

INDUSTRIAL SERVICES OF AMERICA INC
Form 10-K
March 13, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2018

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)

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Florida
(State or other jurisdiction of incorporation or organization)

59-0712746
(IRS Employer Identification No.)

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

40213
(Zip Code)

Registrant's telephone number, including area code (502) 366-3452

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

Common Stock, \$0.0033 par value NASDAQ Capital Market

(Title of class) (Name of exchange on which registered)

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

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

(Check one):

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates based on the closing price per share of \$2.07 for shares of the registrant's common stock as reported by the Nasdaq Capital Market as of the last business day of the registrant's most recently completed second fiscal quarter was \$10,764,635. Solely for the purposes of this calculation, shares held by directors, executive officers and 10% owners of the registrant have been excluded. Such exclusion should not be deemed a determination or an admission by the registrant that such individuals are, in fact, affiliates of the registrant.

Number of shares of Common Stock, \$0.0033 par value, outstanding as of the close of business on March 8, 2019:
8,107,865.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the 2019 Annual Meeting of Shareholders are incorporated by reference into Item 10. through Item 14. of Part III of this report.

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PART I

Item 1. Business

General

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

On March 26, 2018, the Board appointed Todd L. Phillips as Chief Executive Officer. See Note 9 - Share-based Compensation and Other Compensation Agreements in the accompanying Notes to Consolidated Financial Statements for additional information. Mr. Phillips has been the Company's Chief Financial Officer since December 31, 2014 and President since September 30, 2016 and will continue to serve in these roles.

Available Information

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

The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

ISA Recycling Operating Division

We have one segment, our Recycling Segment. Our Recycling Segment buys, processes and markets ferrous and non-ferrous metals and other recyclable commodities and buys used automobiles in order to sell used automobile parts. The Company purchases, processes and sells ferrous and non-ferrous scrap metal to steel mini-mills, integrated steel makers, foundries, refineries and processors. The Company purchases ferrous and non-ferrous scrap metal primarily from industrial and commercial generators of steel, aluminum, copper, brass, stainless steel and other metals, as well as from scrap dealers and retail customers who deliver these materials directly to our facilities. The Company processes ferrous scrap metal through sorting, cutting, baling, and shredding operations. The shredding operations were idled in May 2015 and restarted in May 2017. The non-ferrous scrap recycling operations consist primarily of collecting, sorting and processing various grades of copper, aluminum, stainless steel and brass.

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

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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. Market demand and the composition, quality, size and weight of the materials are the primary factors that determine prices paid to these material providers.

Ferrous Scrap Processing - We prepare ferrous scrap material for resale through a variety of methods including sorting, cutting, baling and shredding operations. The shredding operations were idled in May 2015 and restarted in May 2017. We produce a number of differently sized, shaped and graded products depending upon customer specifications and market demand.

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

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

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

Shredding and related metal recovery - The shredding operations were idled in May 2015 and restarted in May 2017. We shred large pieces of scrap material, such as automobiles and major appliances, in our shredder by hammer mill action into pieces of a workable size that pass through magnetic separators to separate ferrous metal from non-ferrous metals, synthetic foam, fabric, rubber, stone, dirt, etc. The ferrous metal we recover from the shredding process is sold directly to customers or reused in some other metal blend. The residue by-product is usually referred to as "automobile shredder residue" ("ASR") or "shredder fluff." We further separate the ASR into non-ferrous metals and non-metal waste. The non-ferrous metals are sold directly to customers or reused in some other metal blend. We dispose of the non-metal waste, which can reduce the volume of the scrap as much as 25.0%, in a landfill. Revenues from the ferrous and non-ferrous metals related to this shredding and related metal recovery processes are recognized in revenue from ferrous operations in the Consolidated Financial Statements.

Ferrous Scrap Sales - We sell processed ferrous scrap material to end-users such as steel mini-mills, integrated steel makers and foundries, and brokers who aggregate materials for other large users. Most customers purchase processed

ferrous scrap material through negotiated spot sales contracts, which establish the quantity purchased for the month and the pricing. The price we charge for ferrous scrap materials depends upon market supply and demand, as well as quality and grade of the scrap material. We deliver scrap ourselves or use third party carriers via truck, and/or rail car. Some customers choose to send their own delivery trucks. These trucks are weighed and loaded at one of our sites based on the sales order.

Auto Parts Operations

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

Non-Ferrous Operations

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

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

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

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

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

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

Company Background

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

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

In 1985, we began offering solid waste management consultations.

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

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

In 2013, we discontinued the stainless steel blending and high-temperature alloys recycling business.

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

In May 2017, we restarted our shredding operations.

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

Competition

The metal recycling business is highly competitive and is subject to significant changes in economic and market conditions. Pricing and proximity to a metal source are the major competitive factors in the metal recycling business. We compete for the purchase and sale of scrap metal with large, well-financed recyclers of scrap metal as well as smaller metal facilities and brokers/dealers.

Dependence on Major Customer

We had sales to one major customer that totaled approximately 21.2% and 16.3% of our net sales for the years ended December 31, 2018 and 2017, respectively.

Employees

As of February 28, 2019, we had 83 full-time employees. None of our employees are members of a union.

Effect of State and Federal Environmental Regulations

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

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

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Item 1A. Risk Factors

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

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

Risks Related to Our Operations

We operate in industries that are cyclical and sensitive to general economic conditions, which could have a material adverse effect on our operating results, financial condition and cash flows.

Demand for most of our products is cyclical in nature and sensitive to general economic conditions. The timing and magnitude of the cycles in the industries in which our products are used, including global metal production, are difficult to predict. The cyclical nature of our operations tends to reflect and be amplified by changes in economic conditions, both domestically and internationally, and foreign currency exchange fluctuations. The impact of recent political events, such as tariffs on metal imports, on global economic conditions is currently uncertain. Economic downturns or a prolonged period of slow growth in the industries in which we operate could have a material adverse effect on our results of operations, financial condition and cash flows.

Our business has a major involvement in ferrous and non-ferrous metals. This market is extremely competitive and increased competition could result in a reduction of our revenue and consequent decrease in our common stock price.

The metal recycling business is highly competitive. Pricing and proximity to a metal source are the major competitive factors in the metal recycling business. 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. Certain of our competitors have greater financial, technical, manufacturing, marketing, distribution, and other resources and assets than we possess. In addition, the industry is constantly changing as a result of consolidation, which may create additional competitive pressures in our business environment. There can be no assurance that we will be able to maintain our current market share or obtain our desired market share based on the competitive nature of this industry.

Changes in the availability or price of raw materials and end-of-life vehicles could reduce our sales.

We rely on suppliers for most of our raw material needs. Industry supply conditions generally involve risks, including the possibility of shortages of raw materials, increases in raw material costs and reduced control over delivery schedules. We procure our scrap inventory from numerous sources. These suppliers generally are not bound by long-term contracts and have no obligation to sell scrap metal to us. In periods of declining or lower scrap metal prices, such as the declining price environment we experienced in fiscal 2015 and the first half of fiscal 2016, suppliers may elect to hold scrap metal to wait for higher prices or intentionally slow their metal collection activities, tightening supply. If a substantial number of suppliers cease selling scrap metal to us, we will be unable to recycle metal at desired levels, and our results of operations and financial condition could be materially adversely affected. A slowdown of industrial production in the U.S. may also reduce the supply of industrial grades of metal to the metals recycling industry, resulting in less recyclable metal available to process and market. Increased competition for domestic scrap metal, including as a result of overcapacity in the scrap recycling industry in the U.S. and Canada, may also reduce the supply of scrap metal available to us. Failure to obtain a steady supply of scrap material could both adversely impact our ability to meet sales commitments and reduce our operating margins. Failure to obtain an adequate supply of end-of-life vehicles could adversely impact our ability to attract customers and reduce our parts sales.

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Significant decreases in scrap metal prices may adversely impact our operating results.

The timing and magnitude of the cycles in the industries in which we operate are difficult to predict and are influenced by different economic conditions. Purchase prices for scrap metal including end-of-life vehicles and selling prices for recycled scrap metal are subject to market forces beyond our control. While we attempt to respond to changing recycled scrap metal selling prices through adjustments to our metal purchase prices, our ability to do so is limited by competitive and other market factors. As a result, we may not be able to reduce our metal purchase prices to fully offset a sharp reduction in recycled scrap metal sales prices, which may adversely impact our operating income and cash flows. In fiscal 2015 and the first half of fiscal 2016, lower demand for recycled scrap metal relative to demand and competition for supply of unprocessed scrap metal in the domestic market compressed operating margins due to selling prices decreasing at a faster rate than purchase prices for unprocessed scrap metal. During the second half of 2018, ferrous market prices and volumes were challenged by uncertainty created by tariffs and threatened trade wars. Non-ferrous market prices and volumes were similarly impacted by tariffs and threatened trade wars, as well as certain restrictions placed by China on imported metals. In addition, a rapid decrease in selling prices may compress our operating margins due to the impact of average inventory cost accounting, which causes cost of goods sold recognized in the Consolidated Statements of Operations to decrease at a slower rate than metal purchase prices and net selling prices.

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

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

Potential limitations on our ability to access capital resources may restrict our ability to operate.

Our operations are capital intensive. Our business also requires substantial expenditures for routine maintenance. While we expect that our cash requirements, including the funding of capital expenditures and debt service, will be financed by internally generated funds or from borrowings under our line of credit, there can be no assurance that this will be the case. Additional capital expenditures could require financing from external sources. Although we believe we have adequate access to contractually committed borrowings, we could be adversely affected if our lender was unable to honor the contractual commitments or ceased lending. Failure to access our line of credit could restrict our ability to fund operations or make capital expenditures.

The agreement governing our line of credit facility imposes certain restrictions on our business and contains financial covenants.

Our line of credit facility contains certain restrictions on our business which limit (subject to certain exceptions) our ability to, among other things, dispose of collateral, incur certain liens, make investments, incur or guaranty additional indebtedness, enter into consolidations, mergers, sales or asset acquisitions, make distributions and other restricted payments, materially change the nature of our business, and engage in transactions with affiliates. These restrictions may affect our ability to operate our business or execute our strategy and may limit our ability to take advantage of potential business opportunities as they arise.

Our line of credit agreement also requires that we maintain certain financial and other covenants. Our ability to comply with these covenants may be affected by events beyond our control, including prevailing economic, financial and industry conditions. Our failure to comply with any of these restrictions or financial covenants could result in an event of default under the lender credit agreement, and permit our lender to cease lending to us and declare all amounts borrowed to be due and payable, together with accrued and unpaid interest. This could require us to refinance our line of credit, which we may not be able to do at terms acceptable to us, or at all.

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

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

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

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

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

Compliance with environmental laws and regulations is a significant factor in our business. We are subject to local, state and federal environmental laws and regulations relating to, among other matters:

- Waste disposal;
- Air emissions;
- Waste water and storm water management and treatment;
- Soil and groundwater contamination remediation; and
- Employee health and safety.

Failure to maintain or achieve compliance with these laws and regulations or with the permits required for our operations could result in substantial operating costs and capital expenditures, in addition to fines and civil or criminal sanctions, third party claims for property damage or personal injury, cleanup costs or temporary or permanent discontinuance of operations. Certain of our facilities have been in operation for many years and, over time, we and other predecessor operators of these facilities have generated, used, handled and disposed of hazardous and other regulated wastes. Material environmental liabilities could exist, including cleanup obligations at these facilities or at off-site locations where we disposed of materials from our operations, which could result in future expenditures that

we cannot currently estimate and which could reduce any profits.

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

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

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

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

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 recyclable materials.

A disruption in our information technology systems, including a disruption related to cybersecurity, could adversely affect our financial performance.

Cyber-attacks are increasing in their frequency, sophistication and intensity. Cyber-attacks could include the deployment of harmful malware, denial-of-service, social engineering and other means to affect service reliability and threaten data confidentiality, integrity and availability. We rely on the accuracy, capacity and security of our information technology systems. Despite the security measures that we have implemented, including those measures related to cybersecurity, our systems could be breached or damaged by computer viruses, natural or man-made incidents or disasters or unauthorized physical or electronic access. A breach could result in business disruption, theft of our intellectual property, trade secrets or customer and supplier information and unauthorized access to personnel information. To the extent that our business is interrupted or data is lost, destroyed or inappropriately used or disclosed, such disruptions could materially and adversely affect our competitive position, relationships with our customers and suppliers, financial condition, operating results and cash flows. In addition, we may be required to incur significant costs to protect against the damage caused by these disruptions or security breaches in the future.

Risks Related to Our Common Stock

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

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

The market price for our common stock may be volatile.

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

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

• Changes in general conditions in the economy, the financial markets or the ferrous and non-ferrous recycling industry;

• Loss of significant customers; and

• Increases in materials and other costs.

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

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None.

Item 2. Properties

The following table outlines our principal properties as of December 31, 2018:

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

(1) See Note 8 - Related Party Transactions in the accompanying Notes to Consolidated Financial Statements for additional information related to the 6709 Grade Lane lease.

(2) See Note 8 - Related Party Transactions in the accompanying Notes to Consolidated Financial Statements for additional information related to the K&R lease.

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

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

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Item 3. Legal Proceedings

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

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

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

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

ISA common stock is traded on the NASDAQ Capital Market under the symbol "IDSA."

There were approximately 127 shareholders of record as of December 31, 2018.

Our Board of Directors did not declare any dividends in 2018 or 2017.

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

On November 15, 2005, our Board of Directors authorized a program to repurchase up to 300.0 thousand shares of our common stock at current market prices. We did not repurchase any shares in 2018 or 2017. There are approximately 133.3 thousand shares still available for repurchase under this program.

Table of ContentsItem 6. Selected Financial Data

Year ended December 31:	(Amounts in thousands, except per share data)				
	2018	2017	2016	2015	2014
Total revenue	\$ 61,023	\$ 54,935	\$ 36,505	\$ 46,180	\$ 110,091
Net loss from continuing operations	\$ (349)	\$ (1,131)	\$ (3,230)	\$ (9,085)	\$ (8,686)
Net income from discontinued operations	\$ —	\$ —	\$ —	\$ 7,320	\$ 1,413
Earnings (loss) per common share from continuing operations:					
Basic	\$ (0.04)	\$ (0.14)	\$ (0.40)	\$ (1.14)	\$ (1.15)
Diluted	\$ (0.04)	\$ (0.14)	\$ (0.40)	\$ (1.14)	\$ (1.15)
Earnings (loss) per common share from discontinued operations:					
Basic	\$ —	\$ —	\$ —	\$ 0.92	\$ 0.19
Diluted	\$ —	\$ —	\$ —	\$ 0.92	\$ 0.19
At year end:					
Total assets	\$ 22,480	\$ 21,726	\$ 20,856	\$ 19,434	\$ 37,790
Current maturities of long-term debt	\$ 3,909	\$ 4,877	\$ 2,942	\$ 20	\$ 15,911
Current maturities of long-term debt, related parties	\$ 32	\$ 64	\$ —	\$ —	\$ —
Current maturities of capital lease obligations	\$ 352	\$ 300	\$ 198	\$ —	\$ —
Long-term debt, net of current maturities	\$ 2,125	\$ —	\$ —	\$ —	\$ —
Long-term debt, net of current maturities, related parties	\$ 1,504	\$ 1,536	\$ 1,504	\$ —	\$ —
Capital lease obligations, net of current maturities	\$ 589	\$ 819	\$ 1,050	\$ —	\$ —

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

On December 4, 2015, the Company sold a majority of its Waste Services segment assets. Years 2015 and 2014 have been adjusted to reflect discontinued operations of the Waste Services segment.

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

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

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

General

We buy, process and market ferrous and non-ferrous metals and other recyclable commodities. We operate one automobile parts yard. We have operating locations in Louisville, Kentucky, and Seymour and New Albany, Indiana. We do not have operating locations outside the United States. Seymour is used interchangeably with North Vernon herein.

On March 26, 2018, the Board appointed Todd L. Phillips as Chief Executive Officer. See Note 9 - Share-based Compensation and Other Compensation Agreements in the accompanying Notes to Consolidated Financial Statements for additional information. Mr. Phillips has been our Chief Financial Officer since December 31, 2014 and President since September 30, 2016 and will continue to serve in these roles.

Liquidity and Capital Resources

Cash flows generated from operations and our revolving credit facility are significant sources of ongoing liquidity. We have also been able to manage liquidity by deferring certain rent payments made to related parties through October 2017, as well as deferring capital expenditures during 2016 and 2017. See Note 8 - Related Party Transactions in the accompanying Notes to Consolidated Financial Statements for additional information. We actively manage our working capital and associated cash requirements and continually seek more effective use of cash. As of December 31, 2018, we held cash and cash equivalents of \$1.0 million. We paid \$1.4 million, net of draws, on our revolving credit facility during the year ended December 31, 2018. We expect operating cash flow and borrowings under our working capital line of credit to be sufficient to meet our ongoing liquidity needs.

Credit facilities and notes payable

See Note 1 - Summary of Significant Accounting Policies and General, Note 2 - Long-term Debt and Notes Payable to Bank, Note 3 - Lease Commitments and Note 8 - Related Party Transactions in the accompanying Notes to Consolidated Financial Statements for details on debt and notes payable, capital leases and related party obligations.

The borrowings under the line of credit are classified as short-term obligations under GAAP as the agreement with the lender contains a subjective acceleration clause and requires the Company to maintain a lockbox arrangement with the lender. However, the contractual maturity date of the line of credit is September 30, 2020. For discussion of the extension of the maturity date and other recent amendments to the Company's credit arrangements, see also Note 1 - Summary of Significant Accounting Policies and General - Subsequent Events in the accompanying Notes to Consolidated Financial Statements.

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Critical Accounting Policies

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

Revenue Recognition

Our revenue is primarily generated from contracts with customers. We note there have been no credit losses recorded on any receivables or contract assets arising from contracts with customers for the years ended December 31, 2018 and 2017. The Company elects to use the practical expedient as it relates to significant financing components as the Company expects, at the contract inception, that the period between when the Company transfers a promised good and when the customer pays for that good will be one year or less. No contract assets or contract liabilities were recognized as of December 31, 2018 and 2017.

Inventory

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

Prices of commodities we own may be volatile. We are exposed to risks associated with fluctuations in the market price for both ferrous and non-ferrous metals, which are at times volatile. We attempt to mitigate this risk by seeking

to rapidly turn our inventories.

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

Valuation of long-lived assets

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

Income Taxes

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

We recognize uncertain income tax positions using the "more-likely-than-not" approach as defined in the ASC. The amount recognized is subject to estimate and management's judgment with respect to the most likely outcome for each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. We have no liability for uncertain tax positions recognized as of December 31, 2018 and 2017.

See also Note 5 - Income Taxes in the accompanying Notes to Consolidated Financial Statements for additional information regarding income taxes and related assets.

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Stock Incentive Plan

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

Results of Operations

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

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

Year ended December 31,	2018		2017	
Consolidated Statements of Operations Data:				
Total revenue	100.0	%	100.0	%
Total cost of sales	93.3	%	94.2	%
Selling, general and administrative expenses	6.0	%	6.4	%
Income (loss) before other income (expense)	0.7	%	(0.5))%

We had an increase in revenue of \$6.1 million, an increase in gross profit of \$0.9 million, and an improvement in net loss of \$0.8 million for the year ended December 31, 2018 as compared to the same period of 2017. This improvement in operating performance was due in part to the full year benefits in 2018 of the successful restart of the Company's shredder in May 2017 as well as improvements in the Company's ferrous volumes and margins from 2017 to 2018. The restart of the Company's shredder led to favorable sales mix and improved margins. Net loss was further strengthened by a non-recurring insurance settlement gain in the amount of \$476.0 thousand during 2018. However, our results were negatively impacted during the third and fourth quarter of 2018 by recent global political events, such as tariffs, trade wars and other global economic events. Ferrous market prices and volumes were negatively impacted by economic stress in Turkey, one of the largest importers of United States ferrous scrap metal. Pricing and volumes were further challenged by uncertainty created by tariffs and threatened trade wars. Non-ferrous market prices and volumes were similarly impacted by tariffs and threatened trade wars, as well as certain restrictions placed by China on imported metals. Although results for the year ended December 31, 2018 were favorable compared to the year ended December 31, 2017, the previously discussed events that occurred during the second half of 2018 had a

negative impact on reported results for the year ended December 31, 2018.

Total revenue increased \$6.1 million or 11.1% to \$61.0 million for the year ended December 31, 2018 compared to \$54.9 million for the year ended December 31, 2017.

Ferrous revenue increased \$6.9 million or 31.3% to \$28.7 million for the year ended December 31, 2018 compared to \$21.9 million for the year ended December 31, 2017. For the year ended December 31, 2018 compared to the year ended December 31, 2017, the average selling price ("ASP") of ferrous material increased \$69 per gross ton, or 22.6%, partially as a result of the shredder restart that led to a favorable shift in the ferrous sales mix and partially due to market improvements during the first six months of 2018. For the year ended December 31, 2018 compared to the year ended December 31, 2017, ferrous material shipments increased 3.7 thousand tons, or 5.0%, despite the negative impact on volumes from the shredder process. The inherent nature of the shredding process produces less saleable product volume, but at a higher quality level, thereby increasing the ASP and decreasing the tons of material available to ship. Ferrous revenue includes non-commodity revenue such as service fees, transportation and returns and allowances; the ASP calculation excludes these non-commodity revenues.

Non-ferrous revenue decreased \$0.4 million or 1.2% to \$31.2 million for the year ended December 31, 2018 compared to \$31.6 million for the year ended December 31, 2017. For the year ended December 31, 2018 compared to the year ended December 31, 2017, the ASP of non-ferrous material increased \$0.06 per pound or 5.9%. For the year ended December 31, 2018 compared to the year ended December 31, 2017, non-ferrous material shipments decreased by 1.8 million pounds, or 6.1%. Non-ferrous revenue includes non-commodity revenue such as service fees, transportation and returns and allowances; the ASP calculation excludes these non-commodity revenues.

Total cost of sales increased \$5.2 million or 10.1% to \$57.0 million for the year ended December 31, 2018 compared to \$51.7 million for the year ended December 31, 2017. The increase was a result of an increase in ferrous material tons shipped and higher average prices on a per-unit basis in our ferrous and non-ferrous operations, offset slightly by a decrease in non-ferrous material shipments.

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Total cost of sales as a percentage of revenue decreased 0.8% for the year ended December 31, 2018 as compared the year ended December 31, 2017. This improvement was largely a result of a market-related increase in ASP during 2018 as well as favorable sales mix that resulted from the startup of the shredder in May 2017, as well as a decrease in startup expenses the Company incurred in 2017 due to the restart of the shredder operations. These startup expenses consisted primarily of repairs and maintenance expenses, utilities expenses and personnel expenses.

Selling, general and administrative ("SG&A") expenses increased \$145.0 thousand to \$3.6 million for the year ended December 31, 2018 as compared to \$3.5 million for the year ended December 31, 2017. SG&A as a percentage of revenue decreased to 6.0% for the year ended December 31, 2018 compared to 6.4% for the year ended December 31, 2017. This change in SG&A expenses is made up of numerous individually insignificant items. The Company is currently under a property tax audit and accrued \$100.0 thousand as an estimate of potential assessments during the year ended December 31, 2017.

Other expense, net was \$762.0 thousand for the year ended December 31, 2018 compared to \$837.0 thousand for the year ended December 31, 2017. The \$75.0 thousand change is primarily a result of a \$406.0 thousand increase in interest expense, which is a result of the increased outstanding balance on the line of credit and an increase in loan fees amortization, and an increase of \$476.0 thousand in the gain on insurance proceeds in 2018 compared to 2017.

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

Description Other Income (Expense)	Year Ended December 31,	
	(in thousands)	
	2018	2017
Interest expense, including loan fee amortization	\$ (1,254)	\$ (848)
Gain on the sale of assets	—	27
Gain on insurance proceeds	476	—
Other (expense) income, net	16	(16)
Total other expense, net	\$ (762)	\$ (837)

The income tax provision increased \$1.0 thousand to \$13.0 thousand in 2018 compared to \$12.0 thousand in 2017. The effective tax rates in 2018 and 2017 were (3.9)% and (1.1)%, respectively, based on federal and state statutory rates. Due to recurring operating losses being incurred, we have historically recorded nearly a full valuation allowance, which is continuing through December 31, 2018. We also have state and franchise taxes payable based on gross receipts.

Net loss for the year ended December 31, 2018 was \$0.3 million compared to \$1.1 million for the same period of 2017, an improvement of \$0.8 million or 69.1% as a result of the above-mentioned changes.

Financial Condition at December 31, 2018 compared to December 31, 2017

Cash and cash equivalents increased \$0.2 million to \$1.0 million as of December 31, 2018 compared to \$0.8 million as of December 31, 2017.

Net cash used in operating activities was \$0.1 million for the year ended December 31, 2018. The net cash used in operating activities is primarily due to a net loss of \$0.3 million, an increase in inventories of \$1.8 million, an increase in receivables of \$0.1 million, and a decrease in payable and accrued expenses to related parties of \$171.0 thousand, a decrease in other current liabilities of \$199.0 thousand, partially offset by depreciation and amortization of \$2.1 million, an increase in accounts payables of \$0.6 million, and share-based option expense of \$105.0 thousand. The Company had \$467.0 thousand of cash capital expenditures in 2018.

Net cash from financing activities was \$0.3 million for the year ended December 31, 2018. For the year ended December 31, 2018, we received proceeds from a term note of \$2.5 million, we made net payments on the line of credit of \$1.4 million less capitalized loan fees in the amount of \$306.0 thousand, and we made payments on capital lease obligations and related party debt of \$312.0 thousand and \$64.0 thousand, respectively.

Accounts receivable trade after allowances for doubtful accounts increased \$0.1 million or 3.5% to \$4.4 million as of December 31, 2018 compared to \$4.2 million as of December 31, 2017 due to increased shipments and commodity price increases. In general, the accounts receivable balance fluctuates due to the quantity and timing of shipments, commodity prices and receipt of customer payments.

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Inventories consist principally of ferrous and non-ferrous scrap materials. We value inventory at the lower of cost or net realizable value. Inventory increased \$1.8 million or 35.8% to \$6.9 million as of December 31, 2018 compared to \$5.1 million as of December 31, 2017. This increase is primarily driven by higher commodity prices and increased volumes during the fourth quarter of 2018 compared to the fourth quarter of 2017.

Inventory aging for the period ended December 31, 2018 (Days Outstanding):

Description	(in thousands)				Total
	1 - 30	31 - 60	61 - 90	Over 90	
Ferrous and non-ferrous materials	\$ 4,471	\$ 810	\$ 890	\$ 763	\$ 6,934

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

Description	(in thousands)				Total
	1 - 30	31 - 60	61 - 90	Over 90	
Ferrous and non-ferrous materials	\$ 4,069	\$ 693	\$ 119	\$ 225	\$ 5,106

Inventory in the 60 days or less categories compared to total inventory decreased to 76.2% as of December 31, 2018 compared to 93.3% as of December 31, 2017. Inventory greater than 60 days compared to total inventory increased to 23.8% as of December 31, 2018 compared to 6.7% as of December 31, 2017. The increase in inventory aging is primarily related to the increase in inventory of \$1.8 million and an increase in ferrous inventory due to maintenance activity on our shredder and primary shear during the last quarter of 2018.

Accounts payable trade increased \$0.6 million or 33.8% to \$2.4 million as of December 31, 2018 compared to \$1.8 million as of December 31, 2017. The accounts payable balance fluctuates due to quantity and timing of purchases from and payments made to our vendors.

Payable and accrued expenses to related parties decreased \$171.0 thousand to \$2.0 thousand of December 31, 2018 compared to \$173.0 thousand as of December 31, 2017. This decrease is largely a result of a decrease in facility rent payable to related parties of \$123.0 thousand. See Note 8 - Related Party Transactions in the Consolidated Financial Statements for additional information.

Working capital, defined as current assets less current liabilities, increased \$3.1 million to \$5.4 million as of December 31, 2018 compared to \$2.3 million as of December 31, 2017 as a result of the above noted items.

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Contractual Obligations

The following table provides information with respect to our known contractual obligations as of December 31, 2018:

Obligation Description:	Payments due by period (in thousands)				
	Total	Less than 1 year	1 - 2 years	3 - 4 years	More than 4 years
Long-term debt obligations	\$ 7,745	\$ 402	\$ 7,320	\$ 23	\$ —
Operating lease obligations	2,820	564	1,010	908	338
Capital lease obligations	941	352	519	56	14
Total	\$ 11,506	\$ 1,318	\$ 8,849	\$ 987	\$ 352

On December 28, 2018, the Company signed a purchase contract for two cranes for a combined amount of \$592.6 thousand with expected delivery dates of March 2019 and April 2019.

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.

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

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

Impact of Recently Issued Accounting Standards

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The amendments in ASU 2014-09 affect any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments were effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. On January 1, 2018, the Company adopted ASU 2014-09 using the retrospective approach. The Company noted no financial impact on the Consolidated Financial Statements as a result of the adoption of this amended guidance. In addition, the adoption of this new accounting standard resulted in increased disclosure, including qualitative and quantitative disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. See the Revenue Recognition section of Note 1 - Summary of Significant Accounting Policies and General for additional information.

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In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes*, which requires that deferred tax assets and liabilities be classified as noncurrent on the consolidated balance sheet. ASU 2015-17 was effective for annual periods beginning after December 15, 2016, including interim periods within those annual periods. Upon adoption, ASU 2015-17 may be applied either prospectively or retrospectively. The Company adopted the standard prospectively in the first quarter of 2017 and noted no material impact from the adoption on the Consolidated Financial Statements.

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

The amendments in ASU 2016-02 are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Company is evaluating the potential impact of ASU 2016-02 on its Consolidated Financial Statements. As of January 1, 2019, the Company expects to record a right-of-use asset and a lease liability of approximately \$5.6 million on the Consolidated Balance Sheet. The Company does not expect the changes to have a material impact on the Consolidated Statement of Operations and the Consolidated Statement of Cash Flows. Upon adoption, the Company expects that its financial statement disclosures will be expanded to present additional details of its leasing arrangements.

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

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

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

N/A - Not required for smaller reporting companies.

Item 8. Financial Statements and Supplementary Data

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

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

None.

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Item 9A. Controls and Procedures

(a) Disclosure controls and procedures.

ISA's management, including ISA's principal executive officer and principal financial officer, have evaluated the effectiveness of our "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934. Based upon their evaluation, our principal executive officer and principal financial officer concluded that, as of December 31, 2018, ISA's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that ISA files under the Exchange Act with the Securities and Exchange Commission (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to ISA's management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding the required disclosure.

(b) Internal control over financial reporting.

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

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

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

Our management conducted an evaluation of the effectiveness of our internal control over financial reporting, based on the framework and criteria established in the 2013 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, 2018, and concluded that such internal control over financial reporting was effective as of December 31, 2018.

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

(c) Changes to internal control over financial reporting.

On March 26, 2018, Orson Oliver resigned his position as Interim Chief Executive Officer and the Board appointed Todd L. Phillips as Chief Executive Officer. Mr. Phillips will serve as the Company's principal executive officer and principal financial and accounting officer. Other than the aforementioned, there were no changes in ISA's internal control over financial reporting during the year ended December 31, 2018 that have materially affected, or are reasonably likely to affect ISA's internal control over financial reporting.

Item 9B. Other Information

None.

Table of Contents**PART III****Item 10.** Directors, Executive Officers and Corporate Governance.*

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

Name	Served as an Executive Officer From	Age	Position with the Registrant and Other Principal Occupations
Todd L. Phillips	2014	43	Mr. Phillips was appointed Chief Executive Officer of the Company in March 2018, President of the Company in September 2016, Secretary in June 2016, and continues to be Chief Financial Officer, a position he has held since December 31, 2014. Mr. Phillips joined the Company from CRS Reprocessing, LLC, where he held the positions of Chief Operating Officer and Chief Financial Officer from January 2009 to December 2014. CRS is a private-equity backed company with operations in the United States, Europe and Asia. Prior to CRS, Mr. Phillips was Chief Financial Officer at Genscape, Inc. from March 2004 to January 2009, a global information provider to energy commodity traders. Genscape was backed by private equity firm Oaktree Capital and was honored twice during Mr. Phillips' tenure as an Inc. 500 company, recognizing Genscape as one of the 500 fastest growing companies in the United States. Mr. Phillips was the corporate controller for Metal Sales Manufacturing Corporation from March 2002 to March 2004. Mr. Phillips began his career at Arthur Andersen LLP from December 1997 through March 2002 following his graduation from the University of Kentucky. He is a Certified Public Accountant and holds degrees in accounting and business administration, with a focus on finance, from the University of Kentucky.

Item 11. Executive Compensation.***Item 12.** Security Ownership of Certain Beneficial Owners, Management and Related Stockholder Matters.*

The following information is provided as of December 31, 2018 with respect to our existing compensation plans, including individual compensation arrangements, under which our equity securities are authorized for issuance:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights (\$)	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	413,041	\$4.53	1,645,311

Equity compensation plans not approved by security holders	—	—	—
Total	413,041	\$4.53	1,645,311

The Company had 111,558 Restricted Stock Units outstanding at December 31, 2018.

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

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 2019 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.

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PART IV

Item 15. Exhibits, Financial Statement Schedules

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

	Page
Report of Independent Registered Public Accounting Firm	<u>F-1</u>
Consolidated Balance Sheets as of December 31, 2018 and 2017	<u>F-2</u>
Consolidated Statements of Operations for the years ended December 31, 2018 and 2017	<u>F-4</u>
Consolidated Statements of Shareholders' Equity for the years ended December 31, 2018 and 2017	<u>F-5</u>
Consolidated Statements of Cash Flows for the years ended December 31, 2018 and 2017	<u>F-6</u>
Notes to Consolidated Financial Statements	<u>F-8</u>

(a)(3) List of Exhibits

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

(b) Exhibits.

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

Item 16. Form 10-K Summary

Not applicable.

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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 13, 2019 By : /s/ Todd L. Phillips

Todd L. Phillips, Chief Executive Officer, President and Chief Financial Officer

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

Signature	Title	Date
/s/ Todd L. Phillips Todd L. Phillips	Chief Executive Officer, President, Chief Financial Officer and Director (Principal Executive and Principal Financial and Accounting Officer)	March 13, 2019
/s/ Vince Tyra Vince Tyra	Chairman of the Board	March 13, 2019
/s/ Albert Cozzi Albert Cozzi	Director	March 13, 2019
/s/ Orson Oliver Orson Oliver	Director	March 13, 2019
/s/ William B. Yarmuth William B. Yarmuth	Director	March 13, 2019

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INDEX TO EXHIBITS

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

Form of Stock Option Agreement issued in connection with the 2009 Long Term Incentive

10.3 **** Plan. (Incorporated herein by reference to Exhibit 10.57 to the Company's Annual Report on Form 10-K as filed on April 1, 2013) (File No. 0-20979)***

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Exhibit Number	Description of Exhibits
<u>10.4</u>	** <u>Director Designation Agreement dated as of June 13, 2014 between the Company and Recycling Capital Partners, LLC. (Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K as filed on June 19, 2014) (File No. 0-20979)</u>
<u>10.5</u>	** <u>Lease Agreement dated April 30, 2015 by and between Industrial Services of America, Inc. and LK Property Investments, LLC. (Incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K as filed on May 6, 2015) (File No. 0-20979)</u>
<u>10.6</u>	** <u>Loan and Security Agreement dated as of February 29, 2016 between the Company, its subsidiaries and MidCap Business Credit LLC. (Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K as filed on March 2, 2016) (File No. 0-20979)</u>
<u>10.7</u>	** <u>Revolving Note made by the Company to the order of MidCap Business Credit LLC in face principal amount of \$6,000,000. (Incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K as filed on March 2, 2016) (File No. 0-20979)</u>
<u>10.8</u>	** <u>Pledge and Security Agreement dated as of February 29, 2016 between the Company, its subsidiaries and MidCap Business Credit LLC. (Incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K as filed on March 2, 2016) (File No. 0-20979)</u>
<u>10.9</u>	** <u>Guaranty and Suretyship Agreement of the Company's subsidiaries as guarantors for the benefit of MidCap Business Credit LLC, dated February 29, 2016. (Incorporated herein by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K as filed on March 2, 2016) (File No. 0-20979)</u>
<u>10.10</u>	** <u>Term Note, date February 29, 2016, issued by the Company to K&R, LLC. (Incorporated herein by reference to Exhibit 10.35 to the Company's Annual Report on Form 10-K as filed on March 25, 2016) (File No. 0-20979)</u>
<u>10.11</u>	** <u>Term Note, date February 29, 2016, issued by the Company to 7100 Grade Lane, LLC. (Incorporated herein by reference to Exhibit 10.36 to the Company's Annual Report on Form 10-K as filed on March 25, 2016) (File No. 0-20979)</u>
<u>10.12</u>	** <u>Intercreditor and Subordination Agreement, dated February 29, 2016, among the Company and K&R, LLC for the benefit of MidCap Business Credit LLC. (Incorporated herein by reference to Exhibit 10.37 to the Company's Annual Report on Form 10-K as filed on March 25, 2016) (File No. 0-20979)</u>
<u>10.13</u>	** <u>Intercreditor and Subordination Agreement, dated February 29, 2016, among the Company and 7100 Grade Lane, LLC for the benefit of MidCap Business Credit LLC. (Incorporated herein by reference to Exhibit 10.38 to the Company's Annual Report on Form 10-K as filed on March 25, 2016) (File No. 0-20979)</u>
<u>10.14</u>	** <u>Retention Agreement, dated March 25, 2016, between the Company and Todd L. Phillips. (Incorporated herein by reference to Exhibit 10.40 to the Company's Annual Report on Form 10-K as filed on March 25, 2016) (File No. 0-20979)*</u>
<u>10.15</u>	**

Restricted Stock Unit Grant Agreement, dated as of June 15, 2016, between Industrial Services of America, Inc. and Todd L. Phillips. (Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K as filed on June 16, 2016) (File No. 0-20979)*

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Exhibit Number	Description of Exhibits
<u>10.16</u>	** <u>Industrial Services of America, Inc. Amended and Restated Long Term Incentive Plan, restated as of June 15, 2016. (Incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K as filed on June 16, 2016) (File No. 0-20979)*</u>
<u>10.17</u>	** <u>First Amendment to the Loan and Security Agreement dated as of March 31, 2017 between the Company, its subsidiaries and MidCap Business Credit LLC. (Incorporated herein by reference to Exhibit 10.27 to the Company's Annual Report on Form 10-K as filed on March 31, 2017) (File No. 0-20979)</u>
<u>10.18</u>	** <u>934 Crane Purchase Agreement dated June 23, 2017 by and between the Company and K&R, LLC. (Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K as filed on June 23, 2017) (File No. 0-20979)</u>
<u>10.19</u>	** <u>Komatsu Purchase Agreement dated June 23, 2017 by and between the Company and K&R, LLC. (Incorporated by reference to Exhibit 10.2 of the Company's Form 8-K as filed on June 23, 2017) (File No. 0-20979)</u>
<u>10.20</u>	** <u>All Net Lease, effective as of October 1, 2017, between the Company and 7100 Grade Lane LLC. (Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K as filed on November 1, 2017)(File No. 0-20979)</u>
<u>10.21</u>	** <u>Back Rent Payment Agreement, effective as of October 1, 2017, between the Company and 7100 Grade Lane LLC, including the Promissory Note, effective October 1, 2017, in the principal amount of \$345,808 attached thereto. (Incorporated by reference to Exhibit 10.2 of the Company's Form 8-K as filed on November 1, 2017)(File No. 0-20979)</u>
<u>10.22</u>	** <u>Amended and Restated Employment Agreement dated March 26, 2018, effective January 1, 2018, between the Company and Todd L. Phillips, including the Restricted Stock Unit Grant Agreement and the Non-Incentive Stock Option Agreement attached thereto as Annex A and Annex B, respectively. (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K as filed on March 26, 2018)(File No. 0-20979)*</u>
<u>10.23</u>	** <u>Amendment No. 2 to Loan and Security Agreement dated as of June 4, 2018 among the Company, its subsidiaries and MidCap Business Credit LLC. (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K as filed on June 7, 2018)(File No. 0-20979)</u>
<u>10.24</u>	** <u>Second Amended and Restated Revolving Note made by the Company to the order of MidCap Business Credit LLC in face principal amount of \$10,000,000. (incorporated by reference to Exhibit 10.2 of the Company's Form 8-K as filed on June 7, 2018)(File No. 0-20979)</u>
<u>10.25</u>	** <u>Form of Restricted Stock Unit Grant Agreement for Non-Employee Directors. (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K as filed on July 11, 2018)(File No. 0-20979)*</u>

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Exhibit Number	Description of Exhibits
<u>10.26</u>	** <u>Loan and Security Agreement dated as of November 9, 2018 between the Company and certain of its wholly-owned subsidiaries and Bank of America, N.A.(incorporated by reference to Exhibit 10.1 of the Company’s Form 8-K as filed on November 13, 2018)(File No. 0-20979)</u>
<u>10.27</u>	** <u>General Security Agreement dated as of November 9, 2018 between certain of the Company’s wholly-owned subsidiaries and Bank of America, N.A. (incorporated by reference to Exhibit 10.2 of the Company’s Form 8-K as filed on November 13, 2018)(File No. 0-20979)</u>
<u>10.28</u>	** <u>Pledge Agreement dated as of November 9, 2018 made by the Company in favor of Bank of America, N.A. (incorporated by reference to Exhibit 10.3 of the Company’s Form 8-K as filed on November 13, 2018)(File No. 0-20979)</u>
<u>10.29</u>	** <u>Guaranty Agreement dated as of November 9, 2018 made by certain of the Company’s wholly-owned subsidiaries in favor of Bank of America, N.A. (incorporated by reference to Exhibit 10.4 of the Company’s Form 8-K as filed on November 13, 2018)(File No. 0-20979)</u>
<u>10.30</u>	** <u>Mortgage, Assignment of Leases and Rent, Security Agreement and Fixture Filing dated as of November 9, 2018 made by 7200 Grade Lane LLC in favor of Bank of America, N.A. (incorporated by reference to Exhibit 10.5 of the Company’s Form 8-K as filed on November 13, 2018)(File No. 0-20979)</u>
<u>10.31</u>	** <u>Mortgage, Assignment of Leases and Rent, Security Agreement and Fixture Filing dated as of November 9, 2018 made by 7124 Grade Lane LLC in favor of Bank of America, N.A. (incorporated by reference to Exhibit 10.6 of the Company’s Form 8-K as filed on November 13, 2018)(File No. 0-20979)</u>
<u>10.32</u>	** <u>Amendment No. 1 to Loan and Security Agreement and Consent dated as of March 1, 2019 between the Company and certain of its wholly-owned subsidiaries and Bank of America, N.A. (incorporated by reference to Exhibit 10.1 of the Company’s Form 8-K as filed on March 6, 2019)(File No. 0-20979)</u>
<u>10.33</u>	** <u>First Amendment to Term Note dated as of March 1, 2019 between the Company and K & R, LLC. (incorporated by reference to Exhibit 10.2 of the Company’s Form 8-K as filed on March 6, 2019)(File No. 0-20979)</u>
<u>10.34</u>	** <u>First Amendment to Term Note dated as of March 1, 2019 between the Company and 7100 Grade Lane LLC. (incorporated by reference to Exhibit 10.3 of the Company’s Form 8-K as filed on March 6, 2019)(File No. 0-20979)</u>
<u>10.35</u>	** <u>Intercreditor and Subordination Agreement dated as of March 1, 2019 between the Company and certain of its wholly-owned subsidiaries, Bank of America, N.A. and K & R, LLC. (incorporated by reference to Exhibit 10.4 of the Company’s Form 8-K as filed on March 6, 2019)(File No. 0-20979)</u>
<u>10.36</u>	** <u>Intercreditor and Subordination Agreement dated as of March 1, 2019 between the Company and certain of its wholly-owned subsidiaries, Bank of America, N.A. and 7100 Grade Lane LLC. (incorporated by reference to Exhibit 10.5 of the Company’s Form 8-K as filed on March 6, 2019)(File No. 0-20979)</u>

- 10.37 ** Master Lease Agreement No. 48148-90000, dated as of March 4, 2019, between the Company and Banc of America Leasing & Capital, LLC. (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K as filed on March 8, 2019)(File No. 0-20979)
- 10.38 ** Guaranty, dated as of March 4, 2019, made by certain of the Company's wholly-owned subsidiaries in favor of Banc of America Leasing & Capital, LLC. (incorporated by reference to Exhibit 10.2 of the Company's Form 8-K as filed on March 8, 2019)(File No. 0-20979)

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Exhibit Number	Description of Exhibits
11	Statement of Computation of Earnings Per Share (See Note 7 in the accompanying Notes to Consolidated Financial Statements).
<u>21</u>	<u>List of subsidiaries of Industrial Services of America, Inc.</u>
<u>23</u>	<u>Consent of Independent Registered Public Accounting Firm.</u>
<u>31.1</u>	<u>Rule 13a-14a Certification of Todd L. Phillips for the Form 10-K for the year ended December 31, 2018.</u>
<u>32.1</u>	<u>Section 1350 Certification of Todd L. Phillips for the Form 10-K for the year ended December 31, 2018.</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Document
101.DEF	XBRL Taxonomy Extension Definitions Document
101.LAB	XBRL Taxonomy Extension Labels Document
101.PRE	XBRL Taxonomy Extension Presentation Document

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

**Previously filed.

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INDUSTRIAL SERVICES OF AMERICA, INC.

AND SUBSIDIARIES

Louisville, Kentucky

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders

Industrial Services of America, Inc. and Subsidiaries

Louisville, Kentucky

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Industrial Services of America, Inc. and Subsidiaries (“the Company”) as of December 31, 2018 and 2017, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended and the related notes (collectively referred to as the “financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Industrial Services of America, Inc. and Subsidiaries as of December 31, 2018 and 2017, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures

included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ MCM CPAs & Advisors LLP

We have served as the Company's auditor since 2005.

Louisville, Kentucky

March 13, 2019

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Table of ContentsINDUSTRIAL SERVICES OF AMERICA, INC.
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2018 and 2017

	2018	2017
	(in thousands)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,044	\$ 841
Income tax receivable	16	—
Accounts receivable – trade after allowance for doubtful accounts of \$60.0 thousand and \$60.0 thousand in 2018 and 2017, respectively	4,369	4,220
Receivables and other assets from related parties (Note 8)	91	92
Inventories (Note 1)	6,934	5,106
Prepaid expenses and other current assets	159	112
Total current assets	12,613	10,371
Net property and equipment (Note 1)	9,786	11,212
Other assets		
Deferred income taxes (Note 5)	27	27
Other non-current assets	54	116
Total other assets	81	143
Total assets	\$ 22,480	\$ 21,726

See accompanying notes to consolidated financial statements.

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INDUSTRIAL SERVICES OF AMERICA, INC.

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2018 and 2017

	2018	2017
	(in thousands, except par value and share information)	
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Current maturities of long-term debt (Note 2)	\$ 3,909	\$ 4,877
Current maturities of long-term debt, related parties (Note 2 and 8)	32	64
Current maturities of capital lease obligations (Note 3)	352	300
Bank overdrafts	—	148
Accounts payable	2,387	1,784
Payable and accrued expenses to related parties (Note 8)	2	173
Income tax payable	—	2
Other current liabilities	566	765
Total current liabilities	7,248	8,113
Long-term liabilities		
Long-term debt, net of current maturities (Note 2)	2,125	—
Long-term debt, net of current maturities, related parties (Note 2 and 8)	1,504	1,536
Capital lease obligations, net of current maturities (Note 3)	589	819
Total long-term liabilities	4,218	2,355
Shareholders' equity		
Common stock, \$0.0033 par value: 20.0 million shares authorized in 2018 and 2017; 8,107,865 and 8,089,129 shares issued and outstanding in 2018 and 2017, respectively	27	27
Additional paid-in capital	24,133	24,028
Stock warrants outstanding	1,025	1,025
Retained losses	(14,127)	(13,778)
Treasury stock at cost, 30,690 shares in 2018 and 2017	(44)	(44)
Total shareholders' equity	11,014	11,258
Total liabilities and shareholders' equity	\$ 22,480	\$ 21,726

See accompanying notes to consolidated financial statements.

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Table of ContentsINDUSTRIAL SERVICES OF AMERICA, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended December 31, 2018 and 2017

	2018		2017
	(in thousands, except per share information)		
Revenue from product sales			
Revenue from ferrous operations	\$ 28,745		\$ 21,885
Revenue from non-ferrous operations	31,226		31,620
Revenue from auto parts operations and other revenue	1,052		1,430
Total revenue from product sales	61,023		54,935
Cost of sales for product sales	56,962		51,727
Gross profit	4,061		3,208
Selling, general, and administrative expenses	3,635		3,490
Income (loss) before other income (expense)	426		(282)
Other income (expense)			
Interest expense, including loan fee amortization	(1,254)		(848)
Gain on sale of assets	—		27
Gain on insurance proceeds	476		—
Other (expense) income, net	16		(16)
Total other expense, net	(762)		(837)
Loss before income taxes	(336)		(1,119)
Income tax provision (Note 5)	13		12
Net Loss	\$ (349)		\$ (1,131)
Net loss per share of common stock:			
Basic loss per share	\$ (0.04)		\$ (0.14)
Diluted loss per share	\$ (0.04)		\$ (0.14)
Weighted average shares outstanding:			
Basic	8,102		8,078
Diluted	8,102		8,078

See accompanying notes to consolidated financial statements.

Table of ContentsINDUSTRIAL SERVICES OF AMERICA, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended December 31, 2018 and 2017

(in thousands, except share information)

	Common Stock		Additional Paid-in Capital	Stock Warrants	Retained Losses	Treasury Stock		Total Shareholders' Equity
	Shares	Amount				Shares	Cost	
Balance as of December 31, 2016	8,105,231	\$ 27	\$ 23,912	\$ 1,025	\$ (12,647)	(30,690)	\$ (44)	\$ 12,273
Common stock	14,588	—	—	—	—	—	—	—
Share-based compensation	—	—	116	—	—	—	—	116
Net loss	—	—	—	—	(1,131)	—	—	(1,131)
Balance as of December 31, 2017	8,119,819	\$ 27	\$ 24,028	\$ 1,025	\$ (13,778)	(30,690)	\$ (44)	\$ 11,258
Common stock	18,736	—	—	—	—	—	—	—
Share-based compensation	—	—	105	—	—	—	—	105
Net loss	—	—	—	—	(349)	—	—	(349)
Balance as of December 31, 2018	8,138,555	\$ 27	\$ 24,133	\$ 1,025	\$ (14,127)	(30,690)	\$ (44)	\$ 11,014

See accompanying notes to consolidated financial statements.

Table of ContentsINDUSTRIAL SERVICES OF AMERICA, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2018 and 2017

	2018 (in thousands)	2017
Cash flows from operating activities		
Net loss	\$ (349)	\$ (1,131)
Adjustments to reconcile net loss to net cash used in operating activities:		
Bad debt expense	—	25
Depreciation and amortization	2,096	2,191
Share-based compensation expense	105	116
Gain on sale of assets	—	(27)
Gain from insurance proceeds	(476)	—
Deferred income taxes	—	—
Amortization of loan fees included in interest expense	273	124
Change in assets and liabilities		
Receivables	(149)	(884)
Receivables from related parties	1	58
Inventories	(1,828)	(1,669)
Income tax receivable/payable	(18)	16
Prepaid expenses and other assets	15	(95)
Accounts payable	603	179
Payables and accrued expenses to related parties	(171)	(405)
Other current liabilities	(199)	138
Net cash used in operating activities	(97)	(1,364)
Cash flows from investing activities		
Proceeds from insurance claim, net	476	—
Proceeds from sale of property and equipment	—	28
Purchases of property and equipment	(467)	(132)
Net cash from (used in) investing activities	9	(104)
Cash flows from financing activities		
Loan fees capitalized	(306)	(125)
Change in bank overdrafts	(148)	69
Proceeds from long-term debt	2,500	—
Payments on long-term debt	(7)	—
Payments on long-term debt, related parties	(64)	(33)
Payments on capital lease obligations	(312)	(204)
(Payments) proceeds from revolving line of credit, net	(1,372)	2,076
Net cash from financing activities	291	1,783
Net change in cash and cash equivalents	203	315
Cash and cash equivalents at beginning of year	841	526
Cash and cash equivalents at end of year	\$ 1,044	\$ 841

See accompanying notes to consolidated financial statements.

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INDUSTRIAL SERVICES OF AMERICA, INC.

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2018 and 2017

	2018 (in thousands)	2017
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 1,004	\$ 755
Tax refunds received	1	5
Cash paid for income taxes	32	2
Supplemental disclosure of noncash investing and financing activities:		
Equipment additions financed by capital lease obligations	134	75
Equipment financed by debt	69	—
Equipment financed by related party debt	—	129

See accompanying notes to consolidated financial statements.

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INDUSTRIAL SERVICES OF AMERICA, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL

Nature of Business

Industrial Services of America, Inc. (a Florida Corporation) and its subsidiaries ("ISA" or the "Company") buys, processes and markets ferrous and non-ferrous metals and other recyclable commodities at four Kentucky and Indiana locations. Additionally, ISA operates one Pick.Pull.Save used automobile parts yard. All of these activities operate under the Company's Recycling Segment.

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

On March 26, 2018, the Board appointed Todd L. Phillips as Chief Executive Officer. See Note 9 - Share-based Compensation and Other Compensation Agreements. Mr. Phillips has been the Company's Chief Financial Officer since December 31, 2014 and President since September 30, 2016 and will continue to serve in these roles.

Liquidity

During the first quarter of 2017, the Company amended and extended its working capital line of credit with MidCap Business Credit LLC ("MidCap") which extended the contractual maturity date to February 28, 2020 and increased the borrowing availability. On June 4, 2018, the Company entered into an amendment to further increase the borrowing availability of its working capital line of credit. On November 9, 2018, the Company entered into a Loan and Security Agreement ("BofA Loan Agreement") with Bank of America, N.A. ("BofA"). In connection with entry into the BofA Loan Agreement, the Company repaid in full the remaining balance of the Company's working capital line of credit with MidCap. See Note 2 - Long-term Debt and Notes Payable to Bank for discussion of loan

arrangements with MidCap and BofA. The Company expects operating cash flow and borrowings under its working capital line of credit to be sufficient to meet its ongoing obligations.

The borrowings under the working capital line of credit are classified as short-term obligations under generally accepted accounting principles in the United States of America ("GAAP") as the agreement with the lender contains a subjective acceleration clause and requires the Company to maintain a lockbox arrangement with the lender.

However, the contractual maturity date of the revolver is February 28, 2020. See Note 1 - Summary of Significant Accounting Policies and General - Subsequent Events.

Fair Value of Financial Instruments

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

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

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

Table of Contents**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL, Continued**

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

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

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

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

In accordance with this guidance, the following tables represent the fair value hierarchy for Level 1 and Level 2 financial instruments, in thousands, at December 31, 2018 and 2017:

	Fair Value at Reporting Date Using		Total
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	
2018:			
Assets:			
Cash and cash equivalents	\$ 1,044	\$ —	\$ 1,044
Liabilities			
Long-term debt	\$ —	\$ (6,197)	\$ (6,197)
Long-term debt, related parties	—	(1,430)	(1,430)

	Fair Value at Reporting Date Using		Total
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	
2017:	Level 1	Level 2	
Assets:			
Cash and cash equivalents	\$ 841	\$ —	\$ 841
Liabilities			
Current maturities of long-term debt	\$ —	\$ (4,877)	\$ (4,877)
Long-term debt, related parties	—	(1,331)	(1,331)

The Company had no transfers in or out of Levels 1 or 2 fair value measurements. We have had no activity in Level 3, fair value measurements for the years ended December 31, 2018 or 2017.

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

Estimates

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

Principles of Consolidation

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

Revenue Recognition

The Company's revenue is primarily generated from contracts with customers. The Company notes there have been no credit losses recorded on any receivables or contract assets arising from contracts with customers for the years ended December 31, 2018 and 2017. The Company elects to use the practical expedient as it relates to significant financing components as the Company expects, at the contract inception, that the period between when the Company transfers a promised good and when the customer pays for that good will be one year or less.

Ferrous and nonferrous revenue

Ferrous and non-ferrous contracts contain one performance obligation which consists of the shipment of a stated quantity of a stated product to be delivered within a stated time frame. Ferrous and non-ferrous revenue contracts are primarily short term contracts, typically completed within 30 days. Ferrous and non-ferrous transaction prices are

stated in the contract with no variable considerations present. As ferrous and non-ferrous contracts contain one performance obligation, the total transaction price is allocated to the shipment of materials. When multiple loads are included in one contract, the stated price per gross ton is applied to the shipment weight in order to determine transaction price. Ferrous and non-ferrous revenue is recognized when the Company satisfies the shipment of materials per the contract. The shipment and delivery of material typically occurs on the same day. No contract assets or contract liabilities were recognized as of December 31, 2018 and 2017.

Revenue from auto parts operations and other revenue

Revenue from auto parts primarily consists of individual transactions by customers who enter the Company's premises and purchase auto parts by cash or credit card. Related to these sales, a customer may be charged a core charge. The customer has 30 days to return the core and receive a refund of the core charge. Additionally, customers have the option to separately purchase a warranty related to certain goods purchased. Total core charges and warranty sales are immaterial, in aggregate accounting for less than 1% of revenue from auto parts operations and other revenue. Sale prices, core charges and warranties are tracked separately and recognized as revenue when the purchase is completed. No contract assets or contract liabilities were recognized as of December 31, 2018 and 2017.

Reclassifications

The Company has reclassified certain items within the accompanying Consolidated Financial Statements and these Notes to Consolidated Financial Statements for the prior year in order to be comparable with the current presentation. These reclassifications had no effect on previously reported net income (loss) or shareholders' equity.

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

Cash and Cash Equivalents

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

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable consists primarily of amounts due from U.S. customers from product sales. The allowance for doubtful accounts totaled \$60.0 thousand at December 31, 2018 and 2017, respectively. The determination of the allowance for doubtful accounts includes a number of factors, including the age of the balance, estimated settlement adjustments, past experience with the customer account, changes in collection patterns and general economic and industry conditions. Interest is not normally charged on receivables, nor is collateral for receivables normally required. Potential credit losses from significant customers could adversely affect results of operations or financial condition. While the Company believes the allowance for doubtful accounts is adequate, changes in economic conditions or any weakness in the steel and metals industry could adversely impact future earnings. In general, the Company considers accounts receivable past due which are 30 to 60 days after the invoice date. Losses are charged off to the allowance when it is deemed further collection efforts will not provide additional recoveries.

Major Customer

The Company had sales to a major customer that totaled approximately 21.2% and 16.3% of net sales for the years ended December 31, 2018 and 2017, respectively. The accounts receivable balance related to the major customer was \$1.1 million and \$0.8 million as of December 31, 2018 and 2017, respectively.

We do not have any long-term contracts with customers. We negotiate sale and purchase orders on a daily and monthly basis in the ordinary course of business.

Inventories

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

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

The Company did not have a lower of cost or NRV inventory write-down for the years ended December 31, 2018 and 2017.

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

Table of Contents**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL, Continued**

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

	December 31, 2018 (in thousands)		December 31, 2017
Raw materials	\$ 4,485		\$ 3,046
Finished goods	1,284		1,366
Processing costs	1,165		694
Total inventories for sale	\$ 6,934		\$ 5,106

Property and Equipment

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

Property and equipment, in thousands, as of December 31, 2018 and 2017 consist of the following:

	Life	2018 (in thousands)	2017
Land		\$ 4,993	\$ 4,993
Equipment and vehicles	1-10 years	27,408	26,738
Office equipment	1-7 years	1,457	1,457
Building and leasehold improvements	5-40 years	7,685	7,685
		\$ 41,543	\$ 40,873
Less accumulated depreciation		31,757	29,661
		\$ 9,786	\$ 11,212

Depreciation expense for the years ended December 31, 2018 and 2017 was \$2.1 million and \$2.2 million, respectively. Of the \$2.1 million of depreciation expense recognized in 2018, \$2.0 million was recorded in cost of sales, and \$51.9 thousand was recorded in general and administrative expense. Of the \$2.2 million of depreciation expense recognized in 2017, \$2.1 million was recorded in cost of sales, and \$74.5 thousand was recorded in general and administrative expense.

Certain Banking Expenses

The Company has included certain banking costs relating to our loans and loan restructuring within interest expense. The loan fees amortization totaled \$272.7 thousand and \$123.9 thousand for the years ended December 31, 2018 and 2017, respectively. In 2018 and 2017, the Company paid and capitalized loan fees of \$306.0 thousand and \$124.9 thousand, respectively.

The Company includes capitalized loan fees as a reduction of debt.

Shipping and Handling Fees and Costs

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

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

Income Taxes

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

The FASB has issued guidance, included in the ASC, related to the accounting for uncertainty in income taxes recognized in financial statements. The Company recognizes uncertain income tax positions using the “more-likely-than-not” approach as defined in the ASC. The amount recognized is subject to estimate and management’s judgment with respect to the most likely outcome for each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. The Company has no liability for uncertain tax positions recognized as of December 31, 2018 and 2017.

As a policy, the Company recognizes interest accrued related to unrecognized tax positions in interest expense and penalties in operating expenses. See also Note 5 - Income Taxes for additional information relating to income taxes.

Earnings (Loss) Per Share

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

Common Stock and Share-based Compensation Arrangements

The Company has a Long Term Incentive Plan adopted in 2009 (“LTIP”) under which it may grant equity awards for up to 2.4 million shares of common stock, which are reserved by the Board of Directors for issuance of equity awards.

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

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

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

The Company uses the Modified Black-Scholes-Merton option-pricing model to value the Company's stock options for each employee stock option award. See Note 9 - Share-based Compensation and Other Compensation Agreements. Using these option pricing models, the fair value of each stock option award is estimated on the date of grant.

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

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

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

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

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

for six months before the participant may dispose of such shares.

Gain on Insurance Proceeds

The Company filed an insurance claim related to six roofs on certain of its buildings due to weather related damage. In 2016, the Company received insurance proceeds and recorded a gain net of impairment write-downs of the related roofs and consulting fees related to the claim. In 2018, the Company received additional proceeds in the amount of \$744.9 thousand and recorded a gain, net of expenses and consulting fees related to the claim, of \$476.4 thousand.

Subsequent Events

The Company has evaluated the period from December 31, 2018 through the date the financial statements herein were issued for subsequent events requiring recognition or disclosure in the financial statements and identified the following:

On March 1, 2019, the Company entered into Amendment No. 1 (the "BofA First Amendment") to the Loan and Security Agreement and Consent with BofA, which amended certain terms of the BofA Loan Agreement between the Company and BofA. The BofA First Amendment memorialized BofA's consent to (i) the Company making a one-time prepayment of principal in an aggregate amount not to exceed \$500.0 thousand to K&R, LLC and (ii) the Company amending certain terms of related party notes to K&R, LLC and 7100 Grade Lane, LLC ("Kletter Notes"). See Note 8 - Related Party Transactions. In addition, the BofA First Amendment amended the BofA Loan Agreement's commitment termination date to be September 30, 2022 and released certain reserves previously required by BofA under the BofA Loan Agreement, among other things.

On March 1, 2019, the Company entered into first amendments to the Kletter Notes. See Note 8 - Related Party Transactions. The Company made a prepayment in the amount of \$500.0 thousand, increased the interest rate of the Kletter Notes from 5.00% to 7.00% and extended the maturity date of the Kletter Notes from December 31, 2020 to December 31, 2022, among other things.

On March 4, 2019, the Company entered into a master lease agreement with Banc of America Leasing & Capital, LLC. The master lease agreement permits the Company to lease equipment in an amount not to exceed \$1.0 million. The master lease agreement expires December 31, 2019.

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

Impact of Recently Issued Accounting Standards

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). The amendments in ASU 2014-09 affect any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments were effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. On January 1, 2018, the Company adopted ASU 2014-09 using the retrospective approach. The Company noted no financial impact on the Consolidated Financial Statements as a result of the adoption of this amended guidance. In addition, the adoption of this new accounting standard resulted in increased disclosure, including qualitative and quantitative disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. See the Revenue Recognition section of Note 1 - Summary of Significant Accounting Policies and General for additional information.

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes*, which requires that deferred tax assets and liabilities be classified as noncurrent on the consolidated balance sheet. ASU 2015-17 was effective for annual periods beginning after December 15, 2016, including interim periods within those annual periods. Upon adoption, ASU 2015-17 may be applied either prospectively or retrospectively. The Company adopted the standard prospectively in the first quarter of 2017 and noted no material impact from the adoption on the Consolidated Financial Statements.

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

The amendments in ASU 2016-02 are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial

statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Company is evaluating the potential impact of ASU 2016-02 on the Consolidated Financial Statements. As of January 1, 2019, the Company recorded a right-of-use asset and a lease liability of approximately \$5.6 million on the Consolidated Balance Sheet. The Company does not expect the changes to have a material impact on the Consolidated Statement of Operations and the Consolidated Statement of Cash Flows. Upon adoption, the Company expects that its financial statement disclosures will be expanded to present additional details of its leasing arrangements.

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

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

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

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NOTE 2 - LONG-TERM DEBT AND NOTES PAYABLE TO BANK

Summary:

On February 29, 2016, the Company entered into a Loan Agreement (the "2016 Loan") with MidCap and paid off all remaining amounts due to the Company's previous lender Wells Fargo. Additionally on February 29, 2016, the Company converted certain amounts payable to related parties into unsecured term notes payable to the same related parties as more fully described in Note 8 - Related Party Transactions. On March 31, 2017, the Company entered into an amendment to increase the line of credit, subject to the satisfaction of certain borrowing base restrictions (which have been satisfied), and extend the maturity date more fully described below.

On June 23, 2017, in connection with the purchase of equipment to be used in the operation of the Company's business, the Company issued notes totaling \$129.0 thousand principal amount due to a related party. See Note 8 - Related Party Transactions.

On November 9, 2018, the Company entered into the BofA Loan Agreement with BofA and paid off all remaining amounts due to the Company's previous lender MidCap.

See Note 1 - Summary of Significant Accounting Policies and General - Subsequent Events for discussion of the BofA First Amendment to the BofA Loan Agreement.

MidCap:

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

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

The interest rate on the 2016 Loan was equal to the prime rate (5.25% as of November 9, 2018) plus 250 basis points (2.50%). In the Event of a Default (as defined in the 2016 Loan Agreement), the interest rate would increase by 300 basis points (3.00%). The 2016 Loan also had a monthly collateral-monitoring fee equal to 27.5 basis points (0.275%) of the average daily balance outstanding, an annual facility fee of 100 basis points (1.00%) and an unused line fee equal to an annual rate of 50 basis points (0.50%) of the average undrawn portion of the 2016 Loan.

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

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

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

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

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

On March 31, 2017, the Company and each of its wholly-owned subsidiaries entered into an amendment to the 2016 Loan with MidCap ("First Amendment"). The First Amendment increased the line of credit from \$6.0 million to \$8.0 million and extended the maturity date to February 28, 2020. As amended, the line of credit permitted the Company to borrow an amount under the 2016 Loan equal to the lesser of (A) \$8.0 million; and (B)(i) 85% of the value of the Company's eligible domestic accounts receivable, plus (ii) the lesser of (x) \$2.5 million and (y) 75% of the net orderly liquidation value of eligible inventory, plus (iii) the lesser of (x) \$400,000 and (y) 40% of appraised net forced liquidation value of eligible fixed assets, plus (iv) the lesser of (x) \$1.75 million and (y) 45% of the appraised value of certain properties owned by the Company (subject to MidCap's receipt of any third-party or internal approvals it may require in its discretion), minus (v) any amount which MidCap may require from time to time, pursuant to terms of the agreement, in order to secure amounts owed to MidCap under the agreement.

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NOTE 2 - LONG-TERM DEBT AND NOTES PAYABLE TO BANK, Continued

The First Amendment contained a minimum line availability covenant equal to \$350.0 thousand, the same as the 2016 Loan. This covenant was replaced by a Fixed Charge Coverage Ratio ("FCCR") covenant once the Company achieved an FCCR of 1.1x on an annualized basis beginning July 1, 2018 with a result of an increase in availability of \$350.0 thousand. The Company paid underwriting fees of \$20.0 thousand at closing.

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

As of November 9, 2018, in connection with entry into the BofA Loan Agreement, the Company repaid in full the remaining balance of the Company's revolving line of credit with MidCap. The Company paid to MidCap \$106.8 thousand in interest penalties as a result of such termination.

Bank of America:

On November 9, 2018, the Company entered into the BofA Loan Agreement that provides for (i) a revolving line of credit in the aggregate principal amount of \$10.0 million (subject to a borrowing base), which includes a \$1.0 million letter of credit subline (the "Revolving Loan"), and (ii) a term loan in the amount of \$2.5 million (the "Term Loan" and together with the Revolving Loan, the "Loans").

The interest rate on the Revolving Loan is equal to LIBOR plus 2.25% to 2.75%. The interest rate on the Term Loan is equal to LIBOR plus 2.75% to 3.25%. During a continuance of an Event of Default, the interest rate will increase by 2.0%.

Proceeds from the BofA Loan Agreement were used to satisfy the Company's existing credit facility with Midcap. In addition, proceeds from the Revolving Loan were used to pay fees and transaction expenses associated with the Loans, to pay the Borrowers' obligations to BofA, and for other corporate purposes of the Borrowers, including working capital.

The Revolving Loan is due and payable in full on the Commitment Termination Date (as defined below), and the Borrowers may prepay the Revolving Loan without premium or penalty. The Term Loan will be repaid by

consecutive installments of \$89.3 thousand on the first day of each quarter, commencing on January 1, 2019. On the Commitment Termination Date, all principal, interest, and other amounts with respect to the Term Loan will be due and payable in full.

The Company agreed to pay BofA certain fees in connection with the BofA Loan Agreement, including, without limitation: (i) unused credit line fees, due on the first day of each month and on the Commitment Termination Date, (ii) letter of credit facility fees, payable in monthly arrears on the first day of each month, (iii) a closing fee in the amount of \$50,000, due on the Closing Date, and (iv) an administrative fee of \$10,000 on the Closing Date and on each anniversary date thereof. In addition, the Company agreed to pay all reasonable fees, costs, and expenses, incurred by BofA in the enforcement of the BofA Loan Agreement and related documents during the continuance of an Event of Default and all legal, accounting, appraisal, consulting, and other fees incurred by BofA in connection with the Loans.

Borrowings under the BofA Loan Agreement are secured by all property of each Borrower. The Company's obligations are also secured by mortgages upon real estate owned by certain wholly-owned subsidiaries of the Company.

The BofA Loan Agreement requires the Borrowers to comply with certain customary affirmative and negative covenants that, among other things, will restrict, subject to certain exceptions, the ability of the Borrowers to incur indebtedness, grant liens, make investments, engage in acquisitions, mergers or consolidations, and pay dividends and other restricted payments. The BofA Loan Agreement also requires that the Borrowers maintain a certain fixed charge coverage ratio, calculated as of the last day of each month for the trailing twelve month period then ended.

The BofA Loan Agreement will terminate on the earlier of: (i) September 30, 2020, with an option to extend such date to September 30, 2023 upon certain conditions, (ii) the date on which the Borrowers terminate the Revolving Loan pursuant to the BofA Loan Agreement, or (iii) the date on which BofA terminates the Revolving Loan as a result of an Event of Default (the "Commitment Termination Date"). The Company has the right to terminate the BofA Loan Agreement at any time with 30 days prior written notice. Any notice of termination by the Borrowers will be irrevocable and the Borrowers will make full payment of all obligations on the Commitment Termination Date. The borrowings under the revolving credit agreement are classified as short-term obligations under GAAP as the agreement with BofA contains a subjective acceleration clause and requires the Company to maintain a lockbox arrangement with the lender.

The BofA Loan Agreement had availability of \$4.1 million as of December 31, 2018.

Table of Contents**NOTE 2 - LONG-TERM DEBT AND NOTES PAYABLE TO BANK, Continued***Other Debt:*

Amounts owed to K&R, LLC and 7100 Grade Lane LLC are more fully described in Note 8 - Related Party Transactions.

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

Long term debt as of December 31, 2018 and 2017 consisted of the following:

	2018	2017
	(in thousands)	
Revolving credit facility with Bank of America and MidCap, see above description for additional details	\$ 3,646	\$ 5,018
Bank of America term loan	2,500	—
7100 Grade Lane, LLC related party note (See Note 8 - Related Party Transactions)	884	884
K&R, LLC related party notes (See Note 8 - Related Party Transactions)	652	716
Equipment note, see above description for additional details	63	—
Total debt	7,745	6,618
Debt issuance costs	(175)	(141)
Total debt and debt issuance costs	7,570	6,477
Less current portion of long-term debt and debt issuance costs	3,941	4,941
Total long-term debt and debt issuance costs	\$ 3,629	\$ 1,536

The annual contractual maturities of long-term debt, in thousands, for the next five years and thereafter as of December 31, 2018 are as follows:

2019	\$	402
2020	7,306	
2021	14	
2022	15	
2023	8	
Total long-term debt	\$	7,745

The Company paid and capitalized loan fees in the amount of \$305.8 thousand and \$124.9 thousand during the years ended December 31, 2018 and 2017, respectively.

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NOTE 3 - LEASE COMMITMENTS

Operating Leases:

The Company leased a portion of its Louisville, Kentucky facility from a related party (see Note 8 - Related Party Transactions) under an operating lease that was due to expire December 31, 2017 (the "7100 Prior Lease"). The lease amount was \$53.8 thousand per month. Effective October 1, 2017, the Company entered into a new lease agreement with a related party for the same property (the "7100 Lease") that terminated and replaced the 7100 Prior Lease. The lease is for a period of seven years with rent payments of \$37.5 thousand per month for the first five years. For each of the following one year periods, the annual rent increases the lesser of (a) the percentage change in the CPI over the preceding twelve months, or (b) 2% of the previous year's annual rent. The Company has the option to extend the lease for two additional consecutive terms, each such extended term to be for a period of five years. In addition, the Company is responsible for real estate taxes, insurance, utilities and maintenance expense.

The Company signed a lease, effective December 1, 2014, to lease a facility in the Seymour, Indiana area. This lease was for an initial period of three years, with the option to extend the lease for three (3) additional three (3) year periods. Rent is \$8.2 thousand per month and increases each year by \$0.2 thousand per month. The Company exercised the first option to extend the lease. Because ISA exercised the option to renew the lease for a second three year term, at the end of the second three year term, ISA has the option to purchase the property.

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

On April 30, 2015, the Company entered into a lease agreement with LK Property (see Note 8 - Related Party Transactions), for a portion of the 4.4 acre parcel of real estate located at 6709 Grade Lane, Louisville, Kentucky in the amount of \$3.0 thousand per month. The lease terminates on April 14, 2019, but the Company has the right to terminate the lease and vacate the leased premises upon 90 days notice. The Company is required to reimburse the lessor for 40% of the property taxes on the parcel during the term.

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

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Future minimum lease payments for operating leases for the next five years ending December 31 of each year, in thousands, as of December 31, 2018 are as follows:

	Related		
	Party	Other	Total
2019	\$ 461	\$ 103	\$ 564
2020	450	103	553
2021	450	7	457
2022	450	7	457
2023	450	1	451
2024	338	—	338
Future minimum lease payments	\$ 2,599	\$ 221	\$ 2,820

Total rent expense for the years ended December 31, 2018 and 2017 was \$648.5 thousand and \$770.7 thousand, respectively.

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NOTE 3 - LEASE COMMITMENTS, Continued

Capital Leases:

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

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

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

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

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

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

	For year ended December 31,		
	2018		2017
Depreciation expense	\$	284	\$ 264
Interest expense		98	114

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

	For year ended December 31,		
	2018		2017
Accumulated depreciation	\$	719	\$ 436
Net book value		774	924

Future minimum lease payments for the capital lease for the next five years ending December 31 of each year, in thousands, as of December 31, 2018 are as follows:

	Total	Principal	Interest
2019	\$ 424	\$ 352	\$ 72
2020	424	386	38
2021	143	133	10
2022	39	34	5
2023	24	22	2
2024	15	14	1
Total	\$ 1,069	\$ 941	\$ 128

Table of Contents**NOTE 4 - EMPLOYEE RETIREMENT PLAN**

The Company maintains a defined contribution retirement plan under Section 401(k) of the Internal Revenue Code which covers substantially all employees. Eligible employees may contribute up to 100.0% of their annual salary up to the IRS limits. Under the plan, the Company matches 25.0% of each eligible employee's voluntary contribution up to 6.0% of their gross salary. The Company also offers an additional discretionary match for eligible employees who contribute 7.0% - 10.0% of their weekly wages. In an effort to decrease expenses, the Company suspended the employee match under the plan for an undetermined period of time effective March 1, 2014. There was no matching expense under the plan for the years ended December 31, 2018 and 2017.

NOTE 5 - INCOME TAXES

The income tax provision (benefit), in thousands, consists of the following for the years ended December 31, 2018 and 2017:

	2018		2017	
Federal				
Current	\$	—	\$	—
Deferred	—		—	
	—		—	
State and Local				
Current	13		12	
Deferred	—		—	
	13		12	
	\$	13	\$	12

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

	2018		2017	
Federal income tax at statutory rate	\$	(71)	\$	(380)
State and local income taxes, net of federal income tax effect	2		(52)
Permanent differences	2		2	
Tax reform legislation	920		1,736	
Decrease in deferred tax asset valuation allowance	(779)	(1,258)
Other differences	(61)	(36)
	\$	13	\$	12

Table of Contents**NOTE 5 - INCOME TAXES, Continued**

Significant components of the Company's deferred tax liabilities and assets, in thousands, as of December 31, 2018 and 2017 are as follows:

	2018	2017
Deferred tax liabilities		
Property and equipment	\$ —	\$ (300)
Gross deferred tax liabilities	—	(300)
Deferred tax assets		
State recycling equipment tax credit carry forward	4,586	4,590
Federal net operating loss carry forward	2,980	3,901
State net operating loss carry forward	1,791	1,787
Intangibles and goodwill	1,014	1,178
Stock options	441	424
Accrued expenses	119	160
Interest expense limitation	47	—
Property and equipment	38	—
Inventory capitalization	23	72
Allowance for doubtful accounts	16	16
Accrued property taxes	6	6
Other	2	8
Gross deferred tax assets	11,063	12,142
Valuation allowance	(11,036)	(11,815)
Net deferred tax assets	\$ 27	\$ 27

At December 31, 2018, the Company had deferred recycling equipment state tax credit carry forwards of \$4.6 million relating to our shredder purchase which do not expire. This tax credit is limited to our Kentucky state income tax liability which includes the Limited Liability Entity Tax, which is based on gross receipts or gross profits. The Company used the available state tax credits of \$5.0 thousand and \$6.0 thousand in 2018 and 2017, respectively.

At December 31, 2018, the Company had a Federal net operating loss ("NOL") carry forward of \$14.6 million which expires beginning in 2034. The Company also has state NOL carry forwards of \$29.3 million as of December 31, 2018. The majority of the state NOL carry forwards relates to losses in Kentucky and expire beginning in 2032.

A deferred tax asset valuation allowance is established if it is "more likely than not" that the related tax benefits will not be realized. In determining the appropriate valuation allowance, the Company considers the projected realization of tax benefits based on expected levels of future taxable income, considering recent operating losses, available tax planning strategies, reversals of existing taxable temporary differences and taxable income in the state and carry back provisions. As of December 31, 2018, management determined that only the state recycling equipment tax credit carry

forwards would be realized to the extent of \$27 thousand and reserved all other net deferred tax assets by increasing the related valuation allowance. The state tax credit carry forwards have been reduced to their net realizable value based upon estimates of future gross profits and utilization of the credit in the foreseeable future.

On December 22, 2017, the President of the United States signed the Tax Cuts and Jobs Act tax reform legislation into law. This legislation makes significant changes in U.S. tax law including a reduction in the corporate tax rates, changes to net operating loss carryforwards and carrybacks, and a repeal of the corporate alternative minimum tax. The legislation reduced the U.S. corporate tax rate from the rate of 35 percent to 21 percent. As a result of the enacted law, the Company was required to revalue deferred tax assets and liabilities. This revaluation resulted in an addition of \$0.9 million and \$1.7 million to income tax expense in continuing operations for the year ended December 31, 2018 and 2017, respectively, before change to the valuation allowance and a corresponding reduction in the deferred tax asset. The other provisions of the Tax Cuts and Jobs Act did not have a material impact on the Consolidated Financial Statements.

Table of Contents**NOTE 5 - INCOME TAXES, Continued**

The recorded valuation allowance, in thousands, consisted of the following at December 31, 2018 and 2017:

	Year Ended December 31,	
	2018	2017
Valuation allowance, beginning of year	\$ 11,815	\$ 13,073
Decrease in deferred tax asset valuation allowance	(779)	(1,258)
Valuation allowance, end of year	\$ 11,036	\$ 11,815

NOTE 6 - CASH AND STOCK DIVIDENDS

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

In 2018 and 2017, the Board of Directors did not declare a cash or stock dividend.

NOTE 7 - PER SHARE DATA

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

	2018	2017
	(in thousands, except per share information)	
Basic loss per share		
Net loss	\$ (349)	\$ (1,131)
Weighted average shares outstanding	8,102	8,078
Basic loss per share	\$ (0.04)	\$ (0.14)
Diluted loss per share		
Net loss	\$ (349)	\$ (1,131)
Weighted average shares outstanding	8,102	8,078
Add dilutive	—	—
Diluted weighted average shares outstanding	8,102	8,078

Diluted loss per share	\$	(0.04)	\$	(0.14)
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NOTE 8 - RELATED PARTY TRANSACTIONS

During the periods ended December 31, 2018 and 2017, the Company was involved in various transactions with related parties. A summary of transactions and related balances are as follows. The table at the end of this note should be used in referencing all below paragraphs.

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

The Company is involved in various transactions with K&R and 7100 LLC, which are wholly-owned by Kletter Holdings LLC, the sole member of which was Harry Kletter, the Company's founder and former Chief Executive Officer. After Mr. Kletter's passing in January 2014, Orson Oliver assumed the roles of executor of Mr. Kletter's estate and President of Kletter Holdings LLC. Mr. Oliver was the Company's Chairman of the Board and Interim Chief Executive Officer from 2014 until his resignation on March 26, 2018. Mr. Oliver continues to be a member of the Company's Board of Directors. As of December 31, 2018, Mr. Kletter's estate, K&R and the Harry Kletter Family Limited Partnership, collectively, beneficially own in excess of 20% of the Company's issued and outstanding shares.

The Company leased a portion of the Louisville, Kentucky facility from 7100 LLC (previously from K&R) under an operating lease (the "7100 Prior Lease"), expiring December 2017. Effective October 1, 2017, the Company entered into a new lease agreement with 7100 LLC for the same property (the "7100 Lease") that terminates and replaces the 7100 Prior Lease. See Note 3 - Lease Commitments for additional information relating to the rent and lease agreements with 7100 LLC.

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

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

As of December 31, 2018 and 2017, the Company had balances related to K&R and 7100 LLC pertaining to refundable lease and property deposits due to and from the Company, prepaid expenses, notes payable due from the Company, interest expense, and rent expense.

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

On November 9, 2018, in connection with the entry into the BofA Loan Agreement, the February 29, 2016 intercreditor and subordination agreements between the respective Note holder and MidCap were cancelled.

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

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

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

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

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NOTE 8 - RELATED PARTY TRANSACTIONS, Continued

The Company entered into an agreement and promissory note (the "Back Rent Agreement"), effective October 1, 2017, to pay 7100 LLC \$345.8 thousand for back rent past due and owed under the 7100 Prior Lease with an initial payment of \$100.0 thousand paid at the signing of the Back Rent Agreement with six consecutive monthly payments of \$41.0 thousand each, beginning November 1, 2017. All amounts related to the Back Rent Agreement have been paid as of December 31, 2018.

See Note 1 - Summary of Significant Accounting Policies and General - Subsequent Events for discussion related to amended loan agreements.

Board of Directors' fees and consulting fees:

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

LK Property Investments, LLC:

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

Metal X, LLC:

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During 2017, the Company sold scrap material to MetalX and held accounts receivables balances from MetalX related to scrap sales. For additional information regarding MetalX, see Note 11 - Financing and Related Matters.

Related party balances as of and for the years ended December 31, 2018 and 2017 are as follows, in thousands:

		2018	2017
K&R, LLC and 7100 LLC:			
Deposit amounts owed to the Company by related parties	(1)	\$ 42	\$ 42
Prepaid expenses to related parties	(1)	43	43
Notes payable to related parties	(3)	1,536	1,600
Facility rent payable to related parties	(2)	—	123
Facility rent expense to related parties	(4)	450	597
Interest expense to related parties	(4)	75	75
Board of Directors: *			
Accounts payable to the Board of Directors for fees	(2)	\$ —	\$ 50
Board of director fee expense	(4)	257	200
Board portion of share-based compensation expense	(4)	50	—
LK Property Investments, LLC:			
Lease deposit to LK Property	(1)	\$ 3	\$ 3
Prepaid expenses to LK Property	(1)	3	3
Accounts payable to LK Property	(2)	2	—
Rent expense to LK Property**	(4)	36	36
Metal X, LLC:			
Accounts receivable from Metal X	(1)	\$ —	\$ 1
Revenue from product sales to Metal X	(4)	—	188

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NOTE 8 - RELATED PARTY TRANSACTIONS, Continued

* Excludes insignificant amount of travel reimbursement.

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

- (1) Included in receivable and other assets from related parties on the Consolidated Balance Sheets; balances are as of December 31, 2018 and 2017.
- (2) Included in payables and accrued expenses to related parties on the Consolidated Balance Sheets; balances are as of December 31, 2018 and 2017.
- (3) Included in current maturities of long-term debt, related parties and long-term debt related parties on the Consolidated Balance Sheets; balance is as of December 31, 2018 and 2017.
- (4) Included in the Consolidated Statements of Operations; balances are for the year ended December 31, 2018 and 2017.

NOTE 9 - SHARE-BASED COMPENSATION AND OTHER COMPENSATION AGREEMENTS

Following is a summary of stock option activity and number of shares reserved for outstanding options for the years ended December 31, 2018 and 2017:

Total Options	Number of shares (in thousands)	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2016	502	\$ 4.78	2.07 years	\$ 2.43
Cancelled	(30)	5.40	—	2.85
Expired	(90)	4.94	—	1.71
Outstanding at December 31, 2017	382	\$ 4.70	1.41 years	\$ 2.57
Issued	31	2.46	4.24 years	1.61
Outstanding at December 31, 2018	413	\$ 4.53	0.70 years	\$ 2.49
Exercisable at December 31, 2018	382	\$ 4.70	0.41 years	\$ 2.57
Securities available for grant at December 31, 2018*	1,645			

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

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

Non-Vested Options	Number of shares (in thousands)	Weighted Average Grant Date Option Fair Value
Outstanding at December 31, 2017	—	\$ —
Granted	31	1.61
Outstanding at December 31, 2018	31	\$ 1.61

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Table of Contents**NOTE 9 - SHARE-BASED COMPENSATION AND OTHER COMPENSATION AGREEMENTS, Continued**

Option Grants:

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

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

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

Restricted Stock Unit Grants:

On March 29, 2016, the Compensation Committee granted 11.4 thousand RSUs to an employee under the LTIP pursuant to an RSU agreement. The grant date fair value is based on the Company's closing common stock price on the day immediately prior to the date of grant. The grant date fair value was \$32.0 thousand and will be recognized as expense beginning in the second quarter of 2016. Each RSU vests on March 29, 2018 and represents the right to receive one share of the Company's common stock upon the vesting of the RSU, subject to the terms and conditions set forth in the RSU Agreement and the Plan.

On June 15, 2016, at the Company's annual meeting, the Company's shareholders approved a one-time stock option exchange for the CFO as an alternative to a direct repricing of options previously granted to the CFO. The stock option exchange allowed the Company to cancel 170.0 thousand stock options, including 20.0 thousand granted in January 2015, previously granted to the CFO in exchange for the grant of 90.0 thousand RSUs to the CFO. The RSUs vested over a period ending June 15, 2018. Each RSU represents the right to receive one share of the Company's common stock upon the vesting of the RSU, subject to the terms and conditions set forth in the RSU Agreement and

the Plan. The CFO continued his employment with the Company through the end of the agreement and the related 90.0 thousand RSUs vested and became nonforfeitable.

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

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

Table of Contents**NOTE 9 - SHARE-BASED COMPENSATION AND OTHER COMPENSATION AGREEMENTS, Continued**

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

Following is a summary of RSU activity:

Restricted Stock Units	Number of shares (in thousands)	WA Remaining Contractual Term	WA Grant Date Fair Value
Outstanding at December 31, 2016	45.1	1.05	\$ 2.23
Vested	(22.5)	—	2.36
Outstanding at December 31, 2017	22.6	0.35 years	\$ 2.37
Granted	111.6	1.43	2.19
Vested	(22.6)	—	2.37
Outstanding at December 31, 2018	111.6	1.43 years	\$ 2.19

Non-Equity Transactions:

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

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

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

Other:

As of December 31, 2018 and 2017, we had unrecognized share-based compensation cost related to non-vested RSU awards in the amount of \$195.7 thousand and \$14.9 thousand, respectively.

Share-based compensation charged to operations relating to stock options and RSU awards was \$105.0 thousand and \$116.0 thousand for the years ended December 31, 2018 and 2017, respectively.

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NOTE 10 - LEGAL PROCEEDINGS AND ENVIRONMENTAL MATTERS

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

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

NOTE 11 - FINANCING AND RELATED MATTERS

Securities Purchase Agreement

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

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

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

Director Designation Agreement

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