

INDUSTRIAL SERVICES OF AMERICA INC /FL  
Form DEF 14A  
April 18, 2003

**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:  
\_\_\_\_\_

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## INDUSTRIAL SERVICES OF AMERICA, INC.

Notice of Annual Meeting of Shareholders  
To Be Held on May 20, 2003

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 Tuesday, May 20, 2003 at 10:00 A.M. (Eastern Daylight Time), for the following purposes:

- (1) To elect five (5) directors for a term expiring in 2004;
- (2) To ratify the selection of Crowe Chizek and Company LLC as the Company's independent auditors for the fiscal year ending December 31, 2003; 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 07, 2003 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 20, 2003, 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 18, 2003

**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.**

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## **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 2003 Annual Meeting of Shareholders of the Company to be held at 10:00 A.M. (Eastern Daylight Time) on Tuesday, May 20, 2003, 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 2003 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 2003 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 18, 2003.

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## VOTING SECURITIES

Only shareholders of record at the close of business on April 07, 2003 are entitled to vote at the Annual Meeting or any adjournments within 120 days thereof. As of April 07, 2003 there were 1,614,800 shares of the Company's Common Stock outstanding and entitled to vote plus an additional 342,700 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 07, 2003 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<br/>of Beneficial<br/>Ownership (1)(2)(3)</u> | <u>Percentage<br/>of<br/>Class (1)</u> |
|--|--|--|
| Harry Kletter<br>1208 Park Hills Court | 730,304 (4)  | 45.2%                                  |

Louisville, Kentucky 40207

|  |             |       |
|--|-------------|-------|
| K & R Corporation<br>7100 Grade Lane<br>Louisville, Kentucky 40213     | 467,304 (5) | 28.9% |
| Roberta Kletter<br>1208 Park Hills Court<br>Louisville, Kentucky 40207 | 180,000 (6) | 11.1% |
| Alan Schroering<br>7100 Grade Lane<br>Louisville, Kentucky 40213       | 3,400       | 0.2%  |
| Robert Cuzzort<br>7100 Grade Lane<br>Louisville, Kentucky 40213        | 1,000       | 0.1%  |
| David W. Lester  | 20,000 (7)  | 1.2%  |
| James E. Vining  | 20,000 (7)  | 1.2%  |
| Roman Epelbaum   | 20,000 (7)  | 1.2%  |
| All directors and officers<br>as a group                               | 794,704 (8) | 49.2% |

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- (1) The table reflects share ownership and the percentage of such share ownership as of April 07, 2003. The percentages are determined on the basis of 1,614,800 shares of Common Stock outstanding (and exclusive of the additional 342,700 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 07, 2003.
- (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) 35,500 shares owned by the Harry Kletter Family Charitable Foundation, of which Mr. Kletter is a co-advisor; and (iii) 32,800 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) 32,800 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 07, 2003.

## ITEM I. ELECTION OF DIRECTORS

The nominees for election as directors are Harry Kletter, Bob Cuzzort, Roman Epelbaum, David W. Lester, and James E. Vining. All nominees for the Board of Directors were elected by the shareholders at the 2002 Annual Meeting for a term expiring at the 2003 Annual Meeting. If elected, all directors will hold office until the 2004 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.

| Name and<br>Principal Occupation<br><u>with Company</u>               | <u>Age</u> | <u>Year First<br/>Became<br/>Director</u> |
|---|------------|---|
| Harry Kletter<br>Chairman of the Board<br>and Chief Executive Officer | 76         | 1983                                      |
| Bob Cuzzort<br>Chief Operating Officer and<br>Director                | 54         | 2002                                      |
| Roman Epelbaum<br>Director  | 48         | 2002                                      |
| David W. Lester<br>Director   | 50         | 2002                                      |
| James E. Vining<br>Director   | 37         | 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 was involved in the transportation, disposal and management of solid waste.

**BOB CUZZORT** has been a director of the Company since 2002. Mr. Cuzzort has served as the Chief Operating Officer of the Registrant from July 2001 to present as well as the Director of Human Resources from March 2001 to present. He served previously in charge of special projects for the Company from October 2000 to March 2001. Mr. Cuzzort served as general

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manager of Bassett Furniture Direct in Louisville, Kentucky from March 1998 to August 2000. He served in several management positions with Haverty Furniture Company, Inc. from January 1970 to February 1998.

**ROMAN EPELBAUM** has been a director of the Company since 2002. Since 1996, Mr. Epelbaum 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.



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 2002, the Board met six times. The Board has held three meetings in 2003 to date. 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 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 one time during the first quarter of 2003 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, 2002. The Audit

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Committee met on six other occasions in 2002 to discuss internal controls and procedures. Messrs. David W. Lester, Epelbaum and Vining were appointed to this committee at the Board meeting held May 30, 2002. 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 2002 begins on page 13 herein.

At its August 01, 2002 meeting, the Board of Directors voted unanimously to suspend the operation of the other three committees (Compensation, Nominating, and Executive). Due to the small size of the Board and the infrequency of committee matters, the directors agreed to streamline the committee structure and undertake matters formerly addressed by the Compensation, Nominating and Executive Committees as a whole board.

### **Compensation of Directors**

The Company granted an annual fee of \$10,000 payable in equal monthly installments for all non-employee directors during this past year (e.g., Messrs. Epelbaum, Lester and Vining). Mr. Lester receives \$10,000 payable in equal monthly installments for serving as Co-Chairman of the Board and Chairman of the Audit Committee. Messrs. Epelbaum and Vining each receive \$2,000 payable in equal monthly installments for serving as audit committee members. 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>   |
|-----------------|-----------------------|-------------------|--|
| Roman Epelbaum  | \$2.50                | May 30, 2002      | Earlier of May 30, 2007 or 60 days after cessation as board member     |
| David W. Lester | \$2.50                | February 4, 2002  | Earlier of February 4, 2007 or 60 days after cessation as board member |
| James E. Vining | \$2.50                | 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 2004 will be determined at the first regular meeting of the Board to be held following the Annual Shareholder meeting on May 20, 2003.

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### **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 2002.

### **ITEM II. RATIFICATION OF INDEPENDENT AUDITORS**

The Company's Form 10-K Annual Report to Shareholders for the fiscal year ended December 31, 2002, including financial statements and the report of Crowe Chizek and Company LLC thereon, is being mailed on or about April 18, 2003 with this Proxy Statement to each of the Company's shareholders of record at the close of business on April 18, 2003. The Board has selected Crowe Chizek and Company LLC as independent auditors of the Company's accounts for the fiscal year ending December 31, 2003. 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, 2002, 2001 and 2000 paid or accrued by the Company, to the Company's Chief Executive Officer.

| <u>Name and<br/>Principal Position</u>             | <u>Year</u> | <u>Annual Compensation (2)</u> |              |                                      | <u>Awards</u>                          |  |                                   |
|--|-------------|--------------------------------|--------------|--------------------------------------|--|--|-----------------------------------|
|  |             | <u>Salary</u>                  | <u>Bonus</u> | <u>Other Annual<br/>Compensation</u> | <u>Restricted<br/>Stock<br/>Awards</u> | <u>Securities<br/>Underlying<br/>Options (#)</u> | <u>All Other<br/>Compensation</u> |
| Harry Kletter<br>Chief<br>Executive<br>Officer (1) | 2002        |                                |              | \$3,875                              |  |  |                                   |
|  | 2001        |                                |              | \$0                                  |  |  |                                   |
|  | 2000        |                                |              | \$0                                  |  |  |                                   |

- (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."

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- (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 was \$450,000 per annum. The rent for the second five years, beginning January 1, 2003, is \$505,272 per annum, payable at the beginning of each month in an amount equal to \$42,106 (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.

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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 services 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.

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### **BOARD REPORT ON EXECUTIVE COMPENSATION**

This report reflects the Company's compensation policies with respect to its executive officers, as endorsed by the Board of Directors, 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 shareholders. Currently, the executive compensation program of the Company is comprised of salary, annual cash incentive bonus opportunities, long-term incentives such as stock options and the employee 401(k) plan in which executives can participate.

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

Submitted by the Board of Directors,

David W. Lester

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### **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 February 19, 2003 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 February 19, 2003. 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, 2002 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.

David W. Lester, Board Co-Chairman and Audit Committee Chairman  
Roman Epelbaum, 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 LLC in 2002 for various services are as follows:

*Audit Fees:* \$85,800 for services rendered for the annual audit of the Company's financial statements for 2002 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:* \$8,075 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 1997. 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 1997 and that all dividends were reinvested.



|                                      | Cumulative Total Return |              |              |              |              |              |
|--------------------------------------|-------------------------|--------------|--------------|--------------|--------------|--------------|
|                                      | <u>12/97</u>            | <u>12/98</u> | <u>12/99</u> | <u>12/00</u> | <u>12/01</u> | <u>12/02</u> |
| INDUSTRIAL SERVICES OF AMERICA, INC. | 100.00                  | 56.94        | 42.02        | 52.78        | 50.44        | 44.44        |
| S & P 500                            | 100.00                  | 128.58       | 155.64       | 141.46       | 124.65       | 97.10        |
| PEER GROUP                           | 100.00                  | 118.91       | 83.90        | 101.46       | 115.58       | 122.04       |

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### 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, 2003 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 18, 2003

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**[ X ] PLEASE  
MARK VOTES  
AS IN THIS  
EXAMPLE**

**REVOCABLE PROXY  
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 Tuesday, May 20, 2003, 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 | With-<br>hold | For All<br>Except |
| <b>Harry Kletter</b>   | [ ] | [ ]           | [ ]               |
| <b>Robert Cuzzort</b>  | [ ] | [ ]           | [ ]               |
| <b>Roman Epelbaum</b>  | [ ] | [ ]           | [ ]               |
| <b>David W. Lester</b> | [ ] | [ ]           | [ ]               |
| <b>James E. Vining</b> | [ ] | [ ]           | [ ]               |

**INSTRUCTION: To withhold authority to vote for any individual nominee, mark "For All Except" and write that nominee's name in the space provided below.**

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, 2003.

|     |     |         |         |
|-----|-----|---------|---------|
|     | 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.

Please be sure to sign and date this Proxy in the box below. Date \_\_\_\_\_

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

\_\_\_\_\_  
Stockholder sign above  
above

\_\_\_\_\_  
Co-Holder (if any) sign

-----  
**Detach above card, sign, date and mail in postage paid envelop provided.**

**INDUSTRIAL SERVICES OF AMERICA, INC.**

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

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IF YOUR ADDRESS HAS CHANGED, PLEASE CORRECT THE ADDRESS IN THE SPACE PROVIDED BELOW AND RETURN THIS PORTION WITH THE PROXY IN THE ENVELOP PROVIDED.

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