DIGITAL POWER CORP
Form 10QSB
May 16, 2005

U.S. Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-QSB

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended March 31, 2005

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from _______ to _______

COMMISSION FILE NUMBER 1-12711

DIGITAL POWER CORPORATION
(Exact name of small business issuer as specified in its charter)

California	94-1721931
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

41920 Christy Street, Fremont, CA 94538-3158
(Address of principal executive offices)

(510) 657-2635
(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 [X] No [ ]

Number of shares of common stock outstanding as of May 6, 2005: 6,161,859

DIGITAL POWER CORPORATION

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2005

IN U.S. DOLLARS

UNAUDITED

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[ERNST & YOUNG LOGO OMITTED]

The Board of Directors
Digital Power Corporation

Re: Review report of unaudited interim consolidated financial statements as of and for the three-month period ended March 31, 2005

We have reviewed the accompanying consolidated balance sheet of Digital Power Corporation ("the Company") and its subsidiary as of March 31, 2005, and the related consolidated statements of operations, and cash flows for the three-month periods ended March 31, 2005 and 2004 and changes in shareholders' equity for the three-month period ended March 31, 2005 in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the Company's management.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated interim financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States.

/s/ Kost Forer Gabbay & Kasierer

Tel-Aviv, Israel
May 13, 2005

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

DIGITAL POWER CORPORATION

CONSOLIDATED BALANCE SHEET

U.S. dollars in thousands

ASSETS

CURRENT ASSETS:
Cash and cash equivalents

Restricted cash
Trade receivables, net of allowance for doubtful accounts of $111 at March 31, 2005
Prepaid expenses and other current assets
Inventories

Total current assets

LEASE DEPOSITS

PROPERTY AND EQUIPMENT, NET

Total assets

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET

U.S. dollars in thousands, except share data

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:
Accounts payable
Related party - trade payables account
Other current liabilities
Convertible loan (note 4)

Total current liabilities

SHAREHOLDERS' EQUITY:
Series A redeemable, convertible preferred shares no par value: 500,000 shares authorized, 0 s
issued and outstanding at March 31, 2005

Preferred shares, no par value: 1,500,000 shares authorized, 0 shares issued and outstanding a
March 31, 2005
Common shares, no par value: 10,000,000 shares authorized; 6,161,859 shares issued and outstan
at March 31, 2005
Additional paid-in capital
Deferred stock compensation
Accumulated deficit
Accumulated other comprehensive income

Total shareholders' equity

Total liabilities and shareholders' equity

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

U.S. DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA

	Th
	2005
Revenues	$ 1
Cost of revenues	1
Gross profit	
Operating expenses:	
Engineering and product development	
Selling and marketing	

General and administrative	
Total operating expenses	
Operating loss	
Financial income (expenses), net	
Net loss	$
Basic and diluted loss per share	$ (
Weighted average number of shares used in computing basic and diluted loss per share	6,161

The accompanying notes are an integral part of the consolidated financial statements.

DIGITAL POWER CORPORATION

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. DOLLARS IN THOUSANDS, EXCEPT SHARE DATA

	Common shares		Additional paid-in	Deferred stock	Accumulated	Accu o comp
	Number	Amount	capital	compensation	deficit	
Balance as of January 1, 2005	6,161,859	$ 11,036	$ 2,227	$ (13)	$ (10,620)	$
Amortization of deferred stock compensation related to options granted to an employee	-	-	-	2	-	
Comprehensive loss:						
Net loss	-	-	-	-	(183)	
Foreign currency translation adjustments	-	-	-	-	-	

Total comprehensive loss						
Balance as of March 31, 2005 (Unaudited)	6,161,859	$ 11,036	$ 2,227	$ (11)	$ (10,803)	$

The accompanying notes are an integral part of the consolidated financial statements.

DIGITAL POWER CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Th
	2005
Cash flows from operating activities:	
Net loss	$ (18
Adjustments required to reconcile net loss to net cash used in operating activities:	
Depreciation	2
Compensation related to options granted to an employee	
Decrease in trade receivables	19
Decrease (increase) in prepaid expenses and other current assets	8
Decrease (increase) in inventories	(36
Decrease in accounts payable and related parties	(21
Increase (decrease) in other current liabilities	(12
Net cash used in operating activities	(59
Cash flows from investing activities:	
Purchase of property and equipment	(
Net cash used in investing activities	(
Cash flows from financing activities:	
Restricted cash	(

Proceeds from a convertible loan	25
Proceeds from issuance of Common shares, net	
Net cash provided by financing activities	24
Effect of exchange rate changes on cash and cash equivalents	(
Increase (decrease) in cash and cash equivalents	(36
Cash and cash equivalents at the beginning of the period	1,37
Cash and cash equivalents at the end of the period	$ 1,01

The accompanying notes are an integral part of the consolidated financial statements.

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U.S. dollars in thousands

NOTE 1:- GENERAL

Digital Power Corporation ("the Company" or "DPC") was incorporated in 1969, under the General Corporation Law of the state of California. The Company has a wholly-owned subsidiary, Digital Power Limited ("DPL"), located in the United Kingdom. The Company and its subsidiary are currently engaged in the design, manufacture and sale of switching power supplies and converters. The Company has two reportable geographic segments - North America (sales through DPC) and Europe (sales through DPL).

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. The significant accounting policies applied in the annual financial statements of the Company as of December 31, 2004, are applied consistently in these financial statements. In addition the following accounting policy is applied:

The accompanying unaudited consolidated financial statements as of March 31, 2005 and for the three months ended March 31, 2005 and 2004 are unaudiated and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto, together with management's discussion and analysis of the financial condition and results of operations, contained in the Company Annual Report on Form 10-KSB for the fiscal year ended December 31, 2004. The results of operations for the three months ended March 31, 2005 are not necessarily indicative of the results for the entire fiscal year ending December 31, 2005.

b. Accounting for stock-based compensation:

The Company and its subsidiary have elected to follow Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" ("APB No. 25") in accounting for its employee stock option plans. Under APB No. 25, when the exercise price of the Company's share options is less than the market price of the underlying shares on the date of grant, compensation expense is recognized.

The Company and its subsidiary apply SFAS No. 123, and Emerging Issues Task Force No. 96-18 "Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Services" ("EITF 96-18"), with respect to options issued to non-employees SFAS No. 123 requires use of an option valuation model to measure the fair value of the options at the grant date.

Under Statement of Financial Accounting Standard No. 123 "Accounting for Stock Based compensation ("SFAS No. 123") SFAS No. 123, proforma information regarding net earnings (loss) and net earnings (loss) per share is required and has been determined as if the Company had accounted for its employee options under the fair value method of that statement. The fair value for these options was estimated at the date of grant using a Black-Scholes Option Valuation Model, with the following weighted-average assumptions for March 31, 2005 and 2004, expected volatility of 103% and 113%, respectively, risk-free interest rates of 4% and 4.7%, respectively, dividend yield of 0% for each period, and a weighted-average expected life of the option of 7 years and 4 years for March 31, 2005 and 2004, respectively. Stock compensation, for pro-forma purposes, is amortized over the vesting period.

The following table illustrates the effect on net loss and loss per share as if the fair value method had been applied to all outstanding and unvested awards in each period:

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Net loss available to Common shares - as reported	$
Deduct - stock-based employee compensation - intrinsic value	
Add - stock-based employee compensation -fair value	
Pro forma net loss	$
Loss per share:	
Basic and diluted net loss, as reported	$
Pro forma basic and diluted net loss	$

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U.S. dollars in thousands

NOTE 3:- INVENTORIES

Raw materials, parts and supplies
Work in progress
Finished products

NOTE 4:- CONVERTIBLE LOAN

In January 2005, the Company entered into a convertible loan agreement with Telkoor, according to which Telkoor loaned a $250 interest free convertible note to be paid on the tenth business day after the Company announced its financial results for 2005. The note may be converted into Common stock at a rate of $1.06 per share. Automatic conversion shall occur if the Company meets its set budget for 2005.

NOTE 5:- PENDING LITIGATION

On April 2, 2003, a claim was filed against the Company by Tek-Tron Enterprises Inc. ("Tek-Tron"). In April 2004, the Company signed a settlement agreement with Tek-Tron according to which the Company paid $ 90 and returned certain disputed inventory for a full release. The settlement agreement allowed Tek-Tron to seek arbitration limited to the sum of $ 50 in case the parties do not agree on a resolution regarding the returned inventory. Tek-Tron initiated arbitration against the Company for $ 50 plus attorney fees. The arbitration hearing was held on May 2, 2005, and Tek-Tron was awarded $ 5 in damages and no attorney fees.

NOTE 6:- SEGMENTS, MAJOR CUSTOMERS AND GEOGRAPHICAL INFORMATION

The Company has two reportable geographic segments, see Note 1 for a brief description of the Company's business. The data is presented in accordance with Statement of Financial Accounting Standard No.131, "Disclosure About Segments of an Enterprise and Related Information" ("SFAS No. 131").

U.S. dollars in thousands

NOTE 6:- SEGMENTS, MAJOR CUSTOMERS AND GEOGRAPHICAL INFORMATION

The following data presents the revenues, expenditures and other operating data of the Company's geographic operating segments:

	Three months ended March 31, 200		
	DPC	DPL	Elimi
Revenues	$ 970	$ 965	$
Intersegment revenues	74	-	
Total revenues	$ 1,044	$ 965	$
Depreciation expense	$ 5	$ 17	$
Operating loss	$ (24)	$ (148)	$
Financial expenses, net			
Net loss	$ (21)	$ (162)	$
Expenditures for segment assets as of March 31, 2005	$ (4)	$ -	$
Identifiable assets as of March 31, 2005	$ 1,873	$ 2,968	$

U.S. dollars in thousands

NOTE 6:- SEGMENTS, MAJOR CUSTOMERS AND GEOGRAPHICAL INFORMATION (Cont.)

	Three months ended March 31, 200		
	DPC	DPL	Elimin
Revenues	$ 784	$ 1,045	$
Intersegment revenues	138	-	
Total revenues	$ 922	$ 1,045	$
Depreciation expense	$ 7	$ 18	$
Operating loss	$ (233)	$ (51)	$
Financial income, net			
Net loss	$ (237)	$ (15)	$
Expenditures for segment assets as of March 31, 2004	$ -	$ 4	$
Identifiable assets as of March 31, 2004	$ 2,242	$ 2,972	$

NOTE 7:- SUBSEQUENT EVENTS

On May 3, 2005, the Company received a written notice from the American Stock Exchange ("the AMEX"), advising that the Company was not in compliance with the Amex's listing requirements. In order to maintain its AMEX listing, the Company must submit a recovery plan, advising of the actions it takes to bring the Company into compliance with the continued listing standards within a maximum of 18 months. If the plan is accepted, the Company will be able to continue its listing during the plan period, subject to AMEX's periodic reviews. If the Company is not in compliance with the listing standards at the end of such 18 months period or fails the periodic reviews, the AMEX will initiate delisting proceedings. The Company is planning to submit a plan in accordance with the AMEX requirements.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

With the exception of historical facts stated herein, the matters discussed in this report are "forward looking" statements that involve risks and uncertainties that could cause actual results to differ materially from projected results. Such "forward looking" statements include, but are not necessarily limited to, statements regarding anticipated levels of future revenues and earnings from operations of the Company. Factors that could cause actual results to differ materially include, in addition to other factors identified in this report, dependence on the electronic equipment industry, competition in the power supply industry, dependence on manufacturers in Mexico, China and other risks factors detailed in the Company's Form 10-KSB for the year ended December 31, 2004. Readers of this report are cautioned not to put undue reliance on "forward looking" statements which are, by their nature, uncertain as reliable indicators of future performance. The Company disclaims any intent or obligation to publicly update these "forward looking" statements, whether as a result of new information, future events, or otherwise.

GENERAL

We are engaged in the business of designing, developing, manufacturing, marketing and selling switching power supplies to the industrial, telecommunication, data communication, medical and military industries. Revenues are generated from sales to distributors, OEMs in North America, Europe and the United Kingdom.

We have continued our efforts to increase sales to existing and new customers, and continue our strategy to manufacture our products in the Far East. Until revenues increase to a sufficient amount to offset our expenses, we anticipate that we will continue to experience net losses for the near future. We believe that our cash will be sufficient to fund those losses for the near future.

On January 2005, the Company entered into a convertible note agreement with Telkoor, according to which Telkoor loaned a $250,000 interest free convertible note to be paid on the tenth business day after the Company announced its financial results for 2005. The note may be converted into Common stock at a rate of $1.06 per share. Automatic conversion shall occur if the Company meets its set budget for 2005.

THREE MONTHS ENDED MARCH 31, 2005, COMPARED TO MARCH 31, 2004

REVENUES

Total revenues increased by 5.8% to $1,935,000 for the first quarter ended March 31, 2005, from $1,829,000 for the first quarter ended March 31, 2004. The increase in revenue is mainly due to our newer products developed through Telkoor being received well in the market place.

Revenues from the domestic operation of DPC increased by 23.7% to $970,000 for the first quarter ended March 31, 2005, from $784,000 for the first quarter ended March 31, 2004. Revenues from the Company's European operations of DPL decreased 7.7% to $965,000 for the first quarter ended March 31, 2005, from $1,045,000 for the first quarter ended March 31, 2004.

GROSS MARGINS

Gross margins were 31.5% for the three months ended March 31, 2005, compared to 23.8% for the three months ended March 31, 2004. The increase in gross margins can be partially attributed to the increase use of contract manufacturers in the Far East, and the use of previously written off inventory at the subcontract manufacturer located in Mexico.

ENGINEERING AND PRODUCT DEVELOPMENT

Engineering and product development expenses were 6.5% of revenues for the three months ended March 31, 2005, and 7.5 % for the three months ended March 31, 2004. Actual dollar expenditures decreased by $12,000.

SELLING AND MARKETING

Selling and marketing expenses were 18.3% of revenues for the three months ended March 31, 2005, compared to 16.6% for the three months ended March 31, 2004. The increase in selling and marketing was primarily due to new hires, and travel expenses as part of our efforts to increase sales.

GENERAL AND ADMINISTRATIVE

General and administrative expenses were 15.6% of revenues for the three months ended March 31, 2005 compared to 15.3% for the three months ended March 31, 2004.

FINANCIAL INCOME (EXPENSES)

Net financial expenses was $11,000 for the three months ended March 31, 2005, compared to net financial income of $32,000 for the three months ended March 31, 2004. The financial expense resulted mainly from exchange rate fluctuation.

NET LOSS

Net loss for the three months ended March 31, 2005, was $183,000 compared to net loss of $252,000 for the three months ended March 31, 2004. The net loss decrease is mainly due to the increase in revenues and gross margin.

LIQUIDITY AND CAPITAL RESOURCES

On March 31, 2005, the Company had cash, cash equivalent and a short-term bank deposit of $1,011,000 and working capital of $2,251,000. This compares with cash and cash equivalent of $1,164,000 and working capital of $2,727,000 at March 31, 2004. The decrease in working capital is mainly due to decrease in cash and increase in accounts payable and related party payable, offset partially by decrease in other current liabilities.

Cash used in operating activities for the Company totaled $593,000 for the three months ended March 31, 2005, compared to cash used of $134,000 for the three months ended March 31, 2004. The increase of cash used in operating activities is mainly due to the loss from operating activities, increase in inventory, and decrease in accounts payable. Cash used in investing activities was $4,000 for the three months ended March 31, 2005 and for the three months ended March 31, 2004. Net cash provided by financing activities was $243,000 for the three months ended March 31, 2005, compared to the net cash provided of $246,000 for the three months ended March 31, 2004.

The Company has available a line of credit with Silicon Valley Bank ("SVB"). The Company can borrow up to $1,200,000 against eligible accounts receivable and other financial covenants. The rate for this line of credit would be at Silicon Valley Bank's prime rate plus 1.75%. In order to utilize the line of credit, the Company is required to maintain certain ratios and be in compliance with other covenants. As of March 31, 2005, the Company has not utilized its line of credit.

AMEX LISTING

On May 3, 2005, the Company received a written notice from the American Stock Exchange ("the AMEX"), advising that the Company was not in compliance with the Amex's listing requirements. In order to maintain its AMEX listing, the Company must submit a recovery plan, advising of the actions it takes to bring the Company into compliance with the continued listing standards within a maximum of 18 months. If the plan is accepted, the Company will be able to continue its listing during the plan period, subject to AMEX's periodic reviews. If the Company is not in compliance with the listing standards at the end of such 18 months period or fails the periodic reviews, the AMEX will initiate delisting proceedings. The Company is planning to submit a plan in accordance with the AMEX requirements.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On April 2, 2003, a claim was filed against the Company by Tek-Tron Enterprises Inc. ("Tek-Tron") in state court of Pennsylvania, specifically, the court of Common Pleas of Bucks County, at Case No. 0302116241. In April 2004, the Company signed a settlement agreement with Tek-Tron according to which the Company paid $90,000 and return certain disputed inventory for a full release. The settlement agreement allowed Tek-Tron to seek arbitration limited to the sum of $50,000 in case the parties do not agree on a resolution regarding the returned inventory. Tek-Tron initiated arbitration against the Company for $50,000 plus attorney fees. The arbitration hearing was held on May 2, 2005, and Tek-Tron was awarded $5,000 in damages and no attorney fees.

ITEM 2. CHANGES IN SECURITIES

None.

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ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibits

31.1 Certification of the CEO under the Sarbanes-Oxley Act

31.2 Certification of the CFO under the Sarbanes-Oxley Act

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DIGITAL POWER CORPORATION
(Registrant)

Date: May 16, 2005

/s/ Jonathan Wax

Jonathan Wax,
Chief Executive Officer
(Principal Executive Officer)

Date: May 14, 2005

/s/ Leo Yen

Leo Yen,
Chief Financial Officer
(Principal Financial Officer)

ocuments. The only event of default under the Company Note is the failure of the Company to pay all funds due to WESSCO on demand.

The principal under the Term Note is payable in sixty (60) monthly installments as follows: $45.3 thousand for the first year, $47.5 thousand for the second year, $49.9 thousand for the third year, $52.4 thousand for the fourth year, and $54.4 thousand for the eleven months of the final year. Interest will be calculated as noted above and paid each month. The first payment commenced November 1, 2013, and the final unpaid principal amount of $60.0 thousand, together with all accrued and unpaid interest, charges, fees, or other advances, if any, is to be paid on November 1, 2018. As of September 30, 2015, the outstanding principal balance on the Term Note was $1.9 million.

With respect to the 2015 Line of Credit Note, the Company can request advances up to $1.0 million for twelve (12) months after the effective date of the 2015 Line of Credit Note (the "Draw Period"). Advances are limited to eighty percent (80%) of the

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purchase price for equipment. Advances made to WESSCO that were repaid can be re-borrowed during the Draw Period. During the Draw Period, interest-only payments in the amount of all accrued and unpaid interest on the principal balance of the 2015 Line of Credit Note are made monthly. The total of all advances, less any repayments, through the end of the Draw Period, will be equal to the principal balance of the 2015 Line of Credit Note, and no further advances will be made after the Draw Period. At the conclusion of the Draw Period, the principal and interest are payable in sixty (60) monthly installments that commenced on the first day of the month immediately following the end of the Draw Period. Any unpaid principal amount due, together with all accrued and unpaid interest, charges, fees, or other advances, if any, will be paid at maturity.

WESSCO cannot make demand for payment of the Company Note before December 31, 2016.

On June 13, 2014, the Company entered into a senior, secured credit facility (the "Credit Agreement") with the Bank pursuant to which the Bank granted the Company a revolving line of credit of up to $15.0 million (the "Revolving Loan"), up to $1.0 million of which is available to the Company as a sub-facility for letters of credit. The Company may borrow up to 85% of the value of its eligible accounts receivable and 65% of the value of eligible inventory under the Revolving Loan. As of September 30, 2015, an availability block that limits borrowings under the revolver in the amount of $1.6 million is in place. If the Company demonstrated to the Bank that no default or event of default shall have occurred or be continuing and the fixed charge coverage ratio, determined on a trailing twelve month period, for each of the most recent three consecutive months then ending, is at least 1.25:1, the availability block shall reduce to $1.0 million. If the Company demonstrated to the Bank that no default or event of default shall have occurred or be continuing and the fixed charge coverage ratio, determined on a trailing twelve month period, for each of the most recent three consecutive months then ending, is at least 1.50:1, the availability block shall reduce to zero. As of September 30, 2015, these financial ratios were not met and this availability block remained in place.

The Credit Agreement also provided the Company with a secured equipment term loan of $2.8 million (the "Term Loan"). The Company used the proceeds from the Credit Agreement to repay in full its prior credit facility with Fifth Third Bank (the "Prior Credit Agreement").

The interest rate on the Revolving Loan is equal to daily three month LIBOR plus three percent (3.00%). The interest rate on the Term Loan is equal to daily three month LIBOR plus three and 25/100 percent (3.25%). If there is an Event of a Default (as defined in the Credit Agreement) under either the Revolving Loan or the Term Loan, the interest rate will increase by two percent (2.00%). Each of the Revolving Loan and the Term Loan has a maturity date of June 13, 2019. As of March 19, 2015, the lender decreased the borrowing base block for the Credit Agreement, thereby increasing the availability of capital under our revolving line of credit by $350,000. The lender charged us $5,000 per week for each week in which we used this additional $350,000. As of April 30, 2015, the borrowing base block reduction was canceled and no longer available to the Company.

The Company is subject to a prepayment fee of up to 2.00% of the maximum Revolving Loan and Term Loan amount in the event the Credit Agreement is terminated or prepaid prior to June 13, 2018.

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

The Credit Agreement contains customary covenants, including a minimum EBITDA covenant, a capital expenditure covenant, and a fixed charge coverage ratio covenant, measured monthly on a trailing twelve month basis at the end of each month, beginning with the month ending June 30, 2015 of not less than 1.25 to 1.00. As of September 30, 2015 and December 31, 2014, we were not in compliance with our bank financial covenants.

As of September 30, 2015, we have $298.6 thousand available for draw under our existing credit facilities.

The Company and each of its wholly-owned subsidiaries, other than WESSCO, granted the Bank a first priority security interest in all of their assets pursuant to a Security Agreement, and each of the Company's subsidiaries guaranteed the Company's obligations under the Credit Agreement pursuant to a Continuing Guaranty; provided that WESSCO's guarantee is subordinated to its obligations to KY Bank (described above), pursuant to a subordination agreement among WESSCO, the Bank and KY Bank. The Company paid fees in 2014 totaling $245.0 thousand related to the Credit Agreement. These fees were capitalized and are being amortized to interest expense over the life of the Credit Agreement.

For additional information related to long term debt and notes payable to bank subsequent to September 30, 2015, see Note 1 - Summary of Significant Accounting Policies.

Swap agreements

In October 2013, we entered into an interest rate swap agreement with KY Bank swapping a variable rate based on LIBOR for a fixed rate. This swap agreement covers approximately $2.1 million in debt, commenced October 17, 2013 and matures on October 1, 2018. The swap agreement fixes our interest rate at 4.74%. At September 30, 2015, we recorded the estimated fair value of the liability related to this swap at approximately $19.4 thousand. We entered into the swap agreements for the purpose of hedging the interest rate market risk for the respective notional amounts and forecasted amounts.

Our long term debt as of September 30, 2015 and December 31, 2014 consisted of the following:

	2015 (Unaudited) (in thousands)	2014
Revolving credit facility of $15.0 million in 2014 with Wells Fargo Bank. See above description for additional details.	$2,852	$10,453
Note payable to Wells Fargo Bank in the original amount of $2.8 million secured by shredder system assets, and other Recycling equipment. See above description for additional details.	2,100	2,520
Note payable to the Bank of Kentucky, Inc. in the original amount of $3.0 million secured by all WESSCO assets. See above description for additional details.	1,934	2,361
Note payable to the Bank of Kentucky, Inc. in the original amount of $596.6 thousand secured by all WESSCO assets. See above description for additional details.	487	577
Revolving credit facility convertible to term loan of up to $1.0 million in 2015 with the Bank of Kentucky, Inc. See above description for additional details.	291	—
	7,664	15,911
Less current maturities	7,664	15,911
	$—	$—

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

2015	$7,664
2016	—
2017	—
2018	—
2019	—
Total	$7,664

NOTE 4 – SEGMENT INFORMATION

Our operations include two primary segments: Recycling and Waste Services.

The Company’s two reportable segments are determined by the products and services that each offers. The Recycling segment generates its revenues based on buying and selling of ferrous and non-ferrous, including stainless steel, scrap metals, and automobile parts. Waste Services’ revenues consist of charges to customers for waste disposal services and equipment sales and lease income. The components of the column labeled “other” are selling, general and administrative expenses that are not directly related to the two primary segments.

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

The majority of the assets listed under the column labeled "other" include land, buildings and deferred taxes that are used by multiple segments, which makes them not appropriate to allocate. We consider such assets corporate assets. Expenses related to these corporate assets, including property taxes, insurance and utilities, are allocated to each segment based on a formula.

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015	RECYCLING	WASTE SERVICES	OTHER	SEGMENT TOTALS
	(in thousands)			
Recycling revenues	$39,629	$—	$—	$39,629
Equipment sales, service and leasing revenues	—	1,777	—	1,777
Management fees	—	4,188	—	4,188
Cost of sales	(41,459)	(4,431)	—	(45,890)
Inventory adjustment for lower of cost or market	(1,110)	—	—	(1,110)
Impairment loss, fixed assets	(637)	—	—	(637)
Selling, general, and administrative expenses	(801)	(532)	(2,076)	(3,409)
Segment profit (loss)	$(4,378)	$1,002	$(2,076)	$(5,452)
Segment assets	$20,122	$2,118	$2,559	$24,799

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014	RECYCLING	WASTE SERVICES	OTHER	SEGMENT TOTALS
	(in thousands)			
Recycling revenues	$83,472	$—	$—	$83,472
Equipment sales, service and leasing revenues	—	1,698	—	1,698
Management fees	—	3,793	—	3,793
Cost of sales	(81,228)	(3,859)	—	(85,087)
Selling, general, and administrative expenses	(1,042)	(611)	(2,757)	(4,410)
Segment profit (loss)	$1,202	$1,021	$(2,757)	$(534)
Segment assets	$39,553	$2,285	$2,900	$44,738

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2015	RECYCLING	WASTE SERVICES	OTHER	SEGMENT TOTALS
	(in thousands)			
Recycling revenues	$9,587	$—	$—	$9,587
Equipment sales, service and leasing revenues	—	563	—	563
Management fees	—	1,400	—	1,400
Cost of goods and services sold	(9,887)	(1,423)	—	(11,310)
Inventory adjustment for lower of cost or market	(319)	—	—	(319)
Selling, general, and administrative expenses	(220)	(170)	(642)	(1,032)
Segment profit (loss)	$(839)	$370	$(642)	$(1,111)
Segment assets	$20,122	$2,118	$2,559	$24,799

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2014	RECYCLING	WASTE SERVICES	OTHER	SEGMENT TOTALS
	(in thousands)			
Recycling revenues	$32,700	$—	$—	$32,700
Equipment sales, service and leasing revenues	—	599	—	599
Management fees	—	1,357	—	1,357
Cost of goods and services sold	(31,706)	(1,351)	—	(33,057)
Selling, general, and administrative expenses	(328)	(161)	(785)	(1,274)
Segment profit (loss)	$666	$444	$(785)	$325
Segment assets	$39,553	$2,285	$2,900	$44,738

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NOTE 5 - LEASE COMMITMENTS

Operating Leases:

The Company leases the Louisville, Kentucky facility from a related party under an operating lease expiring December 2017. As of December 31, 2012, the lease automatically renewed for a five-year option period under terms of the lease agreement. Effective January 1, 2013, the lease amount increased to $53.8 thousand per month based on the CPI index as stated in the lease agreement. In addition, we are responsible for real estate taxes, insurance, utilities and maintenance expense for the facility (See Note 7).

The Company leases equipment from a related party under operating leases expiring in November 2015 and May 2016 for a monthly payment totaling $10.5 thousand. See also Note 7 - Related Party Transactions for additional information relating to the related party rent and lease payments. The Company and the related party are currently in discussions related to the extension of the November 2015 ending date.

The Company leased office space in Dallas, Texas for which monthly payments of $1.0 thousand were due through April 2015. The Company no longer leases this space.

The Company leases a lot in Louisville, Kentucky for a term that commenced in March 2012 and ends in February 2016. The monthly payment amount from March 2012 through February 2014 was $3.5 thousand. The monthly payment amount then increased to $3.8 thousand for the remaining term. During 2015, the Company determined that it no longer required the lot. During the third quarter of 2015, the Company agreed to vacate the property and begin making monthly payments of $4.0 thousand through March 2017 in satisfaction of current and past due amounts. As of September 30, 2015, the Company owed $41.0 thousand for past due rents.

On October 1, 2014, the Company executed a 60 month operating lease for processing equipment that will be used in our Recycling segment in the amount of $30.6 thousand per month.

The Company signed a lease, effective December 1, 2014, to lease a facility in the Seymour, Indiana area. This lease is for a period of three years. The Company has the option to extend the lease for three (3) additional three (3) year periods. Rent is $8.0 thousand per month and increases each year by $0.2 thousand per month. In the event ISA exercises the option to renew the lease for a second three-year term, at the end of the second three-year term, ISA has the option to purchase the property.

On April 30, 2015, the Company entered into a lease agreement with LK Property Investments, LLC (See Note 7), for a portion of the 4.4 acre parcel of real estate located at 6709 Grade Lane, Louisville, Kentucky in the amount of $3.0 thousand per month. The lease terminates on April 14, 2019, but the Company has the right to terminate the lease and vacate the leased premises upon 90 days notice. The Company is required to reimburse the lessor for 40% of the property taxes on the parcel during the term.

Future minimum lease payments for operating leases for the next five twelve-month periods ending September 30 of each year, in thousands, as of September 30, 2015 are as follows:

2016	$1,234
2017	1,172
2018	582
2019	387
2020	—
Future minimum lease payments	$3,375

Total rent expense for the nine months ended September 30, 2015 and 2014 was $1,014.8 thousand and $661.2 thousand, respectively.

NOTE 6 – PER SHARE DATA

The computation for basic and diluted earnings (loss) per share is as follows:
Nine months ended September 30, 2015 compared to nine months ended September 30, 2014:

	2015	2014
	(in thousands, except per share information)	
Basic loss per share		
Net loss	$(5,488)	$(1,123)
Weighted average shares outstanding	7,979	7,425
Basic loss per share	$(0.69)	$(0.15)
Diluted loss per share		
Net loss	$(5,488)	$(1,123)
Weighted average shares outstanding	7,979	7,425
Add dilutive effect of assumed exercising of stock options	—	—
	7,979	7,425
Diluted loss per share	$(0.69)	$(0.15)

Three months ended September 30, 2015 compared to three months ended September 30, 2014:

	2015	2014
	(in thousands, except per share information)	
Basic earnings (loss) per share		
Net income (loss)	$(1,187)	$163
Weighted average shares outstanding	8,000	7,956
Basic earnings (loss) per share	$(0.15)	$0.02
Diluted earnings (loss) per share		
Net income (loss)	$(1,187)	$163
Weighted average shares outstanding	8,000	7,956
Add dilutive effect of assumed exercising of stock options and warrants	—	231
Diluted weighted average shares outstanding	8,000	8,187
Diluted earnings (loss) per share	$(0.15)	$0.02

Total weighted average anti-dilutive shares excluded from diluted net income (loss) per share are 1,162 thousand.

NOTE 7 - RELATED PARTY TRANSACTIONS

Property and equipment payments to K&R, LLC.:

During the nine month period ended September 30, 2015, we were involved in various transactions with related parties, including an affiliated company, K&R, LLC ("K&R"), which is wholly-owned by Kletter Holdings LLC, the sole member of which was Harry Kletter, our founder and former Chief Executive Officer. After Mr. Kletter's passing in January 2014, our Chairman of the Board and interim Chief Executive Officer, Orson Oliver, assumed the roles of executor of Mr. Kletter’s estate and President of Kletter Holdings LLC. As of September 30, 2015, 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.

We lease a portion of our Louisville, Kentucky facility from K&R under an operating lease expiring December 2017. Additionally, the Company leases equipment from K&R under operating leases expiring in November 2015 and May 2016. As of September 30, 2015 and December 31, 2014, the lease payable balance to K&R was $864.6 thousand and $577.7 thousand, respectively. See Note 5 - Lease Commitments for additional information relating to the rent and lease agreements with K&R. During the nine month period ended September 30, 2015 and September 30, 2014, rent expense to K&R was $508.5 thousand and $484.5 thousand, respectively.

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 a piece of the Company's real property located at 1565 East 4th Street in Seymour, Indiana. The Company was permitted and has used the deposited funds for general corporate purposes. The Company has been informed by K&R that K&R is no longer interested in acquiring the property. Under the Company's lending arrangements, a refund of the deposit to K&R must be approved by the Company's lenders.

As of September 30, 2015 and December 31, 2014, we had $32.2 thousand for both periods from K&R in accounts receivable pertaining to payments made by ISA on its behalf, Additionally, as of September 30, 2015 and December 31, 2014, we had $42.2 thousand for both periods in other non-current assets related to a refundable deposit on the property the Company leases from K&R.

Board of Directors' fees and consulting fees:

As of September 30, 2015 and December 31, 2014, we had outstanding unpaid Board of Directors' fees of $204.9 thousand and $70.0 thousand, respectively. In each of the nine month periods ended September 30, 2015 and September 30, 2014, the Company expensed Board of Directors' fees of $160.0 thousand, which included in each period financial consulting fees to one of its directors of $25.0 thousand.

Management services payments to Algar, Inc.:

On December 2, 2013, we entered into a Management Services Agreement (the "Management Agreement") with Algar, Inc. ("Algar"). Under the Management Agreement, Algar provides us with day-to-day senior executive level services. Algar will also provides business, financial, and organizational strategy and consulting services, upon request by our Board of Directors.

On December 2, 2013, in connection with the Management Agreement, our Board of Directors appointed Sean Garber as President. Under the Management Agreement, we reimburse Algar for the portion of Mr. Garber’s salary that is attributable to Algar’s services under the Management Agreement in an amount not to exceed $20.8 thousand per month, or $250.0 thousand per year plus other expenses. During the nine month periods ended September 30, 2015 and September 30, 2014, we expensed for both periods, management fees of $187.2 thousand to Algar for the portion of Mr. Garber's salary. Other management fees expensed in regards to Algar in connection with the Management Agreement were $31.7 thousand and $81.0 thousand, respectively for the nine month periods ended September 30, 2015 and September 30, 2014. As of September 30, 2015 and December 31, 2014, we had $34.6 thousand and $33.9 thousand in accounts payable for management fees to Algar.

Per the Management Agreement, Algar earns a bonus in an amount equal to 10.0% of any year-over-year increase in the Company's adjusted pre-tax income. For the year ending December 31, 2014, Algar earned a bonus of $428.0 thousand. This amount was reduced by $50.0 thousand related to the real estate sale to SG&D Ventures, LLC described below. The bonus payable was further reduced on August 5, 2015, when the Company entered into a Stock Purchase Agreement with Algar, whereby the Company issued 50.7 thousand shares of its common stock to Algar for aggregate consideration equal to $189.0 thousand. As of September 30, 2015, the accrued but unpaid bonus compensation due to Algar was $189.0 thousand and included in the related party payable account as a current liability.

Scrap material purchases from Algar, Inc:

During the nine month period ended September 30, 2015 and September 30, 2014, we purchased scrap material in the amount of $882.7 thousand and $1,154.0 thousand from Algar. As of September 30, 2015 and December 31, 2014, we had $0.0 thousand and $88.4 thousand in accounts payable pertaining to scrap material purchases to Algar.

Scrap material sales to Algar, Inc:

During the nine month period ended September 30, 2015 and September 30, 2014, we sold scrap material in the amount of $93.7 thousand and $345.3 thousand to Algar. As of September 30, 2015 and December 31, 2014, we had $46.3 thousand and $84.6 thousand in accounts receivable pertaining to scrap material sales from Algar.

Other sales to Algar, Inc:

During the nine month period ended September 30, 2015, we provided logistical services of $42.0 thousand, IT services of $18.1 thousand and equipment sales of $5.3 thousand to Algar. During the nine month period ended September 30, 2014, we provided logistical services of $47.5 thousand, IT services of $1.8 thousand, and equipment sales of $1.4 thousand to Algar. As of September 30, 2015, we had $16.2 thousand in accounts receivable pertaining to other sales to Algar.

Scrap material sales to Metal X, LLC:

During the nine month period ended September 30, 2015 and September 30, 2014, we sold scrap material in the amount of $1.8 million and $1.3 million to MetalX, LLC, a scrap metal recycling company headquartered in Waterloo, Indiana, and the principal owner of Recycling Capital Partners, LLC. As of September 30, 2015 and December 31, 2014, we had $96.0 thousand and $250.3 thousand in accounts receivable from MetalX, LLC. For additional information regarding MetalX, LLC, see Note 10 - "Financing and Related Matters" to the Condensed Consolidated Financial Statements.

Real estate sale to LK Property Investments, LLC.

On April 30, 2015, ISA Real Estate LLC, the wholly-owned subsidiary of the Company, agreed to sell to LK Property Investments, LLC, an entity principally owned by Daniel M. Rifkin, CEO of MetalX, LLC, a 4.4 acre parcel of real estate, located at 6709 Grade Lane, Louisville, Kentucky, for a purchase price of $1.0 million. The Company used the proceeds from the sale primarily for debt reduction and working capital. The loss on sale of this asset was $102.0 thousand.

Real estate lease with LK Property Investments, LLC.

On April 30, 2015, the Company entered into a lease agreement with LK Property Investments, LLC ("LK"), 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. There are no outstanding balances related to lease obligations to LK at September 30, 2015. During the nine month period ended September 30, 2015, rent expense to LK was $15.0 thousand.

Real estate sale to SG&D Ventures, LLC.

On May 18, 2015, ISA Real Estate LLC, a wholly-owned subsidiary of the Company, agreed to sell to SG&D Ventures, LLC, an entity owned by shareholders of Algar, including Sean Garber, the Company's Vice Chairman of the Board and President, and the President of Algar, an approximately 1-acre parcel of non-essential real estate, located at 7017 Grade Lane, Louisville, Kentucky, for an aggregate purchase price equal to independent third-party appraisal amount of $350.0 thousand. The Company received an appraisal of the parcel equal to $350.0 thousand from an independent third party before the sale. The purchase consideration consisted of $300.0 thousand in cash from SG&D Ventures, LLC and a credit of $50.0 thousand against bonus compensation previously accrued but not paid to Algar. The gain on sale of this asset was $1.1 thousand.

A summary of all the Company's related party transactions, in thousands, as of September 30, 2015 and December 31, 2014 and for the nine months ended September 30, 2015 and September 30, 2014 is as follows:

	2015	2014
Balance sheet accounts:		
Accounts receivable	$190.6	$367.1
Deposits (included in other long-term assets)	$45.2	$42.1
Accounts payable	$251.7	$192.3
Deposit payable	$500.0	$500.0
Bonus payable	$189.0	$428.0
Accrued rent payable	$864.6	$577.7
Income statement activity (Nine months ended):		
Revenue from product sales & services	$1,910.8	$1,687.4
Scrap material purchases	$882.7	$1,154.0
Management fee expense	$218.9	$268.2
Management services bonus	$—	$661.0
Director and consulting fee expense	$160.0	$160.0
Rent expense (property)	$508.5	$484.5
Lease expense (equipment)	$94.5	$94.5
Gain (loss) on sale of assets	$(100.9)	$—

NOTE 8 – SHARE-BASED COMPENSATION

The weighted average assumptions relating to the valuation of the Company's stock options awarded in January 2015 are shown below.

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

The following table presents a summary of the Company's stock option activity:

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 January 1, 2014	180	$4.59	1.9 years	$1.38
Granted	2,062	5.02	—	2.26
Exercised	(30)	4.23	—	1.05
Expired	(60)	4.23	—	1.05
Outstanding at December 31, 2014	2,152	$5.02	2.7 years	$2.23
Granted	20	5.71	4.3 years	3.01
Outstanding at September 30, 2015	2,172	$5.02	2.0 years	2.24
Exercisable at September 30, 2015	1,162	$4.88	1.9 years	$2.31
Available for grant at September 30, 2015	1,603			

As of January 2, 2015, we awarded options to purchase 20,000 shares of our common stock to an officer. These options vest over a three-year period, with 1/3 vesting on the first anniversary of the grant date and 1/6 vesting every P6M months thereafter until the three year anniversary of the grant date. The exercise price per share of the options is $5.71, the fair value of the underlying common stock as of the grant date.

NOTE 9 - 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 could exist, including cleanup obligations at these facilities or at off-site locations where we disposed of materials from our operations, which could result in future expenditures that we cannot currently estimate and which could reduce our profits.

ISA records liabilities for remediation and restoration costs related to past activities when our obligation is probable and the costs can be reasonably estimated. Costs of future expenditures for environmental remediation are not discounted to their present value.

Recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed probable. Costs of ongoing compliance activities related to current operations are expensed as incurred. Such compliance has not historically constituted a material expense to us.

NOTE 10 - FINANCING AND RELATED MATTERS

Securities Purchase Agreement

On June 13, 2014, Industrial Services of America, Inc. (the "Company") issued 857,143 shares of the Company's common stock pursuant to a Securities Purchase Agreement (the "Securities Purchase Agreement") to Recycling Capital Partners, LLC (the "Investor"), an investment entity principally owned by Daniel M. Rifkin, the founder and CEO of MetalX, LLC, a scrap metal recycling company headquartered in Waterloo, Indiana, for an aggregate purchase price of $3.0 million. Pursuant to the Securities Purchase Agreement, the Company also issued to the Investor 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 fair value of the warrants was estimated using a pricing model similar to that used for stock options. The Securities Purchase Agreement provides the Investor with preemptive rights and a right of first refusal with respect to future securities offerings by the Company. Costs of $104.5 thousand related to the Securities Purchase Agreement have been netted against the proceeds in the statement of shareholders' equity.

Registration Rights Agreement

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 agreed to (a) prepare and file a registration statement no later than December 12, 2014 and (b) cause the registration statement to be declared effective by the Securities and Exchange Commission no later than February 1, 2015 for (i) resales of the common stock issued to the Investor under the Securities Purchase Agreement, and (ii) 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 the Investor entered into a Director Designation Agreement (the "Director Designation Agreement") pursuant to which the Investor 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, the Investor 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 the Investor has been appointed or (ii) such Designated Director's earlier death, disability, disqualification, resignation or removal, and the Investor shall have the right to appoint any successor to such Designated Director. The Investor's designation rights terminate at such time that the Investor and its affiliates collectively hold less than 5% of the Company's outstanding common stock. Pursuant to the Director Designation Agreement, the Company and the Investor agreed that the designation and appointment of the Designated Director nominees will not violate applicable law and will not cause the Company to become delisted from any securities exchange or other trading market.

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

The following discussion and analysis should be read in conjunction with our unaudited condensed consolidated financial statements and the accompanying notes thereto included elsewhere in this report.

Cautionary Statement Regarding Forward-Looking Statements

The following discussion and analysis contains certain financial predictions, forecasts and projections which constitute “forward-looking statements” within the meaning of the federal securities laws. Actual results could differ materially from those financial predictions, forecasts and projections and there can be no assurance that we will achieve such financial predictions, forecasts and projections. Factors that could affect financial predictions, forecasts and projections include our ability to continue as a going concern, the fluctuations in the commodity price index and any conditions internal to our major customers, including loss of their accounts and other factors as listed in our Form 10-K/A for the year ended December 31, 2014, as filed with the Securities and Exchange Commission.

General

We are primarily focusing our attention now and in the future towards our recycling and auto parts businesses. We sell processed ferrous and non-ferrous scrap material to end-users such as steel mini-mills, integrated steel makers, foundries and refineries. We deliver all scrap ourselves or through third parties via truck, rail car, and/or barge. Some customers choose to send their own delivery trucks, which are weighed and loaded at one of our sites based on the sales order. We purchase ferrous and non-ferrous scrap material primarily from industrial and commercial generators of steel, iron, aluminum, copper, stainless steel and other metals as well as from other scrap dealers who deliver these materials directly to our facilities. We process these materials by shredding, sorting, cutting and/or baling. We also purchase used automobiles and sell auto parts from these vehicles to customers that remove the parts themselves. Although this is currently a small part of our overall business, we anticipate an increased focus on this area in the near future.

The Company anticipates the sale of its Waste Services segment. Although there can be no assurances that this sale will successfully close, we anticipate it closing during the fourth quarter of 2015. We will no longer operate in the Waste Services segment after the closing of this transaction.

Currently, our Waste Services segment serves over 900 customer locations throughout the United States and we utilize an active database of over 7,000 vendors to provide timely, thorough and cost-effective service to our customers. Along with positioning ourselves to efficiently service our customers, our management services division methods of competition include striving to offer our clients competitive pricing, superior customer service and industry expertise.

On May 13, 2015, the Company announced the warm idle of the Company’s auto shredder. This action was in response to market conditions, primarily related to ferrous price volatility and lower ferrous volumes. Management will continue to monitor and analyze market conditions and to review the Company’s long-term options for its shredder and related downstream processing operation.

We have operating locations in Louisville, Kentucky and Seymour and New Albany, Indiana. We do not have operating locations outside the United States.

Liquidity and Capital Resources

Our cash requirements generally consist of working capital, capital expenditures and debt service. Our primary sources of liquidity are cash flows generated from operations and the various borrowing and factoring arrangements described below, including our revolving credit facility. During 2015, we also generated cash flows from certain asset sales, including multiple pieces of property as more fully described in Note 7 - Related Party Transactions in the Notes to Condensed Consolidated Financial Statements ("Note 7"). We are also able to manage liquidity by partially deferring certain rent payments and director fees made to related parties. See Note 7 for additional information. We actively manage our working capital and associated cash requirements and continually seek more effective use of cash. As of September 30, 2015, we held cash and cash equivalents of $0.6 million.

The accompanying financial statements have been prepared assuming that we will continue as a going concern. As of September 30, 2015 and December 31, 2014, the Company had credit facilities with each of The Bank of Kentucky, Inc. ("KY Bank") and Wells Fargo Bank, National Association (the "Bank"). As of September 30, 2015 and December 31, 2014, the Company was not in compliance with its financial covenant with the Bank. On November 6, 2015, we entered into a Forbearance Agreement and Third Amendment to the Credit Agreement (the "Forbearance Agreement") with the Bank. The Company signed the Forbearance Agreement in order to address this non-compliance. Under GAAP, all of the Company’s debt is required to be classified in the accompanying balance sheet as of September 30, 2015 and December 31, 2014 as a current liability. The Bank has not accelerated the indebtedness. For additional information, see Note 1 - Summary of Significant Accounting Policies in the Notes to Condensed Consolidated Financial Statements ("Note 1").

Due to the events of default under our credit facility with the Bank, which are discussed in the credit facilities and notes payable section, and the other factors discussed in Note 1, our independent registered public accounting firm has included an explanatory paragraph with respect to substantial doubt about our ability to continue as a going concern in its report on our Consolidated Financial Statements at December 31, 2014 included in Form 10-K/A. As discussed above, we entered into the Forbearance Agreement with the Bank. This agreement is more fully described in Note 1. This Forbearance Agreement allows management to execute on a plan to reduce debt and improve liquidity. Although there can be no assurances, the Company anticipates the sale of the Waste Services segment to occur during the fourth quarter of 2015. The Company anticipates that the net proceeds will be sufficient to pay investment banking fees, all Bank of Kentucky debt, all Wells Fargo Term Debt and will pay down a substantial amount of the Wells Fargo revolving debt. Further, the line of credit with the bank under the Forbearance Agreement now expires on March 31, 2016. Accordingly, the Company has hired a financial consultant to assist in finding a new working capital line of credit source. Our ability to continue as a going concern is dependent upon us resolving the outstanding indebtedness. Our financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classifications of liabilities that might be necessary should we be unable to continue as a going concern.

See Note 3 - Long Term Debt and Notes Payable to Bank in the Notes to Condensed Consolidated Financial Statements for a full description of the Company's indebtedness.

Swap agreements

In October 2013, we entered into an interest rate swap agreement with KY Bank swapping a variable rate based on LIBOR for a fixed rate. This swap agreement covers approximately $2.1 million in debt, commenced October 17, 2013 and matures on October 1, 2018. The swap agreement fixes our interest rate at 4.74%. At September 30, 2015, we recorded the estimated fair value of the liability related to this swap at approximately $19.4 thousand. We entered into the swap agreements for the purpose of hedging the interest rate market risk for the respective notional amounts and forecasted amounts.

We have long term debt, including current maturities thereof, comprised of the following:

	September 30, 2015 (Unaudited) (in thousands)	December 31, 2014
Revolving lines of credit	$2,852	$10,453
Notes payable	4,812	5,458
	$7,664	$15,911

Results of Operations

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

	Nine months ended September 30, 2015		2014	
Statements of Operations Data:				
Total revenue	100.0	%	100.0	%
Total cost of sales	104.5	%	95.6	%
Selling, general and administrative expenses	7.5	%	5.0	%
Income (loss) before other expenses	(12.0	)%	(0.6	)%

Nine months ended September 30, 2015 compared to nine months ended September 30, 2014

Total revenue decreased $43.4 million or 48.8% to $45.6 million in the nine month period ended September 30, 2015 as compared to $89.0 million in the same period in 2014. With respect to the Recycling segment, Recycling revenue decreased $43.8 million or 52.5% to $39.6 million in 2015 compared to $83.5 million in 2014. This decrease was primarily due to the May 2015 warm idling of the Company's shredder operations. Revenue from the Company's shredder operations were $11.9 million for the nine month period ended September 30, 2015 and $53.6 million for the the nine month period ended September 30, 2014 , a decrease of $41.8 million.

While some scrap consumers provide consistently competitive prices from year to year, others may provide competitive pricing one year but not the next. This market-driven competition causes our revenue base to fluctuate from year to year. In the nine month period ended September 30, 2015, sales to repeat Recycling scrap consumers decreased by approximately $17.1 million, or 32.8% as compared to the same period in 2014. In the nine month period ended September 30, 2015, 11.6% of these sales were to new and competitively-priced, intermittent scrap consumers. In the same period of 2014, 20.4% of sales to all Recycling scrap consumers were to new and competitively-priced, intermittent scrap consumers. In the nine month period ended September 30, 2014, the amount sold to Recycling scrap consumers who did not purchase goods from the Company for the nine month period ended

September 30, 2015 was equal to 81.4% of the total sales to Recycling scrap consumers during the nine month period ended September 30, 2015. In the nine month period ended September 30, 2013, the amount sold to Recycling scrap consumers who did not purchase goods from the Company for the nine month period ended September 30, 2014 was equal to 39.4% of the total sales to Recycling scrap consumers during the nine month period ended September 30, 2014.

With respect to the Waste Services segment, Waste Services' revenue increased $0.5 million or 8.7% to $6.0 million in the nine month period ended September 30, 2015 as compared to $5.5 million in 2014. During 2015, many customers grew and their business per location increased, which required higher volumes of service and increased management revenue by approximately $0.4 million in the nine month period ended September 30, 2015 as compared to the same period in 2014. In general, the timing of services provided or equipment installed will cause fluctuations in Waste Services' revenue between periods.

Total cost of sales decreased $37.5 million or 44.0% to $47.6 million in the nine month period ended September 30, 2015 as compared to $85.1 million for the same period in 2014. With respect to the Recycling segment, Recycling cost of sales decreased $38.0 million or 46.9% to $43.2 million in the nine month period ended September 30, 2015 as compared to $81.2 million for the same period in 2014. This decrease was due to a decrease in the volume of shipments and the overall price for all commodities shipped for ferrous, nonferrous and stainless steel in the first nine months of 2015 as compared to the same period in 2014 as noted above.

Other notable decreases in the Recycling segment's cost of sales include the following:

- A decrease in labor, overtime and bonus expense of $0.8 million;
- A decrease in lease and rent building expense of $0.3 million;
- A decrease in fuel and lubricant expense of $0.3 million;
- A decrease in depreciation expense of $0.2 million; offset by
- An increase in lease and rent equipment expense of $0.3 million.

With respect to the Waste Services segment, Waste Services' cost of sales increased $0.6 million or 14.6% to $4.4 million in the nine month period ended September 30, 2015 as compared to $3.9 million in the same period in 2014 due to higher volumes of service as note above. In general, the timing of services provided or equipment installed will cause fluctuations in Waste Services' revenue between periods.

Selling, general and administrative expenses ("SG&A") decreased $1.0 million or 22.7% to $3.4 million in the nine month period ended September 30, 2015 compared to $4.4 million in the same period in 2014. As a percentage of revenue, SG&A was 7.5% in the first nine months of 2015 as compared to 5.0% in the same period in 2014.

SG&A expenses had the following:

- A decrease in labor, overtime and bonus expense of $0.8 million;
- A decrease in stock option expense and director fees of $0.3 million;
- A decrease in depreciation expense of $0.1 million;
- A decrease in insurance expense of $0.1 million; offset by
- An increase in license taxes and fees expense of $0.1 million; and
- An increase in building lease and rent expense of $0.4 million.

Overall, the average number of active employees per week decreased in the nine month period ended September 30, 2015 to 94 employees as compared to 110 employees in the same period in 2014, thus decreasing labor expenses in both cost of sales and SG&A in 2015 as compared to 2014.

Other expense decreased $0.5 million to $0.0 million in the nine month period ended September 30, 2015 as compared to $0.6 million in the same period in 2014. The decrease was primarily due to a decrease in interest expense of $0.2 million plus a gain on the sales of assets of $0.4 million in the first nine months of 2015 from sale of properties of our 6709 Grade Lane property, our 7017 Grade Lane property, and our former Seymour, Indiana location, which we moved to a leased facility in the same general area.

The income tax benefit decreased $14.5 thousand to an income tax provision of $14.8 thousand in the nine month period ended September 30, 2015 compared to a benefit of $29.4 thousand in the same period in 2014. The effective tax rates in 2015 and 2014 were (0.3)% and (2.7)%, respectively, based on federal and state statutory rates. Due to recurring operating losses being incurred, at December 31, 2013, we recorded a full valuation allowance, which is continuing through September 30, 2015. We also have several state and franchise taxes payable based on gross receipts, thus causing a negative effective tax rate in 2015 and 2014.
Three months ended September 30, 2015 compared to three months ended September 30, 2014

Total revenue decreased $23.1 million or 66.7% to $11.6 million in the third quarter of 2015 compared to $34.7 million in the same period in 2014. With respect to the Recycling segment, Recycling revenue decreased $23.1 million or 70.7% to $9.6 million in 2015 compared to $32.7 million in 2014. This decrease was primarily due to the May 2015 warm idle of the Company's shredder operations. Revenue from the Company's shredder operations were $0.0 million for the third quarter of 2015 and $15.8 million for the same period in 2014, a decrease of $15.8 million. The remaining decrease was due in part to a decrease in nonferrous material shipments of 3.1 million pounds, or 25.2%, along with a decrease in the average selling price of nonferrous material of $0.35 per pound, or 30.3%, for the three months ended September 30, 2015 compared to three months ended September 30, 2014. Additionally, for the three months ended September 30, 2015 compared to three months ended September 30, 2014, the Company experienced an increase in ferrous material shipments of 3,894 tons, or 33.5%. This increase in ferrous material shipments was primarily a result of the May 2015 warm idle of the Company's shredder operations. Due to the idling of the Company's shredder operations during the third quarter of 2015, materials previously sold and classified as shredder shipments were purchased and sold through the ferrous operations. For the three months ended September 30, 2015 compared to three months ended September 30, 2014, the Company experienced a decrease in the average selling price of ferrous material of $147 per gross ton, or 41.1%. The decrease in overall prices and volumes were largely due to lower metal commodity market prices in the third quarter of 2015.

While some scrap consumers provide consistently competitive prices from year to year, others may provide competitive pricing one year but not the next. This market-driven competition causes our revenue base to fluctuate from year to year. In the three month period ended September 30, 2015, sales to repeat Recycling scrap consumers decreased by approximately $9.8 million, or 58.4% as compared to the same period in 2014. In the three month period ended September 30, 2015, 26.9% of these sales were to new and competitively-priced, intermittent scrap consumers. In the same period of 2014, 25.5% of sales to all Recycling scrap consumers were to new and competitively-priced, intermittent scrap consumers. In the three month period ended September 30, 2014, the amount sold to Recycling scrap consumers who did not purchase goods from the Company for the three month period ended September 30, 2015 was equal to 161.7% of the total sales to Recycling scrap consumers during the three month period ended September 30, 2015. In the three month period ended September 30, 2013, the amount sold to Recycling scrap consumers who did not purchase goods from the Company for the three month period ended September 30, 2014 was equal to 47.7% of the total sales to Recycling scrap consumers during the three month period ended September 30, 2014.
With respect to the Waste Services segment, Waste Services' revenue remained consistent with a change of $0.0 million or 0.4% to $2.0 million in the third quarter of 2015 compared to $2.0 million in the same period in 2014. In general, the timing of services provided or equipment installed cause fluctuations in Waste Services's revenue between periods.
Total cost of sales decreased $21.4 million or 64.8% to $11.6 million in the third quarter of 2015 compared to $33.1 million for the same period in 2014. Recycling cost of sales decreased $21.5 million or 67.8% to $10.2 million in 2015 compared to $31.7 million for the same period in 2014. This decrease was due to a decrease in the volume of shipments and overall price for all commodities shipped for ferrous, nonferrous and stainless steel in the third quarter of 2015 as compared to the same period in 2014 as noted above.
Additional expenses in the Recycling segment's cost of sales were as follows:
• A decrease in labor, overtime and bonus expenses of $0.5 million;

- A decrease in building leases of $0.1 million;
- A decrease in fuel and lubricant expenses of $0.1 million; offset by
- An increase in equipment leases of $0.1 million.

Waste Services' cost of sales remained consistent with a change of $0.1 million or 5.3% to $1.4 million in the third quarter of 2015 compared to $1.4 million in the same period in 2014. In general, the timing of services provided or equipment installed cause fluctuations in Waste Services's revenue between periods.

SG&A expenses decreased $0.2 million to $1.0 million in the third quarter of 2015 compared to $1.3 million in the same period in 2014. As a percentage of revenue, SG&A expenses were 8.9% in 2015 compared to 3.7% in 2014.

SG&A expenses had the following:

- An increase in stock option expense and director fees of $0.1 million;
- An increase in building lease and rent expense of $0.2 million; offset by
- A decrease in labor, overtime and bonus expense of $0.3 million.

Other expense decreased $110.8 thousand to other expense of $68.2 thousand in the third quarter of 2015 compared to other expense of $179.0 thousand in the same period in 2014, due to a gain on sale of assets of $43.0 thousand, which was primarily related to sale of our properties at 6709 Grade Lane and 7017 Grade Lane as well as a decrease in interest expense of $86.1 thousand in the third quarter of 2015 compared to the third quarter of 2014.

The income tax provision decreased $23.6 thousand to $6.9 thousand in the third quarter of 2015 compared to a $16.7 thousand in the same period in 2014. The effective tax rates in 2015 and 2014 were (0.6)% and (11.4)%, respectively, based on federal and state statutory rates. Due to recurring operating losses being incurred, at December 31, 2013, we recorded a full valuation allowance, which is continuing through September 30, 2015. We also have several state and franchise taxes payable based on gross receipts.

Financial condition at September 30, 2015 compared to December 31, 2014

Cash and cash equivalents decreased $0.5 million to $0.6 million as of September 30, 2015 compared to $1.1 million as of December 31, 2014.

Net cash from operating activities was $5.9 million for the nine month period ended September 30, 2015. The increase in net cash from operating activities is primarily due to a decrease in accounts receivable of $5.8 million, depreciation of $2.1 million, an inventory adjustment for lower of cost or market of $1.1 million, an impairment charge to property and equipment of $0.6 million, an increase in inventories of $1.3 million partially offset by a net loss of $5.5 million.

Net cash from investing activities was $1.9 million for the nine month period ended September 30, 2015. In the first nine months of 2015, we primarily purchased rental fleet equipment of $378.0 thousand. The rental fleet equipment consists of solid waste handling and recycling equipment such as compactors, balers, pre-crushers, and containers. We received $2.3 million from proceeds primarily from the sale of properties of our 6709 Grade Lane property, our 7017 Grade Lane property, and our former Seymour, Indiana location, which we moved to a leased facility in the same general area.

Net cash used in financing activities was $8.3 million for the nine month period ended September 30, 2015. In the nine month period ended September 30, 2015, we made payments on debt obligations of $8.5 million.

Accounts receivable trade decreased $5.8 million or 58.4% to $4.2 million as of September 30, 2015 compared to $10.0 million as of December 31, 2014 due to receipt of customer payments and a decrease in the volume of shipments of ferrous, nonferrous and stainless steel material in the first nine months of 2015. In general, the accounts receivable balance fluctuates due to the timing of shipments and receipt of customer payments.

Inventories consist principally of ferrous and nonferrous scrap materials and waste equipment machinery held for resale. We value inventory at the lower of cost or market. Inventory decreased $2.4 million, or 35.3%, to $4.4 million as of September 30, 2015 compared to $6.8 million as of December 31, 2014. This decrease is primarily due to a decrease in ferrous inventory of $1.6 million, a decrease in nonferrous inventory of $0.4 million, as well as a decrease of $0.3 million related to inventory parts used in the Company's shredder operations that were warm idled in May 2015.

Inventory aging for the period ended September 30, 2015 (Days Outstanding):

	(in thousands)				
Description	1 - 30	31 - 60	61 - 90	Over 90	Total
Ferrous and non-ferrous materials	$2,476	$240	$102	$468	$3,286
Replacement parts	1,050	—	—	—	1,050
Waste equipment machinery	—	—	—	38	38
Other	15	—	—	—	15
Total	$3,541	$240	$102	$506	$4,389

Inventory aging for the period ended December 31, 2014 (Days Outstanding):

	(in thousands)				
Description	1 - 30	31 - 60	61 - 90	Over 90	Total
Stainless steel, ferrous and non-ferrous materials	$3,804	$250	$394	$899	$5,347
Replacement parts	1,371	—	—	—	1,371
Waste equipment machinery	—	—	—	46	46
Other	2	—	1	10	13
Total	$5,177	$250	$395	$955	$6,777

Inventory in the "Over 90 days" category decreased by $0.4 million from December 31, 2014 to September 30, 2015. Inventory in the “Over 90 days” category as of September 30, 2015 includes $0.3 million in items we intend to process and sell and $0.2 million in low value items that can only be used in limited quantities. The inventory balance as of December 31, 2014 included $0.2 million in older automobile inventory held at the automobile scrap parts yard, $0.2 million in items we intend to process and sell, and $0.5 million in low value items that can only be used in limited quantities.

Accounts payable trade increased $0.1 million or 2.5% to $3.5 million as of September 30, 2015 compared to $3.4 million as of December 31, 2014. The accounts payable balance increased due to timing of purchases from and payments made to our vendors.
Working capital decreased $1.3 million to $(3.7) million as of September 30, 2015 compared to $(2.5) million as of December 31, 2014. The decrease was primarily due to payments on debt obligations of $8.5 million offset by accounts receivable collections of $5.8 million as well as an inventory adjustment for lower of cost or market of $1.1 million.

Contractual Obligations

The following table provides information with respect to our known contractual obligations for the quarter ended September 30, 2015.

	Payments due by period (in thousands)				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Obligation Description [2]					
Long-term debt obligations	$7,664	$7,664	$—	$—	$—
Operating lease obligations [1]	3,375	1,234	1,754	387	—
Deposit from related party	500	500	—	—	—
Total	$11,539	$9,398	$1,754	$387	$—

(1) See Note 5 - Lease Commitments and Note 7 - Related Party Transactions for detailed information related to the Company's operating lease obligations.

(2)

All interest commitments under interest-bearing debt are included in this table, excluding the interest rate swaps, for which changes in value are accounted for in other comprehensive income.

Long-term debt, including the current portions thereof, decreased $8.2 million to $7.7 million as of September 30, 2015 compared to $15.9 million as of December 31, 2014 due to payments made on debt during the nine month period ended September 30, 2015.

Impact of Recently Issued Accounting Standards

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

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

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

We are exposed to commodity price risk, mainly associated with variations in the market price for ferrous and nonferrous metal, and other commodities. The timing and magnitude of industry cycles are difficult to predict and are impacted by general economic conditions. 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, financial results may be negatively impacted where selling prices fall more quickly than purchase price adjustments can be made or when levels of inventory have an anticipated net realizable value that is below average cost.

We are exposed to interest rate risk on our floating rate borrowings.

Based on our average anticipated borrowings under our credit agreements in fiscal 2015, a hypothetical increase or decrease in the LIBOR rate by 1% would increase or decrease interest expense on our variable borrowings by 1% of the outstanding balance, excluding amounts covered under swap agreements as noted below, with a corresponding change in cash flows.

In October 2013, we entered into an interest rate swap agreement with KY Bank swapping a variable rate based on LIBOR for a fixed rate. This swap agreement covers approximately $2.1 million in debt at September 30, 2015 and matures on October 1, 2018. The swap agreement fixes our interest rate at 4.74%. At September 30, 2015, we recorded the estimated fair value of the liability related to this swap at approximately $19.4 thousand.

We are exposed to market risk from changes in interest rates in the normal course of business. Our interest income and expense are most sensitive to changes in the general level of U.S. interest rates and the LIBOR rate. In order to manage this exposure, we use a combination of debt instruments, including the use of derivatives in the form of interest rate swap agreements. We do not enter into any derivatives for trading purposes. The use of the interest rate swap agreement is intended to convert the variable rate to a fixed rate.

ITEM 4: CONTROLS AND PROCEDURES

(a) Disclosure controls and procedures.

ISA's management, including ISA's principal executive officer and principal financial officer, have evaluated the effectiveness of our "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934. Based upon their evaluation, our principal executive officer and principal financial officer concluded that, as of September 30, 2015, ISA's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that ISA files under the Exchange Act with the Securities and Exchange Commission (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to ISA's management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding the required disclosure.

(b) Changes to internal control over financial reporting

There were no changes in ISA’s internal control over financial reporting during the three months ended September 30, 2015 that have materially affected, or are reasonably likely to materially affect ISA’s internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. 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 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 quantify and which could reduce our profits. Any environmental regulatory liability relating to our operations is generally borne by the customers with whom we contract and the service providers in their capacity as transporters, disposers and recyclers. Our policy is to use our best efforts to secure indemnification for environmental liability from our customers and service providers. ISA records liabilities for remediation and restoration costs related to past activities when our obligation is probable and the costs can be reasonably estimated. Costs of future expenditures for environmental remediation are not discounted to their present value. Recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed probable. Costs of ongoing compliance activities related to current operations are expensed as incurred. Such compliance has not historically constituted a material expense to us.
Item 1A. Risk Factors.

Except for the additional risk factor information described below, there have been no material changes in our risk factors as previously disclosed in Part 1, “Item 1A. Risk Factors” of our Annual Report on Form 10-K, as amended, for the fiscal year ended December 31, 2014. You should carefully consider the risk factors discussed below and in our 2014 Form 10-K, which could materially affect our business, financial condition or future results.

The Company has entered into a Forbearance Agreement that it may be unable to fulfill the required conditions. A default under the terms agreed would have a material adverse effect on our liquidity, financial condition and results of operations, and could cause us to become bankrupt or insolvent.

On November 6, 2015, the Company and Wells Fargo entered into a Forbearance Agreement and Third Amendment to Credit Agreement (the "Forbearance Agreement"). The Forbearance Agreement contains a set of conditions the Company must comply with (the "Forbearance Conditions"). The Forbearance Conditions generally consist of the following:

- Each Loan Party (as defined in the Forbearance Agreement) duly and punctually observes, performs and discharges each and every obligation and covenant on its part to be performed under the Forbearance Agreement;
- No Event of Default (as defined in the Forbearance Agreement) occurs or exists other than the Stipulated Defaults (defined in the Forbearance Agreement);
- No material adverse change occurs in any Loan Party's business, prospects or financial condition after the date hereof;
- All of the Obligations (as defined in the Credit Agreement) are paid in full on or before the Maturity Date (as defined in the Credit Agreement);

- No Guarantor revokes or attempts to revoke or terminate such Guarantor's Guaranty (as defined in the Credit Agreement) or otherwise breach any of such Guarantor's obligations under its respective Guaranty;
- No representation or warranty made by any Loan Party in the Forbearance Agreement proves to have been false or misleading in any material respect;
- Each Loan Party timely deducts from the wages of its employees and makes timely and proper deposits for all payroll taxes as the same became due and payable, and if, as and when requested to do so by Wells Fargo, provides Wells Fargo with proof of all deposits for Payroll Taxes;
- Each Loan Party is able to pay and does pay, as the same shall become due and payable, all debts incurred by such Loan Party on or after the date hereof;
- No person to whom any Loan Party is indebted under capital leases or for money borrowed accelerates the maturity or demands payment of such indebtedness, in whole or in part;

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- A Qualified Consultant (as defined in the Forbearance Agreement) is engaged by the Loan Parties on or before the date of the Forbearance Agreement, remains engaged by the Loan Parties at all times during the Forbearance Period, and each Loan Party (i) acknowledges and agrees that the scope of the Qualified Consultant's engagement may be expanded from time to time at Wells Fargo's request in consultation with the Loan Parties, (ii) authorizes and directs each Qualified Consultant to provide Wells Fargo with complete access to such Qualified Consultant and its work product (whether created prior to or after the effectiveness of the Forbearance Agreement), (iii) authorizes and directs each Qualified Consultant to speak freely with Wells Fargo concerning all matters relating to its engagement with any Loan Party and to provide Wells Fargo with copies of its work product (whether created prior to or after the effectiveness of the Forbearance Agreement), and (iv) authorizes and directs each Qualified Consultant to actively participate on behalf of Loan Parties in all discussions with Wells Fargo;
- The Qualified Consultant reviewed and approved the initial Budget (as defined in the Forbearance Agreement);
- No Loan Party uses proceeds of Advances or Collateral (as defined in the Credit Agreement) to make any payments for any purpose that is not included in the Budget or in amounts that exceed one hundred three percent (103%) of the amounts shown in the Budget, except for payments in respect of the Obligations;
- On the date that any sale of real property on which Wells Fargo has a Lien (as defined in the Credit Agreement) is consummated, Wells Fargo receives all gross proceeds of the sale, less reasonable closing expenses, brokerage fees and prorated ad valorem real property taxes to be paid by seller, for application to the Obligations;
- Each Loan Party is able to pay and does pay, as the same shall become due and payable, all real and personal property taxes owed by such Loan Party on or after the date hereof;
- Each of the WESSCO Sale Covenants (as defined in the Forbearance Agreement) is timely satisfied;
- Loan Parties achieve total weekly (i) Cash Receipts, and (ii) "Recycling Inventory Sold" of at least eighty percent (80%) of the amounts shown in the Budget, on a cumulative basis, beginning with the week ending November 6, 2015, measured on a weekly basis; and
- On or before January 31, 2016, the Loan Parties deliver to Wells Fargo a commitment letter for financing for the Loan Parties in an amount sufficient to, and which provides that the proceeds will be used to, repay all of the Obligations in full on or before the Maturity Date, which commitment letter must be from a lender acceptable to Wells Fargo and on terms and conditions satisfactory to Wells Fargo.

There can be no assurance that the Company will be able to meet the Forbearance Conditions and therefore, may default on the Forbearance Agreement. If the Company defaults, Wells Fargo and the Bank of Kentucky may exercise, subject to compliance with the terms and conditions of the loan agreements as amended, and applicable law, a number of remedies including acceleration of the debt and the sale of collateral. The exercise of certain remedies would have a material adverse effect on our liquidity, financial condition and results of operations, and could cause us to become bankrupt or insolvent.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.
None.

Item 3. Defaults upon Senior Securities.
None.
Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.
See exhibit index.

SIGNATURES

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

	INDUSTRIAL SERVICES OF AMERICA, INC.
Date: November 13, 2015	By /s/ Orson Oliver Orson Oliver Chairman of the Board and Interim Chief Executive Officer (Principal Executive Officer)
Date: November 13, 2015	By /s/ Todd Phillips Todd Phillips, Chief Financial Officer (Principal Financial Officer)

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INDEX TO EXHIBITS

Exhibit Number	Description of Exhibits
31.1	Rule 13a-14(a) Certification of Orson Oliver for the Form 10-Q for the quarter ended September 30, 2015.
31.2	Rule 13a-14(a) Certification of Todd Phillips for the Form 10-Q for the quarter ended September 30, 2015.
32.1	Section 1350 Certification of Orson Oliver and Todd Phillips for the Form 10-Q for the quarter ended September 30, 2015.
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*

*Pursuant to Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.