FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2001-08-03** | Period of Report: **2001-06-30**
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INDUSTRIAL SERVICES OF AMERICA INC /FL

CIK:**4187**| IRS No.: **590172746** | State of Incorp.:**FL** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-20979** | Film No.: **1697358**
SIC: **3670** Electronic components & accessories

Mailing Address
7100 GRADE LANE BLDG 4
P O BOX 32428
LOUISVILLE KY 40232

Business Address
7100 GRADE LN BLDG 4
P O BOX 32428
LOUISVILLE KY 40232
5023681661

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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2001

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the Transition Period From _________ to ________

Commission File Number 0-20979

INDUSTRIAL SERVICES OF AMERICA, INC.

(Exact Name of Registrant as specified in its Charter)

Florida	59-0712746

(State or other jurisdiction of (IRS Employer

Incorporation or Organization) Identification No.)

7100 Grade Lane, PO Box 32428

Louisville, Kentucky 40232

(Address of principal executive offices)

(502) 368-1661

(Registrant's Telephone Number, Including Area Code)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of June 30, 2001: 1,698,300

INDUSTRIAL SERVICES OF AMERICA, INC. AND SUBSIDIARY

INDEX

REPORT OF INDEPENDENT ACCOUNTANTS

Board of Directors and Shareholders
Industrial Services of America, Inc. and Subsidiary
Louisville, Kentucky

We have reviewed the condensed consolidated balance sheet of Industrial Services of America, Inc. as of June 30, 2001, the condensed consolidated statement of cash flows for the six month period ended June 30, 2001 and 2000, and the related condensed consolidated statements of income for the three month and six month periods ended June 30, 2001 and 2000. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the AICPA. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying condensed consolidated financial statements for them to be in conformity with generally accepted accounting principles.

Crowe, Chizek and Company LLP

Indianapolis, Indiana
July 16, 2001

PART I - FINANCIAL INFORMATION

ITEM 1: CONSOLIDATED FINANCIAL STATEMENTS

INDUSTRIAL SERVICES OF AMERICA, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

ASSETS

	June 30, 2001	December 31, 2000
Current assets		
Cash and cash equivalents	$ 1,605,287	1,395,882
Accounts receivable - trade (after allowance for doubtful accounts of $41,840 and $100,000 in 2001 and 2000)	9,905,532	8,739,174
Accounts receivable - related party	-	15,000
Employee loans	25,665	30,577
Income tax refund receivable	-	54,300
Net investment in sales type leases	107,760	99,937
Inventories	2,158,892	2,191,162
Deferred income taxes	71,355	52,400
Other	185,371	261,604

Total current assets	14,059,862	12,840,036
Net property and equipment	5,639,808	5,544,859
Other assets		
Non-compete agreements, net	304,714	405,892
Intangibles (net of accumulated amortization of $213,329 and $186,663 in 2001 and 2000)	586,671	613,337
Net investment in sales-type leases	296,977	352,897
Other assets	116,133	48,147
Total other assets	1,304,495	1,420,273
	$21,004,165	$19,805,168

See accompanying notes to consolidated financial statements.

INDUSTRIAL SERVICES OF AMERICA, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

LIABILITIES AND STOCKHOLDERS' EQUITY

	June 30, 2001	December 31, 2000
Current liabilities		
Note payable to bank	$1,500,000	2,750,000
Current maturities of long-term debt	729,031	421,330
Accounts payable	10,975,205	10,126,353
Income tax payable	163,654	-
Other current liabilities	348,674	254,127
Total current liabilities	13,716,564	13,551,810
Long-term liabilities		
Long-term debt	2,815,618	1,694,493
Deferred income taxes	109,016	159,400
	2,924,634	1,853,893
Shareholders' equity		
Common stock, $.01 par value: 10,000,000 shares authorized, 1,957,500 shares issued and 1,698,300 and 1,863,300 shares outstanding in 2001 and 2000	19,575	19,575
Additional paid-in capital	1,925,321	1,891,651
Retained earnings	2,914,290	2,649,555
Treasury stock, 259,200 and 94,200 shares		

at cost in 2001 and 2000	(496,219)	(161,316)
	4,362,967	4,399,465
	$21,004,165	$19,805,168

See accompanying notes to consolidated financial statements.

INDUSTRIAL SERVICES OF AMERICA, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

THREE MONTHS ENDED JUNE 30, 2001 AND 2000

(UNAUDITED)

	2001	2000
Revenue	$25,820,543	$23,919,770
Cost of Goods Sold	23,890,515	21,879,978
Gross Profit	1,930,028	2,039,792

Selling, General and Administrative Expenses	1,614,352	1,836,626
Income from Operations	315,676	203,166
Other Income (Expense)	(61,394)	27,140
Income before Taxes	254,282	230,306
Provision for Income Taxes	125,790	67,523
Net Income	$ 128,492	$ 162,783
Earnings Per Share	$0.07	$0.08
Earnings Per Share, assuming dilution	$0.07	$0.08

See accompanying notes to consolidated financial statements.

INDUSTRIAL SERVICES OF AMERICA, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2001 AND 2000

(UNAUDITED)

	2001	2000
Revenues	$49,072,396	$43,747,543
Cost of Goods Sold	45,150,213	39,907,064
Gross Profit	3,922,183	3,840,479
Selling, General and Administrative Expenses	3,350,481	3,425,542
Income from Operations	571,702	414,937
Other Income (Expense)	(129,737)	9,541
Income before Taxes	441,965	424,478
Provision for Income Taxes	177,226	124,424
Net Income	$ 264,739	$ 300,054
Earnings Per Share	$0.15	$0.16

Earnings Per Share, assuming dilution	$0.15	$0.16

See accompanying notes to consolidated financial statements.

INDUSTRIAL SERVICES OF AMERICA, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED JUNE 30, 2001 AND 2000

(UNAUDITED)

	2001	2000
Cash flows from operating activities		
Net income	$264,739	$300,054
Adjustments to reconcile net income to net cash from operating activities		
Stock options granted for services	33,670	40,404
Depreciation and amortization	808,257	729,150
Loss from sale of property and equipment	2,987	23,500
Provision for doubtful accounts	73,914	120,000

Deferred income taxes	(69,339)	(167,300)
Change in assets and liabilities		
Receivables	(1,166,060)	(424,443)
Inventories	32,270	(109,093)
Other assets	8,247	(49,302)
Accounts payable	848,853	(233,924)
Other current liabilities	258,195	(37,665)
Net cash from operating activities	1,095,733	191,381
Cash flows from investing activities		
Proceeds from sale of property and equipment	6,500	7,500
Purchases of property and equipment	(784,848)	(451,952)
Purchases of equipment under sales-type leases	-	(287,874)
Proceeds from sales of sales-type leases	48,097	27,097
Net cash from investing activities	(730,251)	(705,229)
Cash flows from financing activities		
Proceeds from long-term debt	1,500,000	-
Proceeds from capital contribution	-	140,880
Payments on note payable to bank	(1,250,000)	-
Payments on long-term debt	(71,174)	(188,853)

Purchases of treasury stock	(334,903)	-
Net cash from financing activities	(156,077)	(47,973)
Net increase (decrease) in cash	209,405	(561,821)
Cash at beginning of period	1,395,882	2,388,811
Cash at end of period	$1,605,287	$1,826,990

See accompanying notes to consolidated financial statements.

INDUSTRIAL SERVICES OF AMERICA, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial reporting. They do not include all information and footnotes required by generally accepted accounting principles for complete consolidated financial statements. The information furnished includes all adjustments, which are, in the opinion of management, necessary to present fairly the Registrant's financial position as of June 30, 2001 and the results of its operations and changes in cash flows for the periods ended June 30, 2001 and 2000. Results of operations for the period ended June 30, 2001 are not necessarily indicative of the results that may be expected for the entire year. Additional information, including the audited 2000 consolidated financial statements and the Summary of Significant Accounting

Policies, is included in the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000 on file with the Securities and Exchange Commission.

2. Segment Information

The Company's operations include three primary segments: ISA Recycling, Computerized Waste Systems (CWS), and Waste Equipment Sales & Service (WESSCO). ISA recycling provides products and services to meet the needs of its customers related to ferrous, non-ferrous and fiber recycling at two locations in the Midwest. CWS provides waste disposal services including contract negotiations with vendors, centralized billing, invoice auditing, and centralized dispatching. WESSCO sells, leases, and services waste handling and recycling equipment.

The Company's three reportable segments are determined by the products and services that each offers. The recycling segment generates its revenues based on buying and selling of ferrous and non-ferrous scrap, CWS's revenues consist of management fees charged to customers at a percentage of the total service provided, and WESSCO sales and lease income comprise the primary source of revenue for this segment.

The Company evaluates segment performance based on profit or loss before income taxes and the evaluation process for each segment includes only direct expenses omitting any selling, general and administrative costs.

For the six months ending JUNE 30, 2001	ISA Recycling	Computerized Waste Systems	Waste Equipment Sales & Services	Segment Totals
Recycling revenues	$10,434,237	$ -	$ -	$10,434,237
Equipment sales, service				

and leasing revenues	-	-	1,184,063	1,184,063
Management revenue	-	37,454,096	-	37,454,096
Cost of goods sold	(9,426,355)	(35,231,736)	(492,122)	(45,150,213)
Segment profit	$1,007,882	$ 2,222,360	$ 691,941	$ 3,922,183

For the six months ending JUNE 30, 2000				
Recycling revenues	$13,043,170	$ -	$ -	$13,043,170
Equipment sales, service and leasing revenues	-	-	1,161,882	1,161,882
Management revenue	-	29,542,491	-	29,542,491
Cost of goods sold	(11,573,323)	(27,628,707)	(705,034)	(39,907,064)
Segment profit	$1,469,847	$ 1,913,784	$ 456,848	$ 3,840,479

3. Inventories

Inventories consist of the following:

	June 30, 2001	December 31, 2000

Equipment and parts	$ 291,188	$ 77,039
Ferrous materials	1,259,170	1,479,450
Non-ferrous materials	608,534	634,673
Total inventories	$2,158,892	$ 2,191,162

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

Liquidity and Capital Resources

As of June 30, 2001 the Registrant held cash and cash equivalents of $1,605,287.

The Registrant derives its revenues from several sources, including management services, equipment sales and leasing and from its recycling operations. Management services comprised approximately 76.3% and 67.5% of the Registrant's total revenues for the six months ended June 30, 2001 and 2000.

The Registrant currently maintains a working capital line of credit with the Mid-America Bank of Louisville and Trust Company (the "Bank") in the amount of $3,000,000. Outstanding principal under this credit facility bears interest at the Bank's prime rate and the line matures in June 2002. As of June 30, 2001, there was $1,500,000 drawn against this line of credit.

The Registrant secured a long-term debt facility of $1,500,000 during the second quarter of 2001. The Registrant also secured two additional lines of credit of $250,000 each to be used primarily for purchasing new rental equipment. The collateral for this debt is primarily rental equipment, which has an original cost value of $1,351,165 as of June 30, 2001.

Results of Operations

The following table presents, for the periods indicated, the percentage relationship which certain captioned items in the Registrant's Statements of Income bear to total revenues and other pertinent data:

	Six Months ended June 30,	
	2001	2000
Statements of Income Data:		
Total Revenue	100.0%	100.0%
Cost of goods sold	92.0%	91.2%
Selling, general and administrative expenses	6.8%	7.8%
Income from operations	1.2%	1.0%

Six months ended June 30, 2001 compared to six months ended June 30, 2000

Total revenue increased $5,324,853 or 12.2% to $49,072,396 in 2001 compared to $43,747,543 in 2000. Management services revenue increased $7,911,605 or 26.8% to $37,454,096 in 2001 compared to $29,542,491 in 2000. This is due to an increase in the number of units managed. Recycling revenue decreased $2,608,933 or 20.0% to $10,434,237 in 2001 compared to $13,043,170 in 2000. This is primarily due to the decline of commodity prices of approximately 18% in the Ferrous market and 2% in the Non-Ferrous market from the first six months of 2000 compared to the first six months of 2001. Equipment, service and leasing revenue increased $22,181 or 1.9% to $1,184,063 in 2001 compared to $1,161,882 in 2000. This small increase was due to the continued effort to lease equipment for the long-term benefit of revenue streams and customer retention. Service and leasing revenues increased $156,577 or 27.0% offset by a decrease in equipment sales of $139,584 or 23.8%.

Total cost of goods sold increased $5,243,149 or 13.1% to $45,150,213 in 2001 compared to $39,907,064 in 2000. Management services cost of goods sold increased $7,603,029 or 27.5% to $35,231,736 in 2001 compared to $27,628,707 in 2000. Recycling cost of goods sold decreased

$2,146,968 or 18.6% to $9,426,355 in 2001 compared to $11,573,323 in 2000. Equipment, service and leasing cost of goods sold decreased $212,912 or 30.2% to $492,122 in 2001 compared to $705,034 in 2000. This decrease was primarily due to the continued effort to lease equipment as equipment sales involve higher cost of goods sold.

Total gross profit increased $81,704 or 2.1% to $3,922,183 in 2001 compared to $3,840,479 in 2000. Management services gross profit increased $308,576 or 16.1% to $2,222,360 in 2001 compared to $1,913,784 in 2000. Recycling gross profit decreased $461,965 or 31.4% to $1,007,882 in 2001 compared to $1,469,847 in 2000. Equipment, service and leasing cost of goods sold increased $235,093 or 51.5% to $691,941 in 2001 compared to $456,848 in 2000.

Selling, general and administrative expenses decreased $75,061 or 2.2% to $3,350,481 in 2001 compared to $3,425,542 in 2000. One-time charges of $331,350 were taken in the second quarter of 2000. Without this one-time charge, selling, general and administrative expenses would have increased $256,289 or 8.3% to $3,350,481 in 2001 compared to $3,094,192 in 2000.

This increase was primarily due to the addition of an Information Technology department in the second quarter of 2000. As a percentage of total revenue, selling, general and administrative expenses were 6.8% in 2001 compared to 7.8% in 2000.

Three months ended June 30, 2001 compared to three months ended June 30, 2000

Total revenue increased $1,900,773 or 7.9% to $25,820,543 in 2001 compared to $23,919,770 in 2000. Management services revenue increased $3,158,888 or 18.9% to $19,906,446 in 2001 compared to $16,747,558 in 2000. This is due to an increase in the number of units managed. Recycling revenue decreased $1,253,483 or 19.0% to $5,337,053 in 2001 compared to $6,590,536 in 2000. This is primarily due to the decline of commodity prices of approximately 12% in the Ferrous market and 1% in the Non-Ferrous market from the second quarter of 2000 compared to the second quarter of 2001. Equipment, service and leasing revenue decreased $4,632 or 0.8% to $577,044 in 2001 compared to $581,676 in 2000. This small increase was due to the continued effort to lease equipment for the long-term benefit of revenue streams and customer retention. Service and leasing revenues increased $37,520 or 12.6% offset by a decrease in equipment sales of $43,355 or 15.3%.

Total cost of goods sold increased $2,010,537 or 9.2% to $23,890,515 in 2001 compared to $21,879,978 in 2000. Management services cost of goods sold increased $3,223,075 or 20.7% to $18,764,846 in 2001 compared to $15,541,771 in 2000. Recycling cost of goods sold decreased $1,133,875 or 18.8% to $4,883,632 in 2001 compared to $6,017,507 in 2000. Equipment, service and leasing cost of goods sold decreased $78,663 or 24.5% to $242,037 in 2001 compared to $320,700 in 2000.

Total gross profit decreased $109,764 or 5.4% to $1,930,028 in 2001 compared to $2,039,792 in 2000. Management services gross profit decreased $64,187 or 5.3% to $1,141,600 compared to $1,205,787 in 2000. Recycling gross profit decreased $119,608 or 20.9% to $453,421 in 2001 compared to $573,029 in 2000. Equipment, service and leasing cost of goods sold increased $74,031 or 28.4% to $335,007 in 2001 compared to $260,976 in 2000.

Selling, general and administrative expenses decreased $222,274 or 12.1% to $1,614,352 in 2001 compared to $1,836,626 in 2000. One-time charges of $331,350 were taken in the second quarter of 2000. Without this one-time charge, selling, general and administrative expenses would have increased $109,076 or 7.2% to $1,614,352 in 2001 compared to $1,505,276 in 2000. This increase was primarily due to the addition of an Information Technology department in the second quarter of 2000. As a percentage of total revenue, selling, general and administrative expenses were 6.3% in 2001 compared to 7.7% in 2000.

Financial Condition at June 30, 2001 compared to December 31, 2000

Accounts receivable-trade after allowances for bad debt increased $1,166,358 or 13.3% to $9,905,532 in 2001 compared to $8,739,174 in 2000. This is due to an increase in volume.

Accounts payable trade increased $848,852 or 8.4% to $10,975,205 in 2001 compared to $10,126,353 in 2000. This is due to an increase in volume.

Working capital increased $1,055,072 to $343,298 in 2001 compared to a deficit of $711,774 in 2000. This is primarily due to the securing of a long-term debt facility of $1,500,000 during the second quarter of 2001.

Impact of Recently Issued Accounting Standards

The FASB issued Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities," in June 1998. SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires recognition of all derivatives as either assets or liabilities on the balance sheet and measurement of those instruments at fair value. If certain conditions are met, a derivative may be designed specifically as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment referred to as a fair value hedge, (b) a hedge of the exposure to variability in cash flows of a forecasted transaction (a cash flow hedge), or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available-for-sale security, or a forecasted transaction. The statement has not had an impact on the Registrant's financial position or results of operations.

Item 3: Quantitative and Qualitative Disclosures About Market Risk.

Not Applicable.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings
None

Item 2. Changes in Securities and Use of Proceeds
None

Item 3. Defaults upon Senior Securities
None

Item 4. Submission of Matters to a Vote of Security Holders

(a) At the Annual Meeting of Shareholders held on May 24, 2001, the following proposals were adopted by the margins indicated:

(b) PROPOSAL 1: Annual Election of Directors. Harry Kletter, the Company's Chairman and Chief Executive Officer, Bruce A. Cannon, Ted Cox, Jerrold R. Perchik and James E. Vining were elected to one-year terms to the Board of Directors. With the exception of Mr. Vining, the Nominating Committee prior to the mailing of the Proxy Statement had nominated the elected directors. David Lester, the other nominee listed in the Proxy Statement, indicated that he would not be available to serve on the Board of Directors. Consequently, the Board of Directors nominated Mr. Vining on May 24, 2001, prior to the annual meeting of shareholders, to serve as the fifth director of the Company.

	For	**Against**	**Broker Non-Votes And Abstentions**
Harry Kletter	1,630,742	1,000	71,558
Bruce A. Cannon	1,631,752		71,548
Ted L. Cox	1,631,752		71,548

David W. Lester	609,151	1,094,149
Jerrold R. Perchik	1,631,752	71,548
James E. Vining	1,022,601	680,699

(c) PROPOSAL 2: Confirmation of Crowe Chizek & Company LLP as the Company's independent auditors.

	For	**Against**	**Broker Non-Votes And Abstentions**
	1,631,252		72,048

Item 5. Other Information

(a) Effective July 2, 2001, Timothy W. Myers resigned from his position as Chief Operating Officer with the Registrant.

The Registrant promoted two individuals as follows: Robert Cuzzort to Chief Operating Officer and Alan L. Schroering to Chief Financial Officer. John O. Tietjen remains as a Senior Vice President and Corporate Secretary of the Registrant.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 10.27 Promissory Note dated May 31, 2001 from Registrant to Bank of Louisville in the amount of $1,500,000.

Exhibit 10.28 Promissory Note dated May 31, 2001 from Registrant to Bank of Louisville in the amount of $250,000.

Exhibit 10.29	Promissory Note dated May 31, 2001 from Registrant to Bank of Louisville in the amount of $250,000.

SIGNATURES

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

INDUSTRIAL SERVICES OF AMERICA, INC.

DATE: August 3, 2001

/s/ Harry Kletter
Chairman and Chief Executive Officer
(Principal Executive and Financial Officer)

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PROMISSORY NOTE

Borrower:	Industrial Services of America, Inc. 7100 Grade Lane Louisville, KY 40232	Lender:	Bank of Louisville a Kentucky banking corporation 500 West Broadway P.O. Box 1101 Louisville, KY 40201-1101

Principal Amount: $1,500,000.00

Date of Note: May 31, 2001

PROMISE TO PAY: Industrial Services of America, Inc. ("Borrower") promises to pay to Bank of Louisville ("Lender"), or order, in lawful money of the United States of America, the principal amount of One Million Five Hundred Thousand & 00/100 Dollars ($1,500,000.00), together with interest on the unpaid principal balance from May 31, 2001, until paid in full.

PAYMENT: Subject to any payment changes resulting from changes in the Index, Borrower will pay this loan in 59 regular payments of $30,000.00 each and one irregular last payment estimated at $13,833.48. Borrower's first payment is due June 30, 2001, and all subsequent payments are due on the last day of each month after that. Borrower's final payment will be due on May 31, 2006, and will be for all principal and all accrued interest not yet paid. Payments including principal and interest. Unless otherwise agreed or required by applicable law, payments will be applied first to accrued unpaid interest, then to principal, and any remaining amount to any unpaid collection costs and late charges. The annual interest rate for this Note is computed on a 365/360 basis; that is, by applying the ratio of the annual interest rate over a year of 360 days, multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding. Borrower will pay Lender at Lender's address shown above or at such other place as Lender may designate in writing.

VARIABLE INTEREST RATE: The interest rate on this Note is subject to change from time to time based on changes in an index which is Lender's Prime Rate (the "Index"). This is the rate Lender charges, or would charge, on 90-day unsecured loans to the most creditworthy corporate customers. This rate may or may not be the lowest rate available from Lender at any given time. Lender will tell Borrower the current Index rate upon Borrower's request. The interest rate change will not occur more often than each day. The rate of interest shall be adjusted from time to time on the same day of which the "prime rate" is changed by Lender. Borrower understands that Lender may make loans based on other rates as well. Prior to adding or subtracting any margin to the Index, the Index is rounded up to the nearest 0.001 per cent, resulting in a current rounded Index of 7.000%. The interest rate to be applied to the unpaid principal balance of this Note will be at a rate equal to the Index, rounded up to the nearest 0.001 percent. NOTICE: Under no circumstances will the interest rate on this Note be more than the maximum rate allowed by applicable law. Whenever increases occur in the interest rate, Lender, at its option, may do one or more of the following: (A) increase Borrower's payments to ensure Borrower's loan will pay off by its original final maturity date, (B) increase Borrower's payments to cover accruing interest, (C) increase the number of Borrower's payments, and (D) continue Borrower's payments at the same amount and increase Borrower's final payment.

PREPAYMENT: Borrower may pay without penalty all or a portion of the amount owed earlier than it is due. Early payments will not, unless agreed to by lender in writing, relieve Borrower of Borrower's obligation to continue to make payments under the payment schedule. Rather, early payments will reduce the principal balance due and may result in

Borrower's making fewer payments. Borrower agrees not to send Lender payments marked "paid in full," "without recourse," or similar language. If Borrower sends such a payment, lender may accept it without losing any of Lender's rights under this Note, and Borrower will remain obligated to pay any further amount owed to Lender. All written communications concerning disputed amounts, including any check or other payment instrument that indicates that the payment constitutes "payment in full" of the amount owed or that is tendered with other conditions or limitations or as full satisfaction of a disputed amount must be mailed or delivered to: Bank of Louisville, a Kentucky banking corporation, 500 West Broadway, P.O. Box 1101, Louisville, KY 40201-1101.

LATE CHARGE. If a payment is 10 days or more late, Borrower will be charged 5.000% of the regularly scheduled payment or $20.00, whichever is greater.

INTEREST AFTER DEFAULT. Upon default, including failure to pay upon final maturity, Lender, at its option, may, if permitted under applicable law, increase the variable interest rate on this Note to 6.000 percentage points over the Index. The interest rate will not exceed the maximum rate permitted by applicable law.

DEFAULT. Each of the following shall constitute an event of default ("Event of Default") under this Note:

Payment Default. Borrower fails to make any payment when due under this Note.

Other Defaults. Borrower fails to comply with or to perform any other term, obligation, covenant or condition contained in this Note or in any of the related documents or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between Lender and Borrower.

False Statements. Any warranty, representation or statement made or furnished to Lender by Borrower or on Borrower's behalf, or made by Guarantor, or any other guarantor, endorser, surety, or accommodation party, under this Note or the related documents in connection with the obtaining of the loan evidenced by this Note or any security document directly or indirectly securing repayment of this Note is false or misleading in any material respect, either now or at the time made or furnished or becomes false or misleading at any time thereafter.

Insolvency. The dissolution or termination of Borrower's existence as a going business, the insolvency of Borrower, the appointment of a receiver for any part of Borrower's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws or against Borrower.

Creditor or Forfeiture Proceedings. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Borrower or by any governmental agency against any collateral securing the loan. This includes a garnishment of any of Borrower's accounts, including deposit accounts, with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Borrower as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Borrower gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for this dispute.

Events Affecting Guarantor. Any of the preceding events occurs with respect to any guarantor, endorser, surety, or accommodation party of any of the indebtedness or any guarantor, endorser, surety, or accommodation party dies or becomes incompetent, or revokes or disputes the validity of, or liability under, any guaranty of the indebtedness evidenced by this Note. In the event of a death, Lender, at its option, may, but shall not be required to, permit the guarantor's estate to assume unconditionally the obligations arising under the guaranty in a manner satisfactory to lender, and, in doing so, cure any Event of Default.

Change In Ownership. Any change in the ownership of twenty-five percent (25%) or more of the common stock of Borrower.

Adverse Change. A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of this Note is impaired.

Cure Provisions. If any default, other than a default in payment is curable and if Borrower has not been given a notice of a breach of the same provision of this Note within the preceding twelve (12) months, it may be cured (and no event of default will have occurred) if Borrower, after receiving written notice from Lender demanding cure of such default: (1) cures the default within fifteen (15) days; or (2) if the cure requires more than fifteen (15) days, immediately initiates steps which Lender deems in Lender's sole discretion to be sufficient to cure the default and thereafter continues and completes all reasonable and necessary steps sufficient to produce compliance as soon as reasonably practical.

LENDER'S RIGHTS. Upon default, Lender may declare the entire unpaid principal balance on this Note and all accrued unpaid interest immediately due, and then Borrower will pay that amount.

ATTORNEYS' FEES; EXPENSES. Lender may hire or pay someone else to help collect this Note if Borrower does not pay. Borrower will pay Lender that amount. This includes, subject to any limits under applicable law, Lender's reasonable attorneys' fees and Lender's legal expenses whether or not there is a lawsuit, including reasonable attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), and appeals. If not prohibited by applicable law, Borrower also will pay any court costs, in addition to all other sums provided by law.

JURY WAIVER. Lender and Borrower hereby waive the right to any jury trial in any action, proceeding, or counterclaim brought by either Lender or Borrower against the other.

GOVERNING LAW. This note will be governed by, construed and enforced in accordance with federal law and the laws of the Commonwealth of Kentucky. This Note has been accepted by Lender in the Commonwealth of Kentucky.

CHOICE OF VENUE. If there is a lawsuit, Borrower agrees upon lender's request to submit to the jurisdiction of the courts of Jefferson County, Commonwealth of Kentucky.

DISHONORED ITEM FEE. Borrower will pay a fee to Lender of $20.00 if Borrower makes a payment on Borrower's loan and the check or preauthorized charge with which Borrower pays is later dishonored.

RIGHT OF SETOFF. To the extent permitted by applicable law, Lender reserves a right of setoff in all Borrower's accounts with lender (whether checking, savings, or some other account). This includes all accounts Borrower holds jointly with someone else and all accounts Borrower may open in the future. However, this does not include any IRA or Keogh accounts, or any trust accounts for which setoff would be prohibited by law. Borrower authorizes Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on the indebtedness against any and all such accounts, and, at Lender's option, to administratively freeze all such accounts to allow Lender to protect Lender's charge and setoff rights provided in this paragraph.

FINAL AGREEMENT. THE UNDERSIGNED REPRESENTS AND AGREES THAT: (A) THIS AGREEMENT, TOGETHER WITH THE OTHER DOCUMENTS EXECUTED IN CONNECTION HEREWITH AND/OR REFERRED TO HEREIN (COLLECTIVELY, THE "LOAN DOCUMENTS") REPRESENT THE FINAL AGREEMENT BETWEEN THE UNDERSIGNED AND THE LENDER WITH RESPECT TO THE SUBJECT MATTER HEREOF, (B) THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES, AND (C) THE LOAN DOCUMENTS MAY NOT BE CONTRADICTED BY EVIDENCE OF ANY PRIOR,

CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OR UNDERSTANDINGS OF THE PARTIES. THE TERM "PARTIES" MEANS BANK OF LOUISVILLE AND ANY AND ALL ENTITIES OR INDIVIDUALS WHO ARE OBLIGATED, DIRECTLY OR INDIRECTLY, TO REPAY THE INDEBTEDNESS REPRESENTED BY THIS NOTE OR HAVE PLEDGED PROPERTY AS SECURITY FOR THE INDEBTEDNESS REPRESENTED BY THIS NOTE.

FURTHER TO FINANCIAL STATEMENTS COVENANT. Upon Lender's request, monthly no later than the 15th of each month, Borrower will provide Lender with the periodic financial statements described in the provisions above marked "Financial Statements".

CROSS-COLLATERALIZATION. The Note and loan documents executed in connection with the Note shall be consolidated and coordinated such that the collateral held by the Lender with respect to any other loans or promissory note shall extend and secure the repayment in full to the Lender of any and all loans and promissory notes from Borrower, notwithstanding the fact that the Lender may hold separate notes, commitment letter, liens security agreements, guaranties, mortgages, assignments of rents, or other documents with respect to any other loans.

ADDITIONAL PROVISION. Notwithstanding any provisions to the contrary in the Section titled "PAYMENT," Borrower understands that if the interest rate applicable to this Note goes up or down, Lender may recalculate the monthly principal and interest payment so as to fully and evenly amortize the outstanding principal balance of this Note over the remainder of its term.

LOAN DOCUMENTS. This Note is and shall continue to be governed by the Loan Agreement dated November 20, 2000 and the Security Agreement dated May 31, 2001.

SUCCESSOR INTERESTS. The terms of this Note shall be binding upon Borrower, and upon Borrower's heirs, personal representatives, successors and assigns, and shall inure to the benefit of Lender and its successors and assigns.

GENERAL PROVISIONS. Lender may delay or forgo enforcing any of its rights or remedies under this Note without losing them. Borrower and any other person who signs, guarantees or endorses this Note, to the extent allowed by law, waive presentment, demand for payment, and notice of dishonor. Upon any change in the terms of this Note, and unless otherwise expressly stated in writing, no party who signs this Note, whether as maker, guarantor, accommodation maker or endorser, shall be released from liability. All such parties agree that Lender may renew or extend (repeatedly and for any length of time) this loan or release any party or guarantor or collateral; or impair, fail to realize upon or perfect Lender's security interest in the collateral; and take any other action deemed necessary by Lender without the consent of or notice to anyone. All such parties also agree that Lender may modify this loan without the consent of or notice to anyone other than the party with whom the modification is made. The obligations under this Note are joint and several.

PRIOR TO SIGNING THIS NOTE, BORROWER READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS NOTE, INCLUDING THE VARIABLE INTEREST RATE PROVISIONS. BORROWER AGREES TO THE TERMS OF THE NOTE.

BORROWER ACKNOWLEDGES RECEIPT OF A COMPLETED COPY OF THIS PROMISSORY NOTE.

BORROWER:

INDUSTRIAL SERVICES OF AMERICA, INC.

By: /s/ Timothy W. Myers

Timothy W. Myers, President of Industrial Services of America, Inc.

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PROMISSORY NOTE

Borrower:	Industrial Services of America, Inc. 7100 Grade Lane Louisville, KY 40232	Lender:	Bank of Louisville a Kentucky banking corporation 500 West Broadway P.O. Box 1101 Louisville, KY 40201-1101

Principal Amount: $250,000.00

Date of Note: May 31, 2001

PROMISE TO PAY: Industrial Services of America, Inc. ("Borrower") promises to pay to Bank of Louisville ("Lender"), or order, in lawful money of the United States of America, the principal amount of Two Hundred Fifty Thousand & 00/100 Dollars ($250,000.00), together with interest on the unpaid principal balance from May 31, 2001, until paid in full.

PAYMENT: Subject to any payment changes resulting from changes in the Index, Borrower will pay this loan in accordance with the following payment schedule:

> Borrower will make monthly interest payments beginning May 31, 2001, with interest calculated on the unpaid principal balance at a rate of 7% per annum until fully disbursed, at which time the Borrower will pay consecutive monthly principal and interest payments in an amount sufficient to fully amortize the Note over five (5) years.

Unless otherwise agreed or required by applicable law, payments will be applied first to accrued unpaid Interest, then to principal, and any remaining amount to any unpaid collection costs and late charges. The annual interest rate for this Note is computed on a 365/360 basis; that is, by applying the ratio of the annual interest rate over a year of 360 days, multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding. Borrower will pay Lender at Lender's address shown above or at such other place as Lender may designate in writing.

VARIABLE INTEREST RATE: The interest rate on this Note is subject to change from time to time based on changes in an index which is Lender's Prime Rate (the "Index"). This is the rate Lender charges, or would charge, on 90-day unsecured loans to the most creditworthy corporate customers. This rate may or may not be the lowest rate available from Lender at any given time. Lender will tell Borrower the current Index rate upon Borrower's request. The interest rate change will not occur more often than each day. The rate of interest shall be adjusted from time to time on the same day of which the "prime rate" is changed by Lender. Borrower understands that Lender may make loans based on other rates as well. Prior to adding or subtracting any margin to the Index, the Index is rounded up to the nearest 0.001 per cent, resulting in a current rounded Index of 7.000%. The interest rate to be applied to the unpaid principal balance of this Note will be at a rate equal to the Index, rounded up to the nearest 0.001 percent. NOTICE: Under no circumstances will the interest rate on this Note be more than the maximum rate allowed by applicable law. Whenever increases occur in the interest rate, Lender, at its option, may do one or more of the following: (A) increase Borrower's payments to ensure Borrower's loan will pay off by its original final maturity date, (B) increase Borrower's payments to cover accruing interest, (C) increase the number of Borrower's payments, and (D) continue Borrower's payments at the same amount and increase Borrower's final payment.

PREPAYMENT: Borrower may pay without penalty all or a portion of the amount owed earlier than it is due. Early payments will not, unless agreed to by lender in writing, relieve Borrower of Borrower's obligation to continue to make payments under the payment schedule. Rather, early payments will reduce the principal balance due and may result in Borrower's making fewer payments. Borrower agrees not to send Lender payments marked "paid in full," "without recourse," or similar language. If Borrower sends such a payment, lender may accept it without losing any of Lender's rights under this Note, and Borrower will remain obligated to pay any further amount owed to Lender. All written communications concerning disputed amounts, including any check or other payment instrument that indicates that the payment constitutes "payment in full" of the amount owed or that is tendered with other conditions or limitations or as full satisfaction of a disputed amount must be mailed or delivered to: Bank of Louisville, a Kentucky banking corporation, 500 West Broadway, P.O. Box 1101, Louisville, KY 40201-1101.

LATE CHARGE. If a payment is 10 days or more late, Borrower will be charged 5.000% of the regularly scheduled payment or $20.00, whichever is greater.

INTEREST AFTER DEFAULT. Upon default, including failure to pay upon final maturity, Lender, at its option, may, if permitted under applicable law, increase the variable interest rate on this Note to 6.000 percentage points over the Index. The interest rate will not exceed the maximum rate permitted by applicable law.

DEFAULT. Each of the following shall constitute an event of default ("Event of Default") under this Note:

Payment Default. Borrower fails to make any payment when due under this Note.

Other Defaults. Borrower fails to comply with or to perform any other term, obligation, covenant or condition contained in this Note or in any of the related documents or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between Lender and Borrower.

False Statements. Any warranty, representation or statement made or furnished to Lender by Borrower or on Borrower's behalf, or made by Guarantor, or any other guarantor, endorser, surety, or accommodation party, under this Note or the related documents in connection with the obtaining of the loan evidenced by this Note or any security document directly or indirectly securing repayment of this Note is false or misleading in any material respect, either now or at the time made or furnished or becomes false or misleading at any time thereafter.

Insolvency. The dissolution or termination of Borrower's existence as a going business, the insolvency of Borrower, the appointment of a receiver for any part of Borrower's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws or against Borrower.

Creditor or Forfeiture Proceedings. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Borrower or by any governmental agency against any collateral securing the loan. This includes a garnishment of any of Borrower's accounts, including deposit accounts, with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Borrower as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Borrower gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for this dispute.

Execution; Attachment. Any execution or attachment is levied against the Collateral, and such execution or attachment is not set aside, discharged or stayed within thirty (30) days after the same is levied.

Change in Zoning or Public Restriction. Any change in any zoning ordinance or regulation or any other public restriction is enabled, adopted or implemented, that limits or defines the uses which may be made of the Collateral such that the present or intended use of the Collateral, as specified in the related documents, would be in violation of such zoning ordinance or regulation or public restriction, as changed.

Default Under Other Lien Documents. A default occurs under any other mortgage, deed of trust or security agreement covering all or any portion of the Collateral.

Judgment. Unless adequately covered by insurance in the opinion of Lender, the entry of a final judgment for the payment of money involving more than ten thousand dollars ($10,000.00) against Borrower and the failure by Borrower to discharge the same, or cause it to be discharged, or bonded off to Lender's satisfaction, within thirty (30) days from the date of the order, decree or process under which or pursuant to which such judgment was entered.

Events Affecting Guarantor. Any of the preceding events occurs with respect to any Guarantor, or any other guarantor, endorser, surety, or accommodation party of any of the indebtedness of any Guarantor, or any other guarantor, endorser, surety, or accommodation party dies or becomes incompetent, or revokes or disputes the validity of, or liability under, any guaranty of the indebtedness evidenced by this Note. In the event of a death, Lender, at its option, may, but shall not be required to, permit the Guarantor's estate to assume unconditionally the obligations arising under the guaranty in a manner satisfactory to lender, and, in doing so, cure any Event of Default.

Change In Ownership. Any change in the ownership of twenty-five percent (25%) or more of the common stock of Borrower.

Adverse Change. A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of this Note is impaired.

Insecurity. Lender in good faith believes itself insecure.

Cure Provisions. If any default, other than a default in payment is curable and if Borrower has not been given a notice of a breach of the same provision of this Note within the preceding twelve (12) months, it may be cured (and no event of default will have occurred) if Borrower, after receiving written notice from Lender demanding cure of such default: (1) cures the default within fifteen (15) days; or (2) if the cure requires more than fifteen (15) days, immediately initiates steps which Lender deems in Lender's sole discretion to be sufficient to cure the default and thereafter continues and completes all reasonable and necessary steps sufficient to produce compliance as soon as reasonably practical.

LENDER'S RIGHTS. Upon default, Lender may declare the entire unpaid principal balance on this Note and all accrued unpaid interest immediately due, and then Borrower will pay that amount.

ATTORNEYS' FEES; EXPENSES. Lender may hire or pay someone else to help collect this Note if Borrower does not pay. Borrower will pay Lender that amount. This includes, subject to any limits under applicable law, Lender's reasonable attorneys' fees and Lender's legal expenses whether or not there is a lawsuit, including reasonable attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), and appeals. If not prohibited by applicable law, Borrower also will pay any court costs, in addition to all other sums provided by law.

JURY WAIVER. Lender and Borrower hereby waive the right to any jury trial in any action, proceeding, or counterclaim brought by either Lender or Borrower against the other.

GOVERNING LAW. This note will be governed by, construed and enforced in accordance with federal law and the laws of the Commonwealth of Kentucky. This Note has been accepted by Lender in the Commonwealth of Kentucky.

CHOICE OF VENUE. If there is a lawsuit, Borrower agrees upon lender's request to submit to the jurisdiction of the courts of Jefferson County, Commonwealth of Kentucky.

DISHONORED ITEM FEE. Borrower will pay a fee to Lender of $20.00 if Borrower makes a payment on Borrower's loan and the check or preauthorized charge with which Borrower pays is later dishonored.

RIGHT OF SETOFF. To the extent permitted by applicable law, Lender reserves a right of setoff in all Borrower's accounts with lender (whether checking, savings, or some other account). This includes all accounts Borrower holds jointly with someone else and all accounts Borrower may open in the future. However, this does not include any IRA or Keogh accounts, or any trust accounts for which setoff would be prohibited by law. Borrower authorizes Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on the indebtedness against any and all such accounts, and, at Lender's option, to administratively freeze all such accounts to allow Lender to protect Lender's charge and setoff rights provided in this paragraph.

FINANCIAL STATEMENTS. Borrower agrees to provide Lender with such financial statements and other related information at such frequencies and in such detail as Lender may reasonably request.

FINAL AGREEMENT. THE UNDERSIGNED REPRESENTS AND AGREES THAT: (A) THIS AGREEMENT, TOGETHER WITH THE OTHER DOCUMENTS EXECUTED IN CONNECTION HEREWITH AND/OR REFERRED TO HEREIN (COLLECTIVELY, THE "LOAN DOCUMENTS") REPRESENT THE FINAL AGREEMENT BETWEEN THE UNDERSIGNED AND THE LENDER WITH RESPECT TO THE SUBJECT MATTER HEREOF, (B) THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES, AND (C) THE LOAN DOCUMENTS MAY NOT BE CONTRADICTED BY EVIDENCE OF ANY PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OR UNDERSTANDINGS OF THE PARTIES. THE TERM "PARTIES" MEANS BANK OF LOUISVILLE AND ANY AND ALL ENTITIES OR INDIVIDUALS WHO ARE OBLIGATED, DIRECTLY OR INDIRECTLY, TO REPAY THE INDEBTEDNESS REPRESENTED BY THIS NOTE OR HAVE PLEDGED PROPERTY AS SECURITY FOR THE INDEBTEDNESS REPRESENTED BY THIS NOTE.

FURTHER TO FINANCIAL STATEMENTS COVENANT. Upon Lender's request, monthly no later than the 15th of each month, Borrower will provide Lender with the periodic financial statements described in the provisions above marked "Financial Statements".

CROSS-COLLATERALIZATION. The Note and loan documents executed in connection with the Note shall be consolidated and coordinated such that the collateral held by the Lender with respect to any other loans or promissory note shall extend and secure the repayment in full to the Lender of any and all loans and promissory notes from Borrower, notwithstanding the fact that the Lender may hold separate notes, commitment letter, liens security agreements, guaranties, mortgages, assignments of rents, or other documents with respect to any other loans.

FINANCIAL COVENANTS. Borrower agrees to maintain a "Maximum Leverage" of 5.00: 1.00 as defined by lender in its sole discretion.

LINE OF CREDIT. This Note evidences a straight line of credit. Once the total amount of principal has been advanced, Borrower is not entitled to further loan advances. Borrower agrees to be liable to all sums either: (a) advanced in accordance with the instructions of an authorized person or (b) credited to any of Borrowers accounts with lender. The unpaid principal balance owing on this Note at any time may be evidenced by endorsements on this Note or by Lender's internal records, including daily computer print-outs.

LOAN DOCUMENTS. This Note is and shall continue to be governed by the Loan Agreement dated November 20, 2000 and the Security Agreement dated May 31, 2001.

SUCCESSOR INTERESTS. The terms of this Note shall be binding upon Borrower, and upon Borrower's heirs, personal representatives, successors and assigns, and shall inure to the benefit of Lender and its successors and assigns.

GENERAL PROVISIONS. Lender may delay or forgo enforcing any of its rights or remedies under this Note without losing them. Borrower and any other person who signs, guarantees or endorses this Note, to the extent allowed by law, waive presentment, demand for payment, and notice of dishonor. Upon any change in the terms of this Note, and unless otherwise expressly stated in writing, no party who signs this Note, whether as maker, guarantor, accommodation maker or endorser, shall be released from liability. All such parties agree that Lender may renew or extend (repeatedly and for any length of time) this loan or release any party or guarantor or collateral; or impair, fail to realize upon or perfect Lender's security interest in the collateral; and take any other action deemed necessary by Lender without the consent of or notice to anyone. All such parties also agree that Lender may modify this loan without the consent of or notice to anyone other than the party with whom the modification is made. The obligations under this Note are joint and several.

PRIOR TO SIGNING THIS NOTE, BORROWER READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS NOTE, INCLUDING THE VARIABLE INTEREST RATE PROVISIONS. BORROWER AGREES TO THE TERMS OF THE NOTE.

BORROWER ACKNOWLEDGES RECEIPT OF A COMPLETED COPY OF THIS PROMISSORY NOTE.

BORROWER:

INDUSTRIAL SERVICES OF AMERICA, INC.

By: /s/ Timothy W. Myers
Timothy W. Myers, President of Industrial Services of America, Inc.

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PROMISSORY NOTE

Borrower:	Industrial Services of America, Inc. 7100 Grade Lane Louisville, KY 40232	Lender:	Bank of Louisville a Kentucky banking corporation 500 West Broadway P.O. Box 1101 Louisville, KY 40201-1101

Principal Amount: $250,000.00

Date of Note: May 31, 2001

PROMISE TO PAY: Industrial Services of America, Inc. ("Borrower") promises to pay to Bank of Louisville ("Lender"), or order, in lawful money of the United States of America, the principal amount of Two Hundred Fifty Thousand & 00/100 Dollars ($250,000.00), together with interest on the unpaid principal balance from May 31, 2001, until paid in full.

PAYMENT: Subject to any payment changes resulting from changes in the Index, Borrower will pay this loan in accordance with the following payment schedule:

> Borrower will make monthly interest payments beginning May 31, 2001, with interest calculated on the unpaid principal balance at a rate of 7% per annum until fully disbursed, at which time the Borrower will pay consecutive monthly principal and interest payments in an amount sufficient to fully amortize the Note over five (5) years.

Unless otherwise agreed or required by applicable law, payments will be applied first to accrued unpaid Interest, then to principal, and any remaining amount to any unpaid collection costs and late charges. The annual interest rate for this Note is computed on a 365/360 basis; that is, by applying the ratio of the annual interest rate over a year of 360 days, multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding. Borrower will pay Lender at Lender's address shown above or at such other place as Lender may designate in writing.

VARIABLE INTEREST RATE: The interest rate on this Note is subject to change from time to time based on changes in an index which is Lender's Prime Rate (the "Index"). This is the rate Lender charges, or would charge, on 90-day unsecured loans to the most creditworthy corporate customers. This rate may or may not be the lowest rate available from Lender at any given time. Lender will tell Borrower the current Index rate upon Borrower's request. The interest rate change will not occur more often than each day. The rate of interest shall be adjusted from time to time on the same day of which the "prime rate" is changed by Lender. Borrower understands that Lender may make loans based on other rates as well. Prior to adding or subtracting any margin to the Index, the Index is rounded up to the nearest 0.001 per cent, resulting in a current rounded Index of 7.000%. The interest rate to be applied to the unpaid principal balance of this Note will be at a rate equal to the Index, rounded up to the nearest 0.001 percent. NOTICE: Under no circumstances will the interest rate on this Note be more than the maximum rate allowed by applicable law. Whenever increases occur in the interest rate, Lender, at its option, may do one or more of the following: (A) increase Borrower's payments to ensure Borrower's loan will pay off by its original final maturity date, (B) increase Borrower's payments to cover accruing interest, (C) increase the number of Borrower's payments, and (D) continue Borrower's payments at the same amount and increase Borrower's final payment.

PREPAYMENT: Borrower may pay without penalty all or a portion of the amount owed earlier than it is due. Early payments will not, unless agreed to by lender in writing, relieve Borrower of Borrower's obligation to continue to make payments under the payment schedule. Rather, early payments will reduce the principal balance due and may result in Borrower's making fewer payments. Borrower agrees not to send Lender payments marked "paid in full," "without recourse," or similar language. If Borrower sends such a payment, lender may accept it without losing any of Lender's rights under this Note, and Borrower will remain obligated to pay any further amount owed to Lender. All written communications concerning disputed amounts, including any check or other payment instrument that indicates that the payment constitutes "payment in full" of the amount owed or that is tendered with other conditions or limitations or as full satisfaction of a disputed amount must be mailed or delivered to: Bank of Louisville, a Kentucky banking corporation, 500 West Broadway, P.O. Box 1101, Louisville, KY 40201-1101.

LATE CHARGE. If a payment is 10 days or more late, Borrower will be charged 5.000% of the regularly scheduled payment or $20.00, whichever is greater.

INTEREST AFTER DEFAULT. Upon default, including failure to pay upon final maturity, Lender, at its option, may, if permitted under applicable law, increase the variable interest rate on this Note to 6.000 percentage points over the Index. The interest rate will not exceed the maximum rate permitted by applicable law.

DEFAULT. Each of the following shall constitute an event of default ("Event of Default") under this Note:

Payment Default. Borrower fails to make any payment when due under this Note.

Other Defaults. Borrower fails to comply with or to perform any other term, obligation, covenant or condition contained in this Note or in any of the related documents or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between Lender and Borrower.

False Statements. Any warranty, representation or statement made or furnished to Lender by Borrower or on Borrower's behalf, or made by Guarantor, or any other guarantor, endorser, surety, or accommodation party, under this Note or the related documents in connection with the obtaining of the loan evidenced by this Note or any security document directly or indirectly securing repayment of this Note is false or misleading in any material respect, either now or at the time made or furnished or becomes false or misleading at any time thereafter.

Insolvency. The dissolution or termination of Borrower's existence as a going business, the insolvency of Borrower, the appointment of a receiver for any part of Borrower's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws or against Borrower.

Creditor or Forfeiture Proceedings. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Borrower or by any governmental agency against any collateral securing the loan. This includes a garnishment of any of Borrower's accounts, including deposit accounts, with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Borrower as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Borrower gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for this dispute.

Execution; Attachment. Any execution or attachment is levied against the Collateral, and such execution or attachment is not set aside, discharged or stayed within thirty (30) days after the same is levied.

Change In Ownership. Any change in the ownership of twenty-five percent (25%) or more of the common stock of Borrower.

Adverse Change. A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of this Note is impaired.

Insecurity. Lender in good faith believes itself insecure.

Cure Provisions. If any default, other than a default in payment is curable and if Borrower has not been given a notice of a breach of the same provision of this Note within the preceding twelve (12) months, it may be cured (and no event of default will have occurred) if Borrower, after receiving written notice from Lender demanding cure of such default: (1) cures the default within fifteen (15) days; or (2) if the cure requires more than fifteen (15) days, immediately initiates steps which Lender deems in Lender's sole discretion to be sufficient to cure the default and thereafter continues and completes all reasonable and necessary steps sufficient to produce compliance as soon as reasonably practical.

LENDER'S RIGHTS. Upon default, Lender may declare the entire unpaid principal balance on this Note and all accrued unpaid interest immediately due, and then Borrower will pay that amount.

ATTORNEYS' FEES; EXPENSES. Lender may hire or pay someone else to help collect this Note if Borrower does not pay. Borrower will pay Lender that amount. This includes, subject to any limits under applicable law, Lender's reasonable attorneys' fees and Lender's legal expenses whether or not there is a lawsuit, including reasonable attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), and appeals. If not prohibited by applicable law, Borrower also will pay any court costs, in addition to all other sums provided by law.

JURY WAIVER. Lender and Borrower hereby waive the right to any jury trial in any action, proceeding, or counterclaim brought by either Lender or Borrower against the other.

GOVERNING LAW. This note will be governed by, construed and enforced in accordance with federal law and the laws of the Commonwealth of Kentucky. This Note has been accepted by Lender in the Commonwealth of Kentucky.

CHOICE OF VENUE. If there is a lawsuit, Borrower agrees upon lender's request to submit to the jurisdiction of the courts of Jefferson County, Commonwealth of Kentucky.

DISHONORED ITEM FEE. Borrower will pay a fee to Lender of $20.00 if Borrower makes a payment on Borrower's loan and the check or preauthorized charge with which Borrower pays is later dishonored.

RIGHT OF SETOFF. To the extent permitted by applicable law, Lender reserves a right of setoff in all Borrower's accounts with lender (whether checking, savings, or some other account). This includes all accounts Borrower holds jointly with someone else and all accounts Borrower may open in the future. However, this does not include any IRA or Keogh accounts, or any trust accounts for which setoff would be prohibited by law. Borrower authorizes Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on the indebtedness against any and all such accounts, and, at Lender's option, to administratively freeze all such accounts to allow Lender to protect Lender's charge and setoff rights provided in this paragraph.

FINAL AGREEMENT. THE UNDERSIGNED REPRESENTS AND AGREES THAT: (A) THIS AGREEMENT, TOGETHER WITH THE OTHER DOCUMENTS EXECUTED IN CONNECTION HEREWITH AND/OR REFERRED TO HEREIN (COLLECTIVELY, THE "LOAN DOCUMENTS") REPRESENT THE FINAL AGREEMENT BETWEEN THE UNDERSIGNED AND THE LENDER WITH RESPECT TO THE SUBJECT

MATTER HEREOF, (B) THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES, AND (C) THE LOAN DOCUMENTS MAY NOT BE CONTRADICTED BY EVIDENCE OF ANY PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OR UNDERSTANDINGS OF THE PARTIES. THE TERM "PARTIES" MEANS BANK OF LOUISVILLE AND ANY AND ALL ENTITIES OR INDIVIDUALS WHO ARE OBLIGATED, DIRECTLY OR INDIRECTLY, TO REPAY THE INDEBTEDNESS REPRESENTED BY THIS NOTE OR HAVE PLEDGED PROPERTY AS SECURITY FOR THE INDEBTEDNESS REPRESENTED BY THIS NOTE.

CROSS-COLLATERALIZATION. The Note and loan documents executed in connection with the Note shall be consolidated and coordinated such that the collateral held by the Lender with respect to any other loans or promissory note shall extend and secure the repayment in full to the Lender of any and all loans and promissory notes from Borrower, notwithstanding the fact that the Lender may hold separate notes, commitment letter, liens security agreements, guaranties, mortgages, assignments of rents, or other documents with respect to any other loans.

FINANCIAL COVENANTS. Borrower agrees to maintain a "Maximum Leverage" of 5.00: 1.00 as defined by lender in its sole discretion.

LINE OF CREDIT. This Note evidences a straight line of credit. Once the total amount of principal has been advanced, Borrower is not entitled to further loan advances. Borrower agrees to be liable to all sums either: (a) advanced in accordance with the instructions of an authorized person or (b) credited to any of Borrowers accounts with lender. The unpaid principal balance owing on this Note at any time may be evidenced by endorsements on this Note or by Lender's internal records, including daily computer print-outs.

LOAN DOCUMENTS. This Note is and shall continue to be governed by the Loan Agreement dated November 20, 2000 and the Security Agreement dated May 31, 2001.

SUCCESSOR INTERESTS. The terms of this Note shall be binding upon Borrower, and upon Borrower's heirs, personal representatives, successors and assigns, and shall inure to the benefit of Lender and its successors and assigns.

GENERAL PROVISIONS. Lender may delay or forgo enforcing any of its rights or remedies under this Note without losing them. Borrower and any other person who signs, guarantees or endorses this Note, to the extent allowed by law, waive presentment, demand for payment, and notice of dishonor. Upon any change in the terms of this Note, and unless otherwise expressly stated in writing, no party who signs this Note, whether as maker, guarantor, accommodation maker or endorser, shall be released from liability. All such parties agree that Lender may renew or extend (repeatedly and for any length of time) this loan or release any party or guarantor or collateral; or impair, fail to realize upon or perfect Lender's security interest in the collateral; and take any other action deemed necessary by Lender without the consent of or notice to anyone. All such parties also agree that Lender may modify this loan without the consent of or notice to anyone other than the party with whom the modification is made. The obligations under this Note are joint and several.

PRIOR TO SIGNING THIS NOTE, BORROWER READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS NOTE, INCLUDING THE VARIABLE INTEREST RATE PROVISIONS. BORROWER AGREES TO THE TERMS OF THE NOTE.

BORROWER ACKNOWLEDGES RECEIPT OF A COMPLETED COPY OF THIS PROMISSORY NOTE.

BORROWER:

INDUSTRIAL SERVICES OF AMERICA, INC.

By: /s/ Timothy W. Myers

Timothy W. Myers, President of Industrial Services of America, Inc.