

INDUSTRIAL SERVICES OF AMERICA INC /FL
Form DEF 14A
April 30, 2002

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(A)
OF THE SECURITIES EXCHANGE ACT OF 1934
(AMENDMENT NO. _____)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.14a-12

INDUSTRIAL SERVICES OF AMERICA, INC.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

- (1) Title of each class of securities to which transaction applies:

- (2) Aggregate number of securities to which transaction applies:

- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

- (4) Proposed maximum aggregate value of transaction:

- (5) Total fee paid:

Fee paid previously with preliminary materials.

[] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

- (1) Amount Previously Paid:

- (2) Form, Schedule or Registration Statement No.:

- (3) Filing Party:

- (4) Date Filed:

INDUSTRIAL SERVICES OF AMERICA, INC.

Notice of Annual Meeting of Shareholders
To Be Held on May 30, 2002

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of INDUSTRIAL SERVICES OF AMERICA, INC. (the "Company") will be held at Building No. 1, 7100 Grade Lane, Louisville, Kentucky, on Thursday, May 30, 2002 at 10:00 A.M. (Eastern Daylight Time), for the following purposes:

- (1) To elect five (5) directors for a term expiring in 2003;
- (2) To ratify the selection of Crowe, Chizek and Company, LLC as the Company's independent auditors for the fiscal year ending December 31, 2002; and
- (3) To transact such other business as may properly come before the meeting or any adjournment thereof.

Only shareholders of record at close of business on April 19, 2002 are entitled to notice of and to vote at the Annual Meeting. In the event the Annual Meeting should be adjourned to a date or dates later than May 30, 2002, the Board of Directors will establish a new record date for purposes of determining those shareholders entitled to notice of and to vote at any such adjournments. The transfer books will not be closed.

By Order of the Board of Directors

V. David Lee

Secretary of the Board of Directors

7100 Grade Lane
Louisville, Kentucky 40213
April 30, 2002

WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, PLEASE MARK, DATE AND SIGN THE ENCLOSED PROXY AND RETURN IT PROMPTLY IN THE ENCLOSED RETURN ENVELOPE, WHICH DOES NOT REQUIRE ANY POSTAGE IF MAILED IN THE UNITED STATES. IF YOU ARE ABLE TO ATTEND THE MEETING AND WISH TO VOTE YOUR SHARES PERSONALLY, YOU MAY DO SO AT ANY TIME BEFORE THE PROXY IS EXERCISED.

**INDUSTRIAL SERVICES OF AMERICA, INC.
7100 GRADE LANE
LOUISVILLE, KENTUCKY 40213**

PROXY STATEMENT

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of Industrial Services of America, Inc., a Florida corporation (the "Company"), to be used at the 2002 Annual Meeting of Shareholders of the Company to be held at 10:00 A.M. (Eastern Daylight Time) on Thursday, May 30, 2002, and at any and all adjournments thereof, for the purposes set forth in the accompanying Notice of the meeting.

Shares represented by duly executed proxies in the accompanying form received prior to the meeting and not revoked will be voted at the meeting or at any adjournments within 120 days thereof in accordance with the choices specified on the ballot. If no choices are specified, it is the intention of the persons named as proxies in the accompanying form of proxy to vote for (i) the nominees for election as directors and (ii) the ratification of independent auditors for the 2002 fiscal year. Such proxy may be revoked by the person executing it at any time before the authority thereby granted is exercised by giving written notice to the Secretary of the Company, by delivery of a duly executed proxy bearing a later date or by voting in person at the meeting. Attendance at the meeting will not have the effect of revoking a proxy unless the shareholder so attending so notifies the secretary of the meeting in writing prior to voting of the proxy.

The expenses of soliciting proxies for the Annual Meeting, including the cost of preparing, assembling and mailing this proxy statement and the accompanying form of proxy, will be borne by the Company. Such expenses, however, do not include any salaries and wages of officers and employees of the Company who participated in the preparation, assembling and mailing of the proxy statement. In addition to the solicitation of proxies by mail, certain officers and regular employees of the Company, without additional compensation, may use their personal efforts, by telephone or otherwise, to obtain proxies. The Company will also request persons, firms and corporations holding shares in their names, or in the names of their nominees, which shares are beneficially owned by

others, to send this proxy material to and obtain proxies from such beneficial owners, and will reimburse such holders for their reasonable expenses in so doing.

The presence in person or by proxy of shareholders holding a majority of the outstanding shares of the Company's Common Stock will constitute a quorum for the transaction of all business at the Annual Meeting. A shareholder voting for the election of directors may withhold authority to vote for all nominees for directors or may withhold authority to vote for certain nominees for directors. A shareholder may also vote for, against or abstain from voting on the proposal to ratify the selection of independent auditors for the 2002 fiscal year. Votes withheld from the election of any nominee for director and abstentions from any other proposal will be treated as shares that are present and entitled to vote for purposes of determining the presence of a quorum, but will not be counted in the number of votes cast on any matter. If a broker does not receive voting instructions from the beneficial owner of shares on a particular matter and indicates on the proxy that it does not have discretionary authority to vote on that matter, those shares will not be considered as present and entitled to vote with respect to that matter.

This proxy statement and the accompanying form of proxy are being mailed to shareholders commencing on or about April 30, 2002.

VOTING SECURITIES

Only shareholders of record at the close of business on April 19, 2002 are entitled to vote at the Annual Meeting or any adjournments within 120 days thereof. As of April 19, 2002 there were 1,660,400 shares of the Company's Common Stock outstanding and entitled to vote plus an additional 297,100 shares of Common Stock held by the Company as Treasury Stock.

Each share of Common Stock entitles the holder to one vote on all matters presented at the Annual Meeting.

The following table sets forth certain information regarding beneficial ownership of the Company's Common Stock as of April 19, 2002 for (i) each officer and director of the Company, (ii) each person known to management to own of record or beneficially more than five percent of the outstanding shares of the Company's Common Stock, and (iii) all officers and directors of the Company as a group.

| <u>Name and Address</u> | <u>Amount and Nature of Beneficial Ownership (1)(2)(3)</u> | <u>Percentage of Class (1)</u> |
|--|--|--|
| Harry Kletter 1208 Park Hills Court Louisville, Kentucky 40207 | 730,304 (4) | 44.0% |
| K & R Corporation 7100 Grade Lane | 467,304 (5) | 28.1% |

Louisville, Kentucky 40213

| | | |
|--|-------------|-------|
| Roberta Kletter 1208 Park Hills Court Louisville, Kentucky 40207 | 180,000 (6) | 10.8% |
| Alan Schroering 7100 Grade Lane Louisville, Kentucky 40213 | 3,400 | 0.2% |
| Robert Cuzzort 7100 Grade Lane Louisville, Kentucky 40213 | 1,000 | 0.1% |
| Bruce A. Cannon | 22,300 (7) | 1.3% |
| Ted L. Cox | 38,790 (7) | 2.3% |
| David W. Lester | 20,000 (7) | 1.2% |
| James E. Vining | 20,000 (7) | 1.2% |
| All directors and officers as a group | 835,794 (8) | 48.0% |

- (1) The table reflects share ownership and the percentage of such share ownership as of April 19, 2002. The percentages are determined on the basis of 1,660,400 shares of Common Stock outstanding (and exclusive of the additional 297,100 shares of Common Stock held by the Company as Treasury Stock), plus, for each individual or entity, the number of shares of Common Stock that may be acquired upon the exercise of stock options within sixty days of April 19, 2002.
- (2) Except as otherwise indicated, each person or entity shown has sole voting and investment power with respect to the shares of Common Stock owned by him or it.
- (3) Information with respect to beneficial ownership has been obtained from the Company's shareholder records and from information provided by shareholders.
- (4) Includes 467,304 shares of Common Stock beneficially owned by K & R Corporation ("K & R"), the sole shareholder of which is Harry Kletter. Does not include the following shares of Common Stock, as to which Mr. Kletter disclaims beneficial ownership: (i) 180,000 shares owned by Roberta Kletter, the spouse of Harry Kletter; (ii) 50,000 shares owned by the Harry

Kletter Family Charitable Foundation, of which Mr. Kletter is a co-advisor; and (iii) 43,650 shares beneficially owned by three adult children of Mr. and Mrs. Kletter.

- (5) Harry Kletter as the sole shareholder, director, President and Chief Executive Officer of K & R is deemed to have shared voting and investment power of the shares of Common Stock beneficially owned by K & R. Roberta Kletter, spouse of Mr. Kletter, is a director and Vice President of K & R. Two of Mr. Kletter's adult children are also officers of K & R.
- (6) Does not include the following shares of Common Stock, as to which Mrs. Kletter disclaims beneficial ownership: (i) 730,304 shares owned beneficially by Harry Kletter, the spouse of Roberta Kletter; (ii) 467,304 shares of Common Stock owned by K & R, of which Harry Kletter is the sole shareholder, director, President and Chief Executive Officer; and (iii) 43,650 shares beneficially owned by three adult children of Mr. and Mrs. Kletter.
- (7) Includes 20,000 shares issuable upon exercise of outstanding stock options for each nominee.
- (8) The percentage of shares owned by all directors and officers as a group is based on the applicable number of (i) shares outstanding plus (ii) shares issuable upon exercise of outstanding stock options owned by the group, which vest within sixty days of April 19, 2002.

ITEM I. ELECTION OF DIRECTORS

The nominees for election as directors are Harry Kletter, Roman Epelbaum, Ted L. Cox, David W. Lester, and James E. Vining. All nominees for the Board of Directors with the exception of Messrs. Epelbaum and Lester were elected by the shareholders at the 2001 Annual Meeting for a term expiring at the 2002 Annual Meeting. If elected, all directors will hold office until the 2003 Annual Meeting and until their respective successors have been elected and qualified.

Shareholders voting at the Annual Meeting may not vote for more than the number of nominees listed in this Proxy Statement. Directors will be elected by a plurality of the total votes cast at the Annual Meeting. That is, the five nominees receiving the greatest number of votes for directors will be deemed elected directors. It is the intention of the persons named as proxies in the accompanying form of proxy (unless authority to vote therefor is specifically withheld) to vote for the election of the five nominees for directors. In the event that any of the nominees becomes unavailable (which is not now anticipated by the Company), the persons named as proxies have discretionary authority to vote for a substitute nominee designated by the present Board. The Board has no reason to believe that any of said nominees will be unwilling or unable to serve if elected.

The following table contains certain information regarding each of the nominees for election as directors at this year's annual meeting. Each of these individuals has furnished the respective information shown.

| <u>Name and Principal Occupation with Company</u> | <u>Age</u> | <u>Year First Became Director</u> |
|--|------------|---|
| Harry Kletter Chairman of the Board, and Chief Executive Officer | 75 | 1983 |
| Ted L. Cox Director | 59 | 1999 |
| Roman Epelbaum | 47 | - |
| David W. Lester Director | 49 | 2002 |
| James E. Vining Director | 36 | 2001 |

Nominees for Directors

HARRY KLETTER has been a director of the Company since 1983. In October 1983, he was elected Chairman of the Board and Chief Executive Officer. Mr. Kletter served as President and Chief Executive Officer of the Company from October 1983 until January 1988 and again from January 1990 until July 1991. Mr. Kletter resumed the duties of President and Chief Executive Officer on August 1, 1992 upon Edward List's resignation from this position. Mr. Sean M. Garber became Interim President on December 1, 1997, upon Harry Kletter's resignation from this position. Mr. Kletter continues to serve as Chief Executive Officer of the Company. Mr. Kletter is the sole shareholder of K & R. Prior to his involvement with the Company, Mr. Kletter was President and Chief Executive Officer of K & R, which is now a real estate holding company and materials processing company. Prior thereto, Mr. Kletter was the President of Tri-City Industrial Services, Inc., which corporation was involved in the transportation, disposal and management of solid waste. From 1980 to present, Mr. Kletter has been an investor in various other businesses including Outer Loop Industrial Park, Outer Loop Business Park, and Outer Loop Company, LLC., which are each real estate ventures.

TED L. COX has been a director of the Company since 1999. He has been President and the majority owner of Ryan Insurance Incorporated ("Ryan") since 1984. Ryan sells and services property casualty insurance policies for industrial and commercial businesses, including the Company. Mr. Cox, a licensed insurance agent for thirty years, began working with Ryan in 1974 developing middle-market commercial accounts. Mr. Cox attended the University of Louisville in Louisville, Kentucky where he took courses in business management and insurance. In 1977, Mr. Cox completed insurance and agency management course studies at USF&G's School of Insurance in Baltimore, Maryland. See "EXECUTIVE COMPENSATION - Certain Transactions."

ROMAN EPELBAUM is a nominee for election as a director of the Company. Mr. Epelbaum has extensive business experience over the last fourteen years. Since 1996, he has been 100% shareholder of Tax & Accounting Professionals, Inc., a Louisville, Kentucky based tax services company. From 1990 through 1996, Mr. Epelbaum, as a self-employed tax professional/accountant, provided tax and accounting services to individuals and businesses. From 1989 to 1990, Mr. Epelbaum served as controller of Kentucky Container, Inc. and KYFI, Inc. He worked in the tax department at Touche Ross & Company (now Deloitte & Touche, LLP) from 1983 to 1989.

DAVID W. LESTER has been a director of the Company since February 4, 2002 and previously served as a director from 2000 through May 2001. He is a certified public accountant and has over twenty-five years of diversified business experience. He has served for over fifteen years as Chief Financial Officer or Chief Operating Officer of several companies and for nearly ten years with KPMG Peat Marwick, a Big 5 international public accounting firm. He served as Chief Financial Officer or Chief Operating Officer for multiple public companies, led a company through its initial public offering and has led multiple companies through the development and execution of their business plans. Presently Mr. Lester is the Chief Financial Officer for SHPS, Inc., a human resource and health management provider. From June 1999 to June 2000, he was the Chief Financial Officer, Secretary and Treasurer of Perennial Health Systems, Inc. From March 1998 to May 1999, he was the Chief Financial Officer for Micro Computer Solutions, Inc. From February 1985 to October 1997, Mr. Lester was the Chief Operating Officer or Chief Financial Officer for Kentucky Medical Insurance Company and Stratton-Cheeseman Management Company, the successor to Kentucky Medical Insurance Company. Perennial Health Systems, Inc. and Kentucky Medical Insurance Company were reporting companies under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

JAMES E. VINING has been a director of the Company since 2001. Mr. Vining is a certified public accountant and partner in Vining and Associates, PLLC. He has served as tax manager with Deming, Malone, Livesay and Ostroff and also with Ernst & Young, LLP.

Except as noted with respect to Mr. Lester, none of the directors hold another directorship in a company with a class of securities registered pursuant to Section 12 of the Exchange Act or subject to the requirements of Section 15(d) of the Exchange Act or in a company registered as an investment company under the Investment Company Act of 1940, as amended. None of the directors of the Company has any family relationship with any other director or executive officer of the Company.

Meetings and Committees of the Board of Directors

During 2001, the Board met five times. The Board has held three meetings in 2002 to date and has taken one other action by unanimous written consent. All incumbent directors attended at least 75% of the aggregate number of meetings of the Board and the committees of which they were members.

The Compensation Committee is responsible for making recommendations to the Board regarding salaries and bonuses to be paid to Company executive officers. During the year ended December 31, 2001, this committee did not meet. Mr. Cox is the only remaining active director presently a member of this committee.

The Audit Committee confers with the Company's independent auditors regarding the scope and adequacy of annual audits; reviews reports from such independent auditors; and meets with the independent auditors to review the adequacy of the Company's accounting principles, financial controls and policies. The Audit Committee met two times during the first quarter of 2001 to review the report from the independent auditors and the management letter prior to releasing the Form 10-K Annual Report for the fiscal year ended December 31, 2000. The Audit Committee met on three other occasions in 2001 to discuss internal controls and procedures. The Audit Committee has met twice in 2002 to review the management report from the auditors and the 2001 Form 10-K Annual Report before filing. Messrs. Bruce A. Cannon, Perchik and Vining were appointed to this committee at the Board meeting held May 25, 2001, and Mr. Perchik has since been replaced by Mr. Lester on the committee. All current members of the audit committee are independent as defined in Rule 4200(a)(15) of the National Association of Security Dealers, Inc. ("NASD") listing standards. The formal report of the Audit Committee with respect to the year 2001 begins on page 13 herein.

The Nominating Committee is empowered to recommend to the Board nominees for election as directors and persons to fill directors' vacancies and newly created directorships; recruit potential director candidates; recommend changes to the Board concerning the responsibilities and composition of the Board and committees; and review written proxy comments and shareholder proposals (including director nominees) received from shareholders at the Company's principal executive offices not later than December 23, 2002 for inclusion in the Proxy Statement for the 2003 Annual Shareholder meeting. The committee met once during 2001 to place David Lester's name in nomination to replace Jerry Perchik on the Audit Committee. Mr. Cox is the only active director serving on the Nominating Committee.

The Executive Committee is one to which the Board of Directors may direct or delegate all or part of the duties and powers of the Board of Directors with the exception of those duties and powers specifically prohibited by the laws of the State of Florida. When so designated, the Executive Committee shall have the authority to act in the place and stead of the Board of Directors. The Executive Committee met once during 2001 to appoint James Vining as Co-chair of the Audit Committee. Mr. Kletter and Mr. Cox are members of the Executive Committee.

Compensation of Directors

The Company granted an annual fee of \$20,000 payable in equal monthly installments for all non-employee directors during this past year (e.g., Messrs. Cannon [full year], Cox [full year], Lester, Perchik, Schroering, Otis and Vining). Each director also receives a one-time option to purchase 20,000 shares of Company Common Stock after election to the Board of Directors. The exercise prices, grant dates and expiration dates for these options are as follows:

| <u>Director</u> | <u>Exercise Price</u> | <u>Grant Date</u> | <u>Expiration Date</u> |
|-----------------|-----------------------|-------------------|---|
| Ted L. Cox | \$2.50 | November 3, 1999 | Earlier of 5 years from grant date or 1 year from date of death or disability |
| Bruce A. Cannon | | May 25, 2000 | Earlier of May 25, 2005 or 60 days after cessation as board member |

| | | |
|-----------------|------------------|--|
| David W. Lester | February 4, 2002 | Earlier of February 4, 2007 or 60 days after cessation as board member |
| James E. Vining | May 24, 2001 | Earlier of May 24, 2006 or 60 days after cessation as board member |

Mr. Kletter receives no additional consideration for serving on the Board of Directors. Fees for all non-employee directors elected to serve until 2003 will be determined at the first regular meeting of the Board to be held following the Annual Shareholder meeting on May 30, 2002.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires the Company's directors, certain officers and persons who own more than ten percent (10%) of the outstanding Common Stock of the Company, to file with the Securities and Exchange Commission reports of changes in ownership of the Common Stock of the Company held by such persons. Officers, directors and greater than 10% shareholders are also required to furnish the Company with copies of all forms they file under this regulation. To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company and representations from reporting persons that no other reports including Form 5s were required, all Section 16(a) filing requirements applicable to all of its officers and directors were complied with during 2001 with the following exceptions: Alan Schroering did not file a Form 4 when his duties as a director were discontinued and did not file a Form 3 when he was appointed Chief Financial Officer. David Lester did not file a Form 4 when his duties as a director were discontinued or a Form 3 when he was re-appointed as a director in February 2002. David Lee did not file a Form 3 when he was appointed Secretary. James Vining did not file a complete Form 3 when he was appointed as a director. Bob Otis and Jerry Perchik did not file Form 4s when their duties as directors were discontinued. John Tietjen did not file a Form 4 when his duties as Secretary were discontinued. Harry Kletter did not file a Form 4 when he transferred shares to employees. These reporting persons have been informed by the Company of their filing obligations and have been sent copies of Form 5s with instructions for completion and filing.

ITEM II. RATIFICATION OF INDEPENDENT AUDITORS

The Company's Form 10-K Annual Report to Shareholders for the fiscal year ended December 31, 2001, including financial statements and the report of Crowe, Chizek and Company, LLC thereon, is being mailed on April 30, 2002 with this Proxy Statement to each of the Company's shareholders of record at the close of business on April 19, 2002. The Board has selected Crowe, Chizek and Company, LLC as independent auditors of the Company's accounts for the fiscal year ending December 31, 2002. This selection will be presented to shareholders for ratification at the Annual Meeting. If the shareholders fail to ratify this selection, the matter of the selection of independent auditors will be reconsidered by the Board. Representatives of Crowe, Chizek and Company, LLC are not expected to be present at the Annual Meeting. The selection of Crowe, Chizek and Company, LLC will be deemed ratified if the votes cast in favor of the proposal exceed the votes cast against the

proposal. Abstentions and broker non-votes will not be counted as votes cast either for or against the proposal.

EXECUTIVE COMPENSATION

Summary of Cash and Certain Other Compensation

The following table sets forth cash and other compensation information for the fiscal years ended December 31, 2001, 2000 and 1999 paid or accrued by the Company, to the Company's Chief Executive Officer

| <u>Name and Principal Position</u> | <u>Year</u> | <u>Annual Compensation (2)</u> | | | <u>Awards</u> | | |
|--|-------------|--------------------------------|--------------|--------------------------------------|--|--|-----------------------------------|
| | | <u>Salary</u> | <u>Bonus</u> | <u>Other Annual Compensation</u> | <u>Restricted Stock Awards</u> | <u>Securities Underlying Options (#)</u> | <u>All Other Compensation</u> |
| Harry Kletter Chief Executive Officer (1) | 2001 | -- | -- | \$0 | -- | -- | -- |
| | 2000 | -- | -- | \$0 | -- | -- | -- |
| | 1999 | -- | -- | \$3,872 | -- | -- | -- |

- (1) Mr. Kletter served as President of the Company until December 1, 1997 when he resigned upon the appointment of Mr. Sean Garber as Interim President. Mr. Kletter has served as the Chief Executive Officer since May 1, 2000. See "ELECTION OF DIRECTORS - Nominees for Directors."
- (2) K & R, the sole shareholder of which is Mr. Kletter, conducts significant business with the Company. Mr. Kletter receives compensation from K & R. See "EXECUTIVE COMPENSATION - Certain Transactions."

All other executive officers of the Company earned less than \$100,000.

Certain Transactions

K & R Lease; K & R Consulting Agreement

On February 16, 1998 the Company's Board of Directors ratified and formalized an existing relationship in connection with (i) the leasing by the Company of its facilities from K & R and (ii) the provision of consulting services from K & R to the Company. K & R is an affiliate of the Company and Harry Kletter, the Company's Chairman of the Board and Chief Executive Officer, is the sole shareholder of K & R.

Lease Agreement. The Lease Agreement (the "K & R Lease"), effective as of January 1, 1998, between K & R, as landlord, and the Company, as tenant, covers approximately 20.5 acres of land and the improvements thereon, which are located at 7100 Grade Lane in Louisville, Kentucky (the "Leased Premises"). The principal improvements consist of an approximately 22,750 square foot building used as the Corporate Office, an approximately 8,286 square foot building used for CWS offices, an approximately 13,995 square foot used as the paper recycling plant, an approximately 12,000 square foot building used for metals recycling plant, and an approximately 51,760 square foot building used as the recycling offices and warehouse space, with the remaining 15,575 square feet of space contained in five (5) buildings ranging in size from approximately 8,000 to 256 square feet.

The initial term of the K & R Lease is for ten years with two five-year option periods (the "Option Periods") available thereafter. The base rent for the first five years is \$450,000 per annum, payable at the beginning of each month in an amount equal to \$37,500 (the "Fixed Minimum Rent"). The Fixed Minimum Rent adjusts each five years, including each of the Option Periods, in accordance with the Consumer Price Index. The Fixed Minimum Rent also increases to \$750,000 per annum, in an amount equal to \$62,500 per month in the event of a "change in control" of the Company. Under the K&R Lease, "change in control" means a transaction or series of transactions as a result of which (i) any person who does not currently own a majority of the outstanding stock of the Company acquires a majority of the outstanding stock of the Company, (ii) the Company sells or otherwise disposes of all or substantially all of the assets or business operations of the Company to any other person; or (iii) the Company merges or consolidates with any other person; unless, in any such case, shareholders owning the outstanding voting stock of the Company immediately prior to the consummation of such transaction or transactions will own, upon consummation of such transaction or transactions, at least a majority of the outstanding shares of the voting stock of the person acquiring the shares or assets of the person acquiring the Company or surviving the merger or consolidation of the Company in the transaction(s).

The Company is also required to pay, as additional rent, all real estate taxes, insurance, utilities, maintenance and repairs, replacements (including replacement of roofs if necessary) and other expenses. The Company provided a \$50,000 security deposit to K & R for performance by the Company of the terms, covenants and conditions of the K & R Lease applicable to it.

The K & R Lease provides that the Leased Premises may be used by the Company in its metal recycling and recycled paper sorting and bailing businesses, and for its corporate offices. Without the prior consent of K & R (and in the case of (ii) below the prior consent of any mortgagee of K & R), the Company may not (i) make any structural alterations, improvements or additions to the K & R Leased Premises, or (ii) assign (including a change of control) or sublet the Leased Premises. The K & R Lease provides for indemnification of K & R by the Company for all damages arising out of the Company's use or condition of the Leased Premises excepting therefrom K & R's negligence. The K & R Lease further provides that the Company will agree to subordinate its leasehold interest to the mortgage interest of any mortgagee of K & R.

The K & R Lease provides for termination by the Company upon damage (the "Damage") by fire or other casualty that cannot be reasonably repaired within, in most instances, 120 days of the Damage. All rent ceases as of the "injury date" under these circumstances. The K & R Lease also terminates upon condemnation of the Leased Premises in whole, with a condemnation of a portion of the Leased Premises resulting in an equitable adjustment of the Fixed Minimum Rent.

Events of Default under the K & R Lease include (i) failure by the Company to pay the Fixed Minimum Rent for 10 days after written demand therefor, (ii) any other default in the observance or performance by the Company of any of the other covenants, agreements or conditions of the K & R Lease, which shall continue for 30 days after written notice, unless the Company shall have commenced and shall be diligently pursuing curing such default, (iii) certain bankruptcy or related events affecting the Company, (iv) vacation of the Leased Premises by the Company, or (v) the transfer or devolution whether by operation of law or otherwise of the K & R Lease or the Company's estate or of any of the Company's interest to anyone other than K & R. Upon the occurrence of an event of default, K & R may, at its option, terminate the K & R Lease and enter into and take possession of the Leased Premises with the right to sue for and collect all amounts due, including damages. All payments are current.

K & R Consulting Agreement. The K & R Consulting Agreement dated as of January 2, 1998 (the "K & R Consulting Agreement"), by and between the Company and K & R, remains in effect until December 31, 2007, with automatic annual renewals thereafter unless one party provides written notice to the other party of its intent not to renew at least six months in advance of the next renewal date. K & R shall provide strategic planning and development to the Company, including advice on management activities, advertising, financial planning and mergers and acquisitions (the "K & R Consulting Activities"). The Company shall be responsible for all of K & R's expenses and pay to K & R \$240,000 in equal monthly installments of \$20,000 in connection with the K & R Consulting Activities.

The K & R Consulting Agreement terminates upon a non-defaulting party providing written notice to the other party of its intent to terminate. The recipient of the notice has 10 days to cure monetary defaults and 30 days to cure non-monetary defaults (which will be extended if a cure is being diligently commenced and pursued during that 30-day period). The K & R Consulting Agreement also terminates upon the condemnation or destruction by fire or other casualty of all or substantially all of the Leased Premises. Upon termination, K & R agrees not to engage, directly or indirectly, in the business conducted by, or hire employees from, the Company for a period of five years and within 100 miles of any operation of the Company. The Company's principal shareholder and Chief Executive Officer is compensated through consulting fees pursuant to the K & R Consulting Agreement.

The K & R Consulting Agreement provides for cross-indemnification of each party by the other for acts other than negligence or willful malfeasance. The K & R Consulting Agreement further provides that K & R must maintain the confidentiality of any information of the Company not otherwise in the public domain or required to be disclosed by law.

Insurance Premiums

Mr. Cox, a director nominee, has been the President and majority owner of Ryan Insurance since 1988. Ryan sells and services property casualty insurance policies for industrial and commercial businesses, including the Company. Total insurance premium costs to the Company for Ryan totaled approximately \$377,420 in 2001. Included in this figure was \$37,000 in commissions paid to Mr. Cox.

COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

This report reflects the Company's compensation policies with respect to its executive officers, as endorsed by the Compensation Committee of the Board, and the resulting actions taken by the Company for the reporting periods shown.

The Company through its executive compensation policies seeks to provide compensation that will enable the Company to attract and maintain quality executives in the competitive market place. The Company believes in a pay-for-performance policy, to align results for the executive, the Company and the shareholder. Currently, the executive compensation program of the Company is comprised of salary, annual cash incentive bonus opportunity, long-term incentives such as stock options and the employee 401(k) plan in which executives can participate.

The compensation for Harry Kletter as the Company's Chief Executive Officer was determined by the Board considering the criteria set forth in this report.

Submitted by the Compensation Committee of the Board of Directors,

Ted L. Cox

REPORT OF THE AUDIT COMMITTEE

In accordance with its written charter, the Audit Committee of the Board ("Committee") assists the Board in fulfilling its responsibility for the oversight of the quality and integrity of the accounting, auditing and financial practices of the Company. In discharging its oversight responsibility as to the audit process, the Committee obtained from the independent auditors a formal written statement describing all relationships between the auditors and the Company that might bear on the auditors independence consistent with the Independence Standards Board Standard No. 1. The Committee discussed with the auditors any relationships that may impact their objectivity and independence and satisfied itself as to the auditors independence.

The Committee discussed on March 14, 2002 and reviewed with the independent auditors all communications required by generally accepted accounting standards, including those described in Statement of Accounting Standards No. 61, as amended, "Communication with Audit Committees," and, with and without management present, discussed and reviewed the results of the independent auditors examination of the financial statements. The Committee also discussed the results of the internal audit examinations.

The Committee reviewed the audited financial statements of the Company with management and the independent auditors on March 14, 2002. Based upon this review, the Committee recommended to the Board that the Company's audited financial statements be included in its Annual Report on Form 10-K for the year ended December 31, 2001 for filing with the Securities and Exchange Commission.

The audit committee has considered whether the provision of these services is compatible with maintaining accounting independence.

Bruce A. Cannon, Audit Committee Chairman
David W. Lester, Director and Audit Committee Member
James E. Vining, Director and Audit Committee Member

Independent Auditors Fees

The aggregate fees billed for professional services by Crowe, Chizek and Company in 2001 for various services are as follows:

Audit Fees: \$90,000 for services rendered for the annual audit of the Company's financial statements for 2001 and the quarterly reviews of the financial statements included in the Company's Form 10-Qs.

Financial Information Systems Design and Implementation Fees: \$0.00

All Other Fees: \$10,075 incurred for the preparation of state franchise and property tax forms and 401K audit.

PERFORMANCE GRAPH

The following performance graph compares the performance of the Company's Common Stock to the Standard & Poors 500 and to a peer group for the period commencing December 1996. Since there is no nationally recognized industry index consisting of consultants in the business of retail and industrial waste management sales and service of waste handling equipment to be used as a peer group index, the Company constructed its own peer group. This peer group is comprised of four companies which represent the other public companies in the industry - Casella Waste Systems, Inc., Republic Services, Inc., Waste Connections, Inc., and Waste Holdings, Inc. The returns of each member of the peer group are weighted according to each member's stock market capitalization as of the beginning of the period measured. The graph assumes that the value of the investment in the Company's Common Stock and each index was \$100 at December 1996 and that all dividends were reinvested.

*\$100 INVESTED ON 12/31/96 IN STOCK OR INDEX-INCLUDING REINVESTMENT OF DIVIDENDS. FISCAL YEAR ENDING DECEMBER 31.

| | <u>Cumulative Total Return</u> | | | | | |
|--------------------------------------|--------------------------------|--------|--------|--------|--------|--------|
| | 12/96 | 12/97 | 12/98 | 12/99 | 12/00 | 12/01 |
| INDUSTRIAL SERVICES OF AMERICA, INC. | 100.00 | 40.00 | 22.78 | 16.81 | 21.11 | 20.18 |
| S & P 500 | 100.00 | 133.36 | 171.47 | 207.56 | 188.66 | 166.24 |
| PEER GROUP | 100.00 | 100.00 | 118.91 | 83.90 | 101.46 | 115.58 |

SHAREHOLDER PROPOSALS

Proposals of shareholders intended to be presented at the next Annual Meeting of shareholders must be received by the Company at its principal executive offices in Louisville, Kentucky on or before December 23, 2002 for inclusion in the Company's proxy statement and form of proxy relating to that meeting and must comply with the applicable requirements of the federal securities laws.

OTHER MATTERS

The board knows of no business, which will be presented for consideration at the Annual Meeting other than that described above. However, if any such other business should properly come before the Annual Meeting, it is the intention of the persons named in the accompanying form of proxy to vote the proxies in respect of any such business in accordance with their best judgment.

By Order of the Board of Directors

V. David Lee
Secretary of the Board of Directors

Louisville, Kentucky
April 30, 2002

INDUSTRIAL SERVICES OF AMERICA, INC.

This Proxy is Solicited on Behalf of the Board of Directors

The undersigned hereby appoints Harry Kletter and V. David Lee, and each of them, as proxies, with full power of substitution, and authorizes them, and each of them, to vote and act with respect to all shares of common stock, \$.01 par value, of Industrial Services of America, Inc. which the undersigned is entitled to vote at the Annual Meeting of Shareholders to be held on Thursday, May 30, 2002, at 10:00 a.m., EDT, at Building No. 1, 7100 Grade Lane, Louisville, Kentucky, and at any and all adjournments thereof.

The Board of Directors recommends a vote FOR each of the following proposals:

1. Election of Directors

FOR all nominees listed below (or in lieu of a vote FOR all nominees, as marked in the applicable boxes below adjacent to each nominee)

Nominee

Harry Kletter **For** **Withhold Authority**

| | | |
|-----------------|-------------------------------------|--|
| Ted L. Cox | <input type="checkbox"/> For | <input type="checkbox"/> Withhold Authority |
| Roman Epelbaum | <input type="checkbox"/> For | <input type="checkbox"/> Withhold Authority |
| David W. Lester | <input type="checkbox"/> For | <input type="checkbox"/> Withhold Authority |
| James E. Vining | <input type="checkbox"/> For | <input type="checkbox"/> Withhold Authority |

2. Proposal to ratify the selection of Crowe, Chizek and Company, LLP as the Company's independent auditors for the fiscal year ending December 31, 2002.

For **Against** **Abstain**

3. In their discretion, the proxies are authorized to vote upon such other matters as may properly come before the meeting.

The proxies shall vote such shares as specified herein. If a choice is not specified, they shall vote for the election of all nominees for directors and in favor of all proposals.

Dated: _____, 2002

Signature

Signature

Name(s) should be signed exactly as shown to the left hereof. Title should be added if signing as executor, administrator, trustee, etc.

**PLEASE DATE, SIGN AND RETURN THIS PROXY
PROMPTLY IN THE ACCOMPANYING ENVELOPE**

INDUSTRIAL SERVICES OF AMERICA, INC.

This Proxy is Solicited on Behalf of the Board of Directors

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The undersigned hereby appoints Harry Kletter and V. David Lee, and each of them, as proxies, with full power of substitution, and authorizes them, and each of them, to vote and act with respect to all shares of common stock, \$.01 par value, of Industrial Services of America, Inc. which the undersigned is entitled to vote at the Annual Meeting of Shareholders to be held on Thursday, May 30, 2002, at 10:00 a.m., EDT, at Building No. 1, 7100 Grade Lane, Louisville, Kentucky, and at any and all adjournments thereof.

The Board of Directors recommends a vote FOR each of the following proposals:

1. Election of Directors

FOR all nominees listed below (or in lieu of a vote FOR all nominees, as marked in the applicable boxes below adjacent to each nominee)

Nominee

| | | |
|-----------------|-------------------------------------|--|
| Harry Kletter | <input type="checkbox"/> For | <input type="checkbox"/> Withhold Authority |
| Ted L. Cox | <input type="checkbox"/> For | <input type="checkbox"/> Withhold Authority |
| Roman Epelbaum | <input type="checkbox"/> For | <input type="checkbox"/> Withhold Authority |
| David W. Lester | <input type="checkbox"/> For | <input type="checkbox"/> Withhold Authority |
| James E. Vining | <input type="checkbox"/> For | <input type="checkbox"/> Withhold Authority |

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