

INDUSTRIAL SERVICES OF AMERICA INC /FL

Form DEF 14A

March 28, 2012

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(A)

OF THE SECURITIES EXCHANGE ACT OF 1934

(AMENDMENT NO. _____)

Filed by the Registrant ☒ [X]

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))

☒ [X] Definitive Proxy Statement

☐ [] Definitive Additional Materials

☐ [] Soliciting Material Pursuant to 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 15, 2012

NOTICE IS HEREBY GIVEN that the annual meeting of shareholders of INDUSTRIAL SERVICES OF AMERICA, INC. will be held at Building No. 1, 7100 Grade Lane, Louisville, Kentucky 40213, on Tuesday, May 15, 2012 at 10:00 A.M. (Eastern Daylight Time), for the following purposes:

- (1) To elect seven (7) directors for a term expiring in 2013;
- (2) To ratify the selection of Mountjoy Chilton Medley LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2012;
- (3) To transact such other business as may properly come before the meeting or any adjournment thereof.

The Board of Directors of Industrial Services of America, Inc. recommends voting for the above proposals.

By signing the enclosed proxy, you are appointing Harry Kletter and Michael Shannonhouse as proxies, with full power of substitution to vote all shares of Industrial Services of America, Inc. common stock held by you on March 19, 2012 at the annual meeting on May 15, 2012, or at any adjournment or postponement of such meeting.

Only shareholders of record at close of business on March 19, 2012 are entitled to notice of and to vote at the annual meeting. The transfer books will not be closed.

We plan to mail this proxy statement and the accompanying form of proxy to shareholders commencing on or about April 2, 2012.

By Order of the Board of Directors

Michael P. Shannonhouse
Recording Secretary of the Board of Directors

7100 Grade Lane
Louisville, Kentucky 40213
April 2, 2012

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, OR VOTE OVER THE INTERNET OR BY TELEPHONE. 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**

We are furnishing this proxy statement in connection with the solicitation of proxies by our Board of Directors for use at the 2012 annual meeting of shareholders of Industrial Services of America, Inc. (the Company), which we are holding at 10:00 A.M. (Eastern Daylight Time) on Tuesday, May 15, 2012 and at any and all adjournments thereof, for the purposes set forth in the accompanying notice of the meeting.

We will vote shares represented by duly executed proxies in the accompanying form received prior to the meeting and not revoked at the meeting or at any adjournments within 120 days thereof in accordance with the choices specified on the ballot. If you do not specify a choice, 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 the independent registered public accounting firm for the 2012 fiscal year. The person executing the proxy may revoke it at any time before the proxy exercises the authority thereby granted by giving written notice to our secretary, 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.

We will bear 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. Such expenses, however, do not include any salaries and wages of our officers and employees who participated in the preparation, assembling and mailing of the proxy statement. In addition to the solicitation of proxies by mail, certain of our officers and regular employees, without additional compensation, may use their personal efforts, by telephone or otherwise, to obtain proxies. We 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 our 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 the independent registered public accounting firm for the 2012 fiscal year. We will treat votes withheld from the election of any nominee for director and abstentions from any other proposal as shares that are present and entitled to vote for purposes of determining the presence of a quorum, but we will not count in the number of votes cast on any matter any withheld votes or abstentions. 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, we will not consider those shares as present and entitled to vote with respect to that matter.

We plan to mail this proxy statement and the accompanying form of proxy to shareholders commencing on or about April 2, 2012.

VOTING SECURITIES

Only shareholders of record at the close of business on March 19, 2012 are entitled to vote at the annual meeting or any adjournments within one hundred twenty (120) days thereof. As of March 19, 2012 there were 6,940,517 shares of our common stock outstanding and entitled to vote. Each share of common stock entitles the holder to one vote on all matters presented at the annual meeting.

The following table sets forth information regarding beneficial ownership of our common stock as of March 19, 2012 for (i) each of our named executive officers, directors and nominees for director, (ii) each person known to management to own of record or beneficially more than five percent of our outstanding shares, and (iii) all of our executive officers and directors as a group.

Name and Address	Amount and Nature of Beneficial Ownership (1)(2)(3)	Percentage of Class (1)
Harry Kletter 7100 Grade Lane Louisville, KY 40213	2,040,237 (4)	29.02%
Harry Kletter Family Ltd Ptnsp 7100 Grade Lane Louisville, KY 40213	750,000 (4)	10.67%
Roberta Kletter 7100 Grade Lane Louisville, KY 40213	799,658 (5)	11.37%
David Russell 7100 Grade Lane Louisville, KY 40213	548,960 (9)	7.81%
K&R, LLC 7100 Grade Lane Louisville, KY 40213	516,349 (4)	7.34%
Albert Cozzi 7100 Grade Lane Louisville, KY 40213	157,991 (6)	2.25%
Brian Donaghy 7100 Grade Lane Louisville, KY 40213	77,300 (7)	1.10%
Orson Oliver 7100 Grade Lane Louisville, KY 40213	48,749 (8)	0.69%
Roman Epelbaum 7100 Grade Lane Louisville, KY 40213	32,750 (6)	0.47%
Alan Gildenberg 7100 Grade Lane Louisville, KY 40213	24,750 (10)	0.35%
Francesca Scarito 7100 Grade Lane Louisville, KY 40213	9,500 (11)	0.14%
James Wiseman III 7100 Grade Lane	7,500	0.11%

Edgar Filing: INDUSTRIAL SERVICES OF AMERICA INC /FL - Form DEF 14A

Louisville, KY 40213

All directors and executive officers as a group	2,968,579 (12)	42.22%
---	----------------	--------

2

- (1) The table reflects share ownership and the percentage of such share ownership as of March 19, 2012. We have determined the percentages on the basis of 6,940,517 shares of our common stock outstanding, plus the assumed exercise of the 90,000 options discussed below (and exclusive of 251,962 shares of common stock held as Treasury stock).
- (2) Except as otherwise indicated, each person or entity shown has sole voting and investment power with respect to the shares of common stock beneficially owned by him, her or it.
- (3) We have obtained information with respect to beneficial ownership from our shareholder records and from information provided by shareholders.
- (4) Mr. Kletter's shares owned include 516,349 shares of common stock beneficially owned by K & R, LLC (K&R), the sole member of which is Mr. Kletter, 750,000 shares of common stock beneficially owned by Harry Kletter Family Limited Partnership, for which Mr. Kletter serves as general partner, 381,100 shares of common stock beneficially owned by Roberta Kletter, spouse of Mr. Kletter, and 392,788 shares owned directly by Mr. Kletter. Mrs. Kletter is a director and vice president of K&R. Two of Mr. Kletter's adult children are also officers of K&R. Does not include the following shares of common stock, as to which Mr. Kletter disclaims beneficial ownership: 25,770 shares owned by the Harry Kletter Family Charitable Foundation, of which Mrs. Kletter is a co-advisor.
- (5) Includes 392,788 shares of common stock beneficially owned by Mr. Kletter, and 25,770 shares of common stock owned by the Harry Kletter Family Charitable Foundation, of which Mrs. Kletter is co-advisor. Does not include the following shares of common stock, as to which Mrs. Kletter disclaims beneficial ownership: (i) 516,349 shares of common stock owned by K & R, of which Mr. Kletter is the sole member; and (ii) 750,000 shares of common stock owned by Harry Kletter Family Limited Partnership, for which Mr. Kletter serves as general partner.
- (6) Includes options to purchase 30,000 shares exercisable within 60 days of March 19, 2012.
- (7) Includes 2,250 shares of common stock held in Mr. Donaghy's minor child's name. Mr. Donaghy is entitled to receive 45,000 shares of our common stock per year for the next three years, upon satisfaction of certain conditions contained in an amended employment agreement between Mr. Donaghy, our president and chief operating officer, and us. The conditions are that our EBITDA must exceed \$4.5 million for the previous fiscal year and that our return on net assets (RONA) exceeds targets specified within his amended employment agreement each year. Mr. Donaghy has already received 90,000 shares pursuant to his employment agreements since 2007.
- (8) Includes options to purchase 30,000 shares exercisable within 60 days of March 19, 2012 and 3,750 shares held in Trusts for Mr. Oliver's daughter and minor grandchildren for which Mr. Oliver is the Trustee.
- (9) Includes the following beneficially owned shares of our common stock: 295,593 shares held in Trust, 61,798 shares held in custodial accounts for his minor children, and 119,617 shares held in various retirement plans for Dr. Russell's benefit.
- (10) Includes 12,000 shares of common stock beneficially owned by Halaris Global Opportunity Fund, of which Mr. Gildenberg is manager, and 1,300 shares of common stock held by Mr. Gildenberg's wife and adult children.
- (11) Includes 9,500 shares of common stock beneficially owned by RS Finance & Consulting, LLC, of which Ms. Scarito is President and the sole member.
- (12) Includes the options described in notes 6 and 8 above to purchase 90,000 shares exercisable within 60 days of March 19, 2012.

ITEM I. ELECTION OF DIRECTORS

The nominees for election as directors are Harry Kletter, Albert Cozzi, Brian Donaghy, Alan Gildenberg, Orson Oliver, David Russell, and Francesca Scarito. At the 2011 annual meeting, the shareholders elected Messrs. Kletter, Epelbaum, Oliver, Cozzi, and Donaghy for a term expiring at the 2012 annual meeting. Dr. Russell and Ms. Scarito were appointed to the Board by the directors on January 19, 2012 and February 23, 2012, respectively. Mr. Gildenberg was recommended for election by the Board on March 22, 2012 to replace Mr. Epelbaum, who informed the Board on such date that he will withdraw from the Board upon election and qualification of his successor. If elected, all directors nominated will hold office until the 2013 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. A plurality of the total votes cast at the annual meeting will elect the directors. That is, the seven 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 therefore is specifically withheld) to vote for the election of the seven nominees for directors. In the event that any of the nominees becomes unavailable (which we do not now anticipate), 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 nominee will be unwilling or unable to serve if elected.

The following table contains certain information regarding each nominee for election as director at this year's annual meeting. The Board of Directors has determined that all directors have met the independence standards of Rule 5605(a)(2) of the NASDAQ listing standards with the exception of Messrs. Kletter and Donaghy, officers of the Company, and Ms. Scarito, due to her previous consulting work. The Board considered the consulting services provided by Mr. Gildenberg to K & R and determined such services did not change Mr. Gildenberg's independent status. Each individual has furnished the respective information shown.

Name and Principal Occupation with Company	Age	Year First Became Director
Harry Kletter Chairman of the Board and Chief Executive Officer	85	1983
Orson Oliver Director	69	2005
Albert Cozzi Director	67	2006
Brian Donaghy Director, President and Chief Operating Officer	36	2009
David Russell Director	45	2012
Francesca Scarito Director	47	2012
Alan Gildenberg Nominee for Director	54	N/A

Nominees for Directors

HARRY KLETTER has been our director since 1983. In October 1983, he became chairman of the Board and chief executive officer. Mr. Kletter served as our president and chief executive officer from October 1983 until January 1988, from January 1990 until July 1991, and from August 1992 to December 1997. Mr. Kletter served as chief executive officer from August 1992 until February 2000 and again from May 2000 through the present. From February through May 2000, he served as Chief Visionary Officer. He served as president from May 2000 until August 2007. Mr. Kletter is the sole shareholder of K & R. Prior to his involvement with us, Mr. Kletter was president and chief executive officer of K & R, which is now a real estate holding 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. Since 1980, 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.

ORSON OLIVER has been our director since 2005. He is currently an independent business consultant with over thirty-five years of experience in banking and financial consulting. Mr. Oliver began his career in 1968 as an attorney with the U.S. Treasury Department in Washington, D.C. In September of 1975, he joined Bank of Louisville as general counsel. In November of 1985, he became president of the Bank of Louisville. When Branch Banking and Trust Company acquired the Bank of Louisville in 2003, the Bank of Louisville had assets of \$1.6 billion and was the largest, locally managed bank in Louisville, Kentucky. Since his retirement from banking in February of 2004, Mr. Oliver has worked as an independent general business consultant for the Al J. Schneider Company, a corporation with a number of large hotels and real estate holdings in the Louisville, Kentucky area. Since May 2004, Mr. Oliver has also worked as an independent general business consultant for PNC Bank, which is headquartered in Pittsburgh, Pennsylvania with assets of \$271.2 billion as of December 31, 2011. Mr. Oliver has been a member of the board of directors of The Rawlings Company, LLC since January 1997 and the Al J. Schneider Company since February, 2004.

ALBERT A. COZZI has been our director since 2006. Since February 2006, Mr. Cozzi has been a partner with Cozzi Consulting Group, a start-up consulting business, marking the re-entry of Mr. Cozzi into the scrap industry following a two-year non-compete agreement he had with his former employers at Metal Management, Inc. From July 1999 to January 2004, Mr. Cozzi served as the chief executive officer of Metal Management, Inc. headquartered in Chicago, Illinois, and one of the largest full service metals recyclers in the United States. From December 1997 to June 1999, Mr. Cozzi served as the president and chief operating officer of Metal Management, Inc. From 1963 to 1997, Mr. Cozzi held various positions with Cozzi Iron & Metal, originally located in Chicago, Illinois, prior to its merger with Metal Management, Inc., including president from 1990 to 1997. Mr. Cozzi received an M.B.A. from the University of Chicago.

BRIAN DONAGHY has been our director since 2009 and our president and chief operating officer since August 2007. Mr. Donaghy served as our acting chief operating officer from January 1, 2007 through August 2007. Prior to his appointment to that position, Mr. Donaghy was a consultant to ISA Recycling. From 2001 to 2007, he owned and operated Industrial Logistic Services, LLC (ILS), a scrap metal and waste transportation company located at our Louisville headquarters, the assets of which he sold to us in 2007. ILS discontinued operations after this sale. ILS had approximately 30 employees and total revenues of \$2.0 million in 2007 and 2006.

DAVID RUSSELL has been our director since January 2012. Dr. Russell has vast experience in the financial and risk management arenas. He has a Ph.D. in risk management and an M.A. in Applied Economics from the Wharton School of Business, University of Pennsylvania. Dr. Russell also holds an A.B. in Economics from Amherst College. He has held various positions in risk management and finance during his career. From 2002 to the present, Dr. Russell has been Associate Professor of Insurance and Finance at California State University, Northridge. He also presently serves as Director of the University's Center for Risk and Insurance. Previously, he served as Director of the University's Family Business Center.

FRANCESCA E. SCARITO has been our director since February 2012. Ms. Scarito is President of RS Finance & Consulting, LLC, a boutique investment bank located in Boston, Massachusetts, which she founded in April 2009. Ms. Scarito has been an investment banker for over 20 years and has extensive experience in private capital, equity capital markets and mergers and acquisitions. She has been a consultant for ISA since August 2009. Prior to founding her own firm in April 2009, Ms. Scarito was a Managing Director in the Investment Banking Division of Canaccord Adams Inc., which she joined in 2007. Ms. Scarito earned a B.A. from Dartmouth College and an M.B.A. from Harvard Business School. Ms. Scarito has been a director of Ambient Corporation since June 2011.

ALAN GILDENBERG has been a Registered Investment Advisor at Falcon Global Partners, LLC since 2007, and a consultant to K & R, LLC since 2009. He was previously a Registered Representative at Wachovia Securities from 2001 until March 2007 and R.W. Baird from 1997 through January 2001. His experience also includes his work as an independent futures and options trader at the Chicago Mercantile Exchange for five years. Mr. Gildenberg has a B.B.A. in Business Administration from the University of Michigan.

Except as disclosed above, none of the other directors holds 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 our directors or the nominees has any family relationship with any of our other directors or executive officers.

Director Qualifications

When considering whether the nominees have the experience, qualifications and skills to enable the Board to satisfy its oversight responsibilities effectively and provide the Board with experience in a wide variety of areas, the nominating committee focused primarily on the information discussed in each director's individual biographies set forth above. The following are the conclusions reached by the nominating committee with regard to each of its nominees.

With regard to Mr. Kletter, the nominating committee considered the many years of leadership experience that he has with the Company, which the nominating committee believes provides him with unique insights into the Company's challenges, as well as intimate knowledge of its operations, and best positions him to lead the Company in its strategic planning. With regard to Mr. Donaghy, the nominating committee considered the years of leadership experience that he has exhibited in the industry as well as his past service to our Company, through which he has developed an intimate knowledge of our Company's operations. These experiences position Mr. Donaghy to lead the Company effectively in its day-to-day operations.

Experience in the financial industry is exhibited by Messrs. Oliver, Cozzi and Gildenberg, Dr. Russell, and Ms. Scarito. With regard to Mr. Oliver, the nominating committee considered his past experience as an attorney with the U.S. Treasury Department in Washington D.C., his past presidency of the Bank of Louisville and his work as an independent general business consultant for PNC Bank. With regard to Mr. Cozzi, the nominating committee considered his extensive experience in the metallic scrap industry, and his direct operational experience in the industry. These experiences bring a unique perspective to our Board. With regard to Mr. Gildenberg, the nominating committee considered his years of experience as an investment advisor, his experience on the Chicago Exchange, and his experience as a general business consultant. With regard to Dr. Russell, the nominating committee considered his years of experience in the finance and risk management arenas. With regard to Ms. Scarito, the nominating committee considered her years in investment banking as well as the consulting services she has provided to ISA, which gave her insight into the Company.

Governance

The Board's Leadership structure is as follows. A majority of our directors are independent. We have combined the roles of Chairman of the Board and Chief Executive Officer since 1983. The Board believes that our CEO, Mr. Kletter, is best situated to serve as Chairman because he is the director most familiar with our business and industry and most capable of effectively identifying strategic priorities and leading the discussion and execution of strategy. In addition, Mr. Kletter does not draw a salary from the Company, but rather serves more in a consulting role (and is

compensated through the consulting agreement described below). In contrast, our day to day operations are managed by our President and Chief Operating Officer, Brian Donaghy. Accordingly, we believe our structure effectively mitigates against a concentration of power in any single individual. We recognize that different board leadership structures may be appropriate for companies in different situations and believe that no one structure is suitable for all companies at all times. We believe our current Board leadership structure, given the current composition of the Board, is optimal. Having a single leader for both the Company and the Board eliminates the potential for confusion or duplication of efforts, and provides clear leadership for our Company.

Additionally, the Board has not appointed a lead independent director. Currently, the Board membership consists of seven directors, four of whom are independent. Due to the small size of the Board, all of the independent directors are able to closely monitor the activities of the Company and meet regularly in executive sessions without management to discuss the development and strategy of our Company. These executive sessions allow the independent directors to review key decisions and discuss matters in a manner that is independent of our Chief Executive. Therefore, the Board has determined that a lead independent director is not necessary at this time. As the composition of the Board changes or grows in the future, the Board of Directors intends to reevaluate the need for a lead independent director.

Our executive officers, especially the President and Chief Operating Officer, have the primary responsibility for risk management within our Company. Our Board of Directors oversees risk management to ensure the processes designed and implemented by our executives are adapted to and integrated with the Company's strategy and are functioning as directed. The primary means by which the Board oversees our risk management structures and policies is through its regular communications with management. We believe that our leadership structure is conducive to comprehensive risk management practices, and that the Board's involvement is appropriate to ensure effective oversight.

During 2011, the Board met four (4) times. In 2011, 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 Board appointed Messrs. Epelbaum, Cozzi and Oliver to the compensation committee at the Board of Directors meeting held June 8, 2011. Dr. Russell was appointed to the compensation committee in January 2012. Messrs. Epelbaum and Oliver retired from this committee at that time. Ms. Scarito was appointed to this committee in March 2012 as a non-independent director under the exception contained in the NASDAQ Corporate Governance Requirements pursuant to which a non-independent director can serve on a compensation committee under exceptional and limited circumstances. The Board determined that due to Ms. Scarito's special expertise in compensation issues and extensive involvement with our compensation practices, her appointment to the compensation committee was required by the best interests of the Company and its shareholders. The compensation committee is responsible for making recommendations to the Board regarding salaries and bonuses that we pay to our executive officers, including our chief financial officer. This committee does not have a chairperson. All functions of the compensation committee are performed by the committee as a whole. However, the compensation committee confers with our chief executive officer, Mr. Kletter, to obtain additional input for the committee's decision making process and recording our processes and procedures for the determination of executive and director compensation, including the scope of authority of the compensation committee, the extent to which the compensation committee may delegate any authority, and any role of executive officers in determining or recommending the amount or form of executive and director compensation. The compensation committee has the authority to delegate to department supervisors decisions regarding compensation in their respective departments. None of our executive officers served as a member of the compensation committee of another entity. Our compensation committee has a written charter, which is available on our website at www.isa-inc.com under Investor Relations.

The compensation committee seeks to structure compensation that will provide sufficient incentives for named executive officers to drive results while avoiding unnecessary or excessive risk taking that could harm the long-term value of the Company. The committee believes that the following measures help achieve this goal:

Named executives are provided with competitive base salaries that are not subject to performance risk, which helps to mitigate risk-taking behaviors and provides an incentive for executives to retain their employment with the Company;

We enter into employment agreements with certain named executive officers because they provide a form of protection for the Company and the individual;

Certain executive officers have long-term, performance-based incentives included in their employment agreements, which hold individuals accountable for long-term decisions by only rewarding the success of those decisions.

The audit committee confers with our independent registered public accounting firm regarding the scope and adequacy of annual audits; reviews reports from such independent accountants; and meets with the independent accountants to review the adequacy of our accounting principles, financial controls and policies. The audit committee met four (4) times in 2011. The Board appointed Messrs. Oliver, Epelbaum, and Cozzi, to this committee at the Board meeting held June 8, 2011. Dr. Russell was appointed to this committee in January 2012, and Mr. Oliver retired from this committee at that time. Mr. Oliver returned to this committee in March 2012. Mr. Oliver is the chairperson of this committee. All current members of the audit committee are independent as defined in Rule 5605(a)(2) of the NASDAQ listing standards and the Audit Committee Qualifications of Rule 5605(c)(2). The Board of Directors has determined that Mr. Oliver is qualified as an audit committee financial expert based on a thorough review of his education and financial experience and is independent as described in the preceding sentence. The formal report of the audit committee with respect to the year 2011 begins on page 24 herein. Our audit committee has a written charter, which is available on our website at www.isa-inc.com under Investor Relations.

The nominating committee has the power 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 our principal executive offices no later than January 7, 2013 for inclusion in the proxy statement for the following year's annual shareholder meeting. The nominating committee's charter directs the nominating committee to investigate and assess the background and skills of potential candidates and to maintain an active file of suitable candidates for directors. The nominating committee has the authority to engage a third party search firm to assist in identification of candidates, but our nominating committee currently believes that our existing directors and executive management have significant networks of business contacts that likely will form the pipeline from which the nominating committee can identify candidates.

Upon identifying a candidate for serious consideration, one or more members of the nominating committee would initially interview such candidate. If a candidate merited further consideration, the candidate would subsequently interview with all other nominating committee members (individually or as a group), meet our chief executive officer and other executive officers and ultimately meet many of the other directors. The nominating committee would elicit feedback from all persons who met the candidate and then determine whether or not to nominate the candidate. The nominating committee utilizes a subjective analysis to identify and analyze candidates that it proposes for nomination as directors, including but not limited to, highest personal and professional ethics and integrity, general business knowledge, interest in our business, and willingness to serve. However, there are currently no minimum qualifications or standards that we require. While there is no formal policy with regard to consideration of diversity in identifying director nominees, the nominating committee considers diversity in business experience, professional expertise, gender and ethnic background, along with various other factors when evaluating director nominees.

We would consider candidates for director nominees recommended by shareholders in accordance with the requirements of Florida law and the time limitation stated above. Shareholders should address potential nominations to the nominating committee at our executive offices, which submissions we will then forward to the nominating committee. If shareholder nominations were made, the recording secretary, without prior screening, would forward any shareholder communication directly to the Board at the next regularly scheduled Board meeting. The Board would then request that the nominating committee consider the shareholder nominations. The nominating committee would then perform an investigation of the candidate to determine if the candidate was qualified and would, if it so determined, present the shareholder nomination in the proxy statement to be subject to a vote of the shareholders. The nominating committee undertakes a similar investigation as to the qualifications of management nominations. Consequently, there effectively would be little difference in the evaluation process of nominations whether generated by shareholders or management. The nominating committee has no obligation to nominate any such individual for election. We have not received any

shareholder nominations for this annual meeting. Accordingly, we have not rejected or refused to nominate any such candidates.

The nominating committee did not hire any director search firm in 2011 and, accordingly, paid no fees to any such company. As indicated above, however, the nominating committee may do so in the future if necessary.

The Board appointed Messrs. Epelbaum, Cozzi and Oliver to the nominating committee at the Board of Directors meeting held June 8, 2011. This committee does not have a chairperson nor did it meet in 2011 as no new director nominations were submitted in 2011. Messrs. Epelbaum, Cozzi and Oliver are independent as defined in Rule 5605(a)(2) of the National Association of Securities Dealers listing standards. Our nominating committee has a written charter, which is available on our website at www.isa-inc.com under Investor Relations.

Neither the Board nor the nominating committee has implemented a formal policy regarding director attendance at the annual meeting. Typically, the Board holds its annual organizational meeting directly following the annual meeting, which results in most directors being able to attend the annual meeting. In 2011, four (4) of five (5) directors attended the annual meeting.

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 Board appoints members to the executive committee as needed. The Board appointed Messrs. Kletter, Donaghy, Epelbaum, Cozzi, and Oliver to the executive committee at the Board of Directors meeting held June 8, 2011. No meetings were held, nor were any actions taken, by the executive committee in 2011.

The Board of Directors has adopted our Code of Ethics for the chief executive officer and financial executives, which you may find on our website at www.isa-inc.com under Investor Relations. You may also find our Nominating Committee, Audit Committee and Compensation Committee charters there. Shareholders may communicate directly with the Board of Directors in writing by sending a letter to the Board at: Industrial Services of America, Inc., P.O. Box 32428, 7100 Grade Lane Louisville, KY 40232 or by a secure e-mail via our website at www.isa-inc.com. Our legal counsel will receive and process all communications directed to the Board of Directors and will transmit such communications to each member of the nominating committee without any editing or screening by the legal counsel.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors, certain officers and persons who own more than ten percent (10%) of our outstanding common stock to file with the Securities and Exchange Commission reports of changes in ownership of our common stock held by such persons. Officers, directors and greater than 10% shareholders must furnish us with copies of all forms they file under this regulation. To our knowledge, based solely on a review of the copies of such reports furnished to us and representations from reporting persons that no other reports including Form 5s were required, all Section 16(a) filing requirements applicable to all of our officers and directors were complied with during 2011 with the following exceptions: Brian Donaghy did not file a timely Form 4 for (i) the receipt of 45,000 shares of common stock on January 3, 2011 pursuant to an executive employment agreement at a price of \$12.31 per share, (ii) the sale of 1,000 shares of common stock on February 1, 2011 for a selling price of \$13.00 per share, (iii) the sale of 10,000 shares of common stock on May 5, 2011 for a weighted average selling price of \$10.6061 per share, or (iv) the sale of 5,000 shares of common stock on May 13, 2011 for a weighted average selling price of \$10.264 per share. The above forms were filed late. We have informed the reporting person of their filing obligations.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF ALL NAMED DIRECTORS.

ITEM II. RATIFICATION OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has selected Mountjoy Chilton Medley LLP as the independent registered public accountants of our accounts for the fiscal year ending December 31, 2012. This selection will be presented to shareholders for ratification at the annual meeting. If the shareholders fail to ratify this selection, the Audit Committee will reconsider the matter of the selection of the independent registered public accountants. We do not expect representatives of Mountjoy Chilton Medley LLP to be present at the annual meeting. We will deem the selection of Mountjoy Chilton Medley LLP ratified if the votes cast in favor of the proposal exceed the votes cast against the proposal. We will not count abstentions and broker non-votes as votes cast either for or against the proposal.

The Board will present the following resolution to the meeting:

RESOLVED, that the selection, by the Audit Committee of the Board of Directors, of Mountjoy Chilton Medley LLP as the independent registered public accounting firm to audit the books of account and other corporate records of the Company for 2012 is ratified.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE RATIFICATION OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM MOUNTJOY CHILTON MEDLEY LLP.

EXECUTIVE COMPENSATION DISCUSSION AND ANALYSIS

The following table summarizes the compensation awarded to, paid to, or earned by our principal executive officer and the two most highly compensated executive officers other than our principal executive officer:

2011 Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Harry Kletter CEO	2011	\$	\$	\$	\$	\$	\$	\$ 487,828 (1)	\$ 487,828
	2010							427,828 (1)	427,828
Brian Donaghy President and COO	2011	\$ 300,000 (2)	\$	\$	\$	\$	\$	\$ 29,285 (5)	\$ 329,285
	2010	200,000	325,000 (3)	614,490 (4)				30,212 (5)	1,169,702
Danny Gascoyne Executive Vice- President - Recycling	2011	\$ 185,000	\$	\$	\$	\$	\$	\$ 20,596 (8)	\$ 205,596
	2010	67,596	94,697 (6)	59,925 (7)				7,063 (8)	229,281
Jim Wiseman Vice-President - Recycling	2011	\$ 136,500	\$ 10,000	\$	\$	\$	\$	\$ 14,076 (9)	\$ 160,576
	2010	136,500	40,000	\$				25,256 (9)	201,756

(1) Although Mr. Kletter did not receive any compensation directly from us, he received \$480,000 in 2011 and \$420,000 in 2010 in the form of consulting fees as the sole member of K & R. An amount of \$7,828 is also included in this total and reflects Mr. Kletter's personal use of our company vehicle during 2011 and 2010.

Mr. Kletter also received rental fees of \$582,000 in 2011 and 2010 as sole member of K&R, the lessor of our facilities. These fees are not included in the table above. A description of Mr. Harry Kletter's compensation is under Certain Relationships and Related Transactions with respect to the K & R lease term.

(2) The Company approved a \$100,000 increase to Mr. Donaghy's base salary effective January 1, 2011.

(3) In 2010 Mr. Donaghy qualified for cash awards under the Company's then applicable Management Incentive Plan (the "MIP") and Executive Incentive Plan (the "EIP"), which would have totaled \$798,180. The Company did not implement these plans with respect to Mr. Donaghy and has cancelled the plans as further described below. Mr. Donaghy received \$325,000 as a discretionary cash bonus instead.

(4) On January 11, 2010, Mr. Donaghy received a non-performance based bonus of 12,000 shares valued at the then current market price of \$6.47 per share, totaling \$77,640. On April 1, 2010, Mr. Donaghy was granted several performance-based stock awards in conjunction with an amended executive employment agreement. He was granted a stock award of 30,000 shares based on 2010 EBITDA exceeding \$4.5 million. He was granted a stock award of 15,000 shares based on 2010 RONA exceeding 32%. The April 1, 2010 grant date fair value of \$11.93 per share was based on the assumptions that both performance targets would be achieved. As of December 31, 2010, when both performance targets were in fact achieved, Mr. Donaghy became vested in these shares. Additional performance-based awards granted in 2010 in conjunction with the amended employment agreement, included (i) a bonus up to 15,000 shares per year for calendar years 2011 through 2015 based on achieving a target RONA exceeding 32%, which would vest on December 31 of each year if the RONA target was achieved for that year, and (ii) a bonus up to 225,000 shares based on achieving a target average five-year (2010 - 2014) RONA exceeding 32%, which would vest on December 31, 2014 if the target five-year average RONA was achieved. When granted, these shares were subject to future performance conditions, which we did not achieve in 2011, and do not expect to achieve for future years. No shares were issued to Mr. Donaghy in 2011 in connection with these awards. We do not expect to make any payouts to Mr. Donaghy pursuant to these awards. See also Note 14 "Long Term Incentive Plan" in the Notes to Consolidated Financial Statements for additional information regarding our assumptions. The value of these awards at the April 1, 2010 grant date assuming the highest level of performance conditions will be achieved is \$3,579,000. The ISA stock issued pursuant to performance based stock awards is unregistered; therefore, recipients are subject to a six-month holding period by the recipient prior to selling or transferring such shares in market transactions. The stock award amounts in the table reflect the aggregate grant date fair value of stock awards computed in accordance with ASC Topic 718.

(5) These amounts reflect our contribution to the 401(k) plan, the automobile allowance in the amount of \$1,000 per month, and the cost of health, dental, life, STD, and LTD benefits paid by the company of \$17,285 and \$18,212 in 2011 and 2010, respectively.

(6) In 2010 Mr. Gascoyne qualified for cash awards of \$94,697 under the MIP, which was paid in 2011. The Company has replaced the MIP as discussed below.

(7) On August 13, 2010, Mr. Gascoyne was granted several performance-based stock awards in conjunction with an executive employment agreement. He was granted a share bonus of up to 10,000 shares based on 2010 RONA exceeding 32% and employment through December 31, 2011, with a pro-rated number of shares vesting after the first full year of employment. The August 13, 2010 grant date fair value of \$15.98 per share was based on the assumptions that both performance targets would be achieved. As of December 31, 2010, when both performance targets were in fact achieved, Mr. Gascoyne became vested in the pro-rated shares, which totaled 3,750 shares or \$59,925 at grant-date fair value. Additional performance-based awards granted in 2010 in conjunction with the executive employment agreement included a bonus of up to 10,000 shares per year for calendar years 2011 through 2015 based on (i) achieving a target RONA as specified in the appropriate exhibit of the executive employment agreement, which would vest on December 31 of each year if the RONA target was achieved for that year, and (ii) that amount pro-rated based on the percentage of the year the Mr. Gascoyne was employed with us if less than a full year. When granted, these shares were subject to future performance conditions, which we did not achieve in 2011, and do not expect to achieve for future years. See also Note 14 "Long Term Incentive Plan" in the Notes to Consolidated Financial Statements for additional information regarding our assumptions. Mr. Gascoyne's executive employment agreement was terminated on February 27, 2012, so we will not make any payouts to Mr. Gascoyne pursuant to these awards. The value of these awards at the August 13, 2010 grant date assuming the highest level of performance conditions would have been achieved was \$737,269. The ISA stock issued pursuant to performance based stock awards is unregistered; therefore, recipients are subject to a six-month holding period.

Edgar Filing: INDUSTRIAL SERVICES OF AMERICA INC /FL - Form DEF 14A

by the recipient prior to selling or transferring such shares in market transactions. The stock award amounts in the table reflect the aggregate grant date fair value of stock awards computed in accordance with ASC Topic 718.

(8) These amounts reflect our contribution to the 401(k) plan, the automobile allowance in the amount of \$800 per month, and the cost of health, dental, life, STD, and LTD benefits paid by the company of \$10,996 and \$3,555 in 2011 and 2010, respectively.

(9) These amounts reflect our contribution to the 401(k) plan, the automobile allowance in the amount of \$800 per month, and the cost of health, dental, life, STD, and LTD benefits paid by the company of \$14,076 and \$18,056 in 2011 and 2010, respectively.

We issued 60,600 shares of our common stock as awards in 2011, with 45,000 of those shares awarded to Mr. Donaghy based on the satisfaction of the related performance conditions. We issued 60,500 shares of our common stock as awards in 2010, with 30,000 of those shares awarded to Mr. Donaghy based on the satisfaction of the related performance condition. As of March 19, 2012, we have not issued any shares of our common stock as performance-based awards in 2012.

We do not have a post-employment compensation plan.

Compensation Committee Consultant

In January 2011 the Compensation Committee retained Bostonian Group, a Marsh & McLennan Agency Company, to undertake a market assessment and provide trend information on incentive compensation plans. Bostonian Group identified a group of public companies that are similar to the Company in the following ways:

- Operate in the scrap metal, waste management, recycling or related environmental services industries; and
- Reported revenue ranging from \$36 million to \$562 million in their most recent fiscal year; and
- Employ executives in positions similar to those of the Company's senior management.

The Compensation Committee also retained a second independent consultant, RS Finance & Consulting, LLC, to supplement Bostonian Group's data by identifying additional public companies with gross margins and number of employees that are similar to those of the Company, and analyzing the compensation practices of those companies. The Compensation Committee used the collective input of the consultants to formulate an executive compensation plan they believe aligns management and shareholder interests; is consistent with market practices; has an appropriate mix of short-term and long-term incentives; and is designed to attract and retain key employees. In 2012, the Compensation Committee also cancelled the Company's former Management Incentive Plan (the "MIP") and Executive Incentive Plan (the "EIP") in favor of the revised incentive plan described below. No performance goals set forth in the MIP and EIP were met in 2011 and the Company did not pay any compensation based on 2011 results.

Base Salary

When determining base salary levels for senior management, the Compensation Committee evaluates base salary levels of similar positions in the group of selected peer companies. Base salaries reflect an executive's roles and responsibilities and recognize and reward individual skills, experience and sustained job performance.

Annual Incentive Bonuses

The Company's annual incentive compensation plan is a cash-based, pay-for-performance incentive plan. The plan covers executives and certain other personnel as determined by the Compensation Committee and the Company.