$1.1 million for the purchase of a shredder system.

Our net cash from financing activities of \$2,807,073 for the nine months ended September 30, 2007 is primarily due to the advance of \$6,350,000 on our line of credit offset by payments on debt of \$2,986,097 and payment of a cash dividend of \$364,090.

Accounts receivable trade increased \$1,865,162 or 37.1% to \$6,891,603 as of September 30, 2007 compared to \$5,026,441 as of December 31, 2006. This change is primarily due to an increase in selling prices in the Recycling segment.

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 \$1,009,955 or 29.5% to \$4,438,181 as of September 30, 2007 compared to \$3,428,226 as of December 31, 2006.

Inventory aging for the period ended September 30, 2007 (Days Outstanding):

Description	1-30	31-60	61-90	Over 90	Total
Waste equipment machinery	\$ -	\$ -	\$ -	\$ 84,036	\$ 84,036
Ferrous materials	1,027,292	425,627	367,530	-	1,820,449
Non-ferrous materials	2,224,599	102,281	62,967	113,558	2,503,405
Other	8,787	-	-	21,504	30,291
	\$3,260,678	\$ 527,908	\$ 430,497	\$219,098	\$4,438,181

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

Description	1-30	31-60	61-90	Over 90	Total
Waste equipment machinery	\$ 33,720	\$ 22,480	\$ -	\$ -	\$ 56,200
Ferrous Materials	864,489	448,842	166,509	188,097	1,667,937

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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 decreased \$304,543 or 6.7% to \$4,240,514 as of September 30, 2007 compared to \$4,545,057 as of December 31, 2006, primarily due to market conditions.

Working capital increased \$3,605,221 to \$7,129,319 as of September 30, 2007 compared to \$3,524,098 as of December 31, 2006. The increase was primarily driven by the \$1.9 million increase in accounts receivable and the \$1.0 million increase in inventory.

Contractual Obligations

The following table provides information with respect to our known contractual obligations for the quarter ended September 30, 2007.

Obligation Description	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-Term Debt Obligations (1)	\$7,313,834	\$333,118	\$5,239,324	\$1,741,392	\$0
Capital Lease Obligations (2)	306,195	184,263	121,932	0	0
Operating Lease Obligations (3)	543,382	308,500	162,882	72,000	0
Total	\$8,163,411	\$ 825,881	\$5,524,138	\$1,813,392	\$0

(1) We currently maintain a \$10.0 million senior revolving credit facility with the Branch Banking and Trust Company. Indebtedness under this credit facility accrues 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 7.57% as of September 30, 2007. The maturity date under this agreement is December 2009. We have collateralized the credit facility with all our assets except our rental fleet. In August 2007 we entered into an asset purchase agreement with ILS whereby we pay \$20,000 per month for 60 months reflecting a seven (7%) interest payment on the outstanding balance plus principal amortization. The assets sold by ILS to us include tractor trailers, trucks and containers. The principal owner of ILS was our newly elected president and chief operating officer, Mr. Brian Donaghy.

We also have a \$2.0 million loan agreement with Fifth Third Bank. Indebtedness under this loan agreement accrues interest at a fixed interest rate of 6.83%. The maturity date is September 2011 with a ten-year amortization schedule and is collateralized by our rental fleet equipment.

(2) We lease various pieces of equipment that qualify for capital lease treatment. These lease arrangements require monthly lease payments expiring at various dates through April 2010.

(3) We lease the Louisville, Kentucky facility from K&R, LLC, the sole member of which is Harry Kletter, our chief executive officer, under an operating lease expiring December 2007. We have monthly rental payments of \$42,106 through December 2007. In the event of a change of control, the monthly payments become \$62,500. We also lease a management services operations facility and various pieces of equipment in Dallas, Texas for which monthly payments of \$969 are due through September 2008, at which time we may renew the lease for another year. We also lease security equipment for which monthly payments of \$464 are due through July 2009. We lease property in Lexington, Kentucky for which monthly payments of \$2,250 are due through January 2012, and we lease property in Louisiana for which monthly payments of \$5,250 are due through February 2009.

### **Impact of Recently Issued Accounting Standards**

Effective December 31, 2006, 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 required no change to 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.

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.

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### ITEM 3: 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 September 30, 2007, variable rate borrowings consisted of outstanding borrowings of \$3.0 million 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 7.57% as of September 30, 2007. Any increase in this rate would lead to higher interest expense. 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 \$45,000 per year, with a corresponding change in cash flows.

We may also be exposed to interest rate risk on our fixed rate borrowing with Fifth Third Bank. The maturity date under this agreement is June 2011 with a ten-year amortization schedule. The interest rate could change in July 2011.

### ITEM 4: CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

Based on the evaluation of the ISA Chief Executive Officer and the ISA Chief Financial Officer of our disclosure controls and procedures as of September 30, 2007, it has been concluded that the disclosure controls and procedures are effective for the purposes contemplated by Rules 13a-15(e) and 15d - 15(e) promulgated by the Securities and Exchange Commission.

(b) Changes in internal controls over financial reporting.

There have been no significant changes to ISA's internal controls or in other factors that have materially affected, or are reasonably likely to materially affect, these controls over financial reporting subsequent to September 30, 2007.

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PART II -- OTHER INFORMATION

Item 1. Legal Proceedings

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 and we currently believe that the claims have no merit.

Item 1A. Risk Factors

We have had no material changes from the risk factors reported in our Form 10-K for the year ended December 31, 2006, as filed with the Securities and Exchange Commission on March 27, 2007.



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

None.

Item 3. Defaults upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits

See exhibit index.

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SIGNATURES

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

INDUSTRIAL SERVICES OF AMERICA, INC.

Date: November 14, 2007

/s/ Harry Kletter  
Chairman and Chief Executive Officer  
(Principal Executive and Financial  
Officer)

Date: November 14, 2007

/s/ Alan L. Schroering  
Chief Financial Officer

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**INDEX TO EXHIBITS**

**Exhibit  
Number**

**Description of Exhibits**

- |      |   |
|------|---|
| 31.1 | Rule 13a-14(a) Certification of Harry Kletter for the Form 10-Q for the quarter ended September 30, 2007.                   |
| 31.2 | Rule 13a-14(a) Certification of Alan Schroering for the Form 10-Q for the quarter ended September 30, 2007.                 |
| 32.1 | Section 1350 Certification of Harry Kletter and Alan Schroering for the Form 10-Q for the quarter ended September 30, 2007. |
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