

LAPOLLA INDUSTRIES INC

FORM 10-Q (Quarterly Report)

Filed 11/17/14 for the Period Ending 09/30/14

Address INTERCONTINENTAL BUSINESS PARK
15402 VANTAGE PARKWAY EAST, STE. 322
HOUSTON, TX 77032

Telephone 281-219-4700

CIK 0000875296

Symbol LPAD

SIC Code 2851 - Paints, Varnishes, Lacquers, Enamels, and Allied Products

Industry Construction Materials

Sector Basic Materials

Fiscal Year 12/31

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For The Quarterly Period Ended September 30, 2014

Commission File No. 001-31354



Lapolla Industries, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State of Incorporation)

13-3545304
(I.R.S. Employer Identification No.)

Intercontinental Business Park
15402 Vantage Parkway East, Suite 322
Houston, Texas
(Address of Principal Executive Offices)

77032
(Zip Code)

(281) 219-4700
(Registrant's Telephone Number)

Indicate by check mark 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, and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this Chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company

Indicate by check mark whether the Registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). YES NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of October 29, 2014 there were 115,423,905 shares of Common Stock, par value \$.01, outstanding.

LAPOLLA INDUSTRIES, INC.
FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2014
INDEX

	<u>Page</u>
PART I	FINANCIAL INFORMATION
Item 1	Condensed Financial Statements 1
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations 14
Item 4	Controls and Procedures 20
PART II	OTHER INFORMATION
Item 1	Legal Proceedings 20
Item 2	Unregistered Sales of Equity Securities and Use of Proceeds 20
Item 5	Other Information 20
Item 6	Exhibits 21
SIGNATURES	22
INDEX OF EXHIBITS	23

PART I — FINANCIAL INFORMATION

As used in this report, "Lapolla" and the "Company" or "Us" or "We" or "Our" refer to Lapolla Industries, Inc., unless the context otherwise requires. Our Internet website address is www.Lapolla.com. We make our periodic and current reports, together with amendments to these reports, available on our website, free of charge, as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. The information on our Internet website is not incorporated by reference in this Quarterly Report on Form 10-Q.

Item 1. Financial Statements.

LAPOLLA INDUSTRIES, INC. INDEX TO UNAUDITED CONDENSED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

CONDENSED BALANCE SHEETS (UNAUDITED)

September 30, 2014 and December 31, 2013	2
--	---

CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS(UNAUDITED)

Three and Nine Months Ended September 30, 2014 and 2013	3
---	---

CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

Nine Months Ended September 30, 2014 and 2013	4
---	---

NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

5

All schedules for which provision is made in the applicable accounting regulations of the SEC are not required under the related instructions or are not applicable, and therefore have been omitted.

LAPOLLA INDUSTRIES, INC.
CONDENSED BALANCE SHEETS
(UNAUDITED)

<i>Assets</i>	<u>September 30, 2014</u>	<u>December 31, 2013</u>
Current Assets:		
Cash	\$ —	\$ —
Trade Receivables, Net	8,865,019	7,694,589
Costs and Estimated Earnings in Excess of Billings on Uncompleted Contract	226,033	—
Inventories	4,117,012	5,421,935
Prepaid Expenses and Other Current Assets	628,702	1,250,314
Total Current Assets	<u>13,836,766</u>	<u>14,366,838</u>
Property, Plant and Equipment	1,457,539	1,600,679
Other Assets:		
Goodwill	4,234,828	4,234,828
Other Intangible Assets, Net	1,177,837	1,165,157
Deposits and Other Non-Current Assets, Net	449,832	686,658
Total Other Assets	<u>5,862,497</u>	<u>6,086,643</u>
Total Assets	<u>\$ 21,156,802</u>	<u>\$ 22,054,160</u>
<i>Liabilities and Stockholders' Equity</i>		
Current Liabilities:		
Accounts Payable	\$ 5,994,722	\$ 6,694,633
Accrued Expenses and Other Current Liabilities	1,156,979	1,456,895
Current Portion of Long-Term Debt	—	4,599
Total Current Liabilities	<u>7,151,701</u>	<u>8,156,127</u>
Other Liabilities:		
Non-Current Portion of Revolver Loan	5,442,030	4,539,163
Non-Current Portion of Notes Payable – New Enhanced Note	7,027,882	6,683,561
Non-Current Portion of Note Payable – Related Party	1,300,000	1,300,000
Accrued Interest – Note Payable – Related Party	172,300	117,633
Total Other Liabilities	<u>13,942,212</u>	<u>12,640,357</u>
Total Liabilities	<u>21,093,913</u>	<u>20,796,484</u>
Stockholders' Equity:		
Common Stock, \$.01 Par Value; 140,000,000 Shares Authorized; 115,423,903 and 114,148,378 Issued and Outstanding for September 30, 2014 and December 31, 2013, respectively.	1,154,239	1,141,484
Additional Paid-In Capital	87,855,480	86,734,757
Accumulated (Deficit)	(88,823,919)	(86,495,654)
Accumulated Other Comprehensive (Loss)	(122,911)	(122,911)
Total Stockholders' Equity	<u>62,889</u>	<u>1,257,676</u>
Total Liabilities and Stockholders' Equity	<u>\$ 21,156,802</u>	<u>\$ 22,054,160</u>

The Accompanying Notes are an Integral Part of the Financial Statements

LAPOLLA INDUSTRIES, INC.
CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(UNAUDITED)

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Sales	\$ 17,874,308	\$ 18,074,101	\$ 52,661,376	\$ 52,837,387
Cost of Sales	14,588,682	14,136,145	42,437,341	41,416,495
Gross Profit	3,285,626	3,937,956	10,224,035	11,420,892
Operating Expenses:				
Selling, General and Administrative	3,341,230	3,396,028	9,774,425	9,873,835
Professional Fees	129,295	192,196	485,243	816,688
Depreciation	42,216	41,786	126,995	131,046
Amortization of Other Intangible Assets	78,653	80,325	212,428	338,776
Consulting Fees	130,309	133,327	365,072	351,656
Total Operating Expenses	3,721,703	3,843,662	10,964,163	11,512,001
Operating Income (Loss)	(436,077)	94,294	(740,128)	(91,109)
Other (Income) Expense:				
Interest Expense	306,505	226,808	879,052	783,590
Interest Expense – Related Party	203,877	187,870	604,298	557,585
Interest Expense – Amortization of Discount	46,007	—	136,512	—
(Gain) Loss on Derivative Liability	—	—	—	(65,656)
Other, Net	21,893	(23,206)	(31,725)	(41,540)
Total Other (Income) Expense	578,282	391,472	1,588,137	1,233,979
Net (Loss)	\$ (1,014,359)	\$ (297,178)	\$ (2,328,265)	\$ (1,325,088)
Net (Loss) Per Share – Basic and Diluted	\$ (0.01)	\$ (0.00)	\$ (0.02)	\$ (0.01)
Weighted Average Shares Outstanding	115,204,510	112,155,974	114,821,758	110,945,316
Other Comprehensive Income (Loss):				
Foreign Currency Translation Adjustment (Loss)				(2,205)
Total Other Comprehensive (Loss)	\$ —	\$ —	\$ —	\$ (2,205)
Comprehensive (Loss)	\$ (1,014,359)	\$ (297,178)	\$ (2,328,265)	\$ (1,327,293)

The Accompanying Notes are an Integral Part of the Financial Statements

LAPOLLA INDUSTRIES, INC.
CONDENSED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended September 30,	
	2014	2013
<i>Cash Flows From Operating Activities</i>		
Net Loss:	\$ (2,328,265)	\$ (1,325,088)
Adjustments to Reconcile Net Loss to Net Cash (Used in) Operating Activities:		
Depreciation	300,619	343,538
Amortization of Other Intangible Assets	212,428	338,776
Provision for Losses on Accounts Receivable	603,796	190,654
Share Based Compensation Expense	583,844	1,008,063
Interest Expense – Related Party	604,298	557,585
Interest Expense – Enhanced Notes PIK	207,809	—
Interest Expense – Amortization of Discount	136,512	—
Loss on Foreign Currency Exchange	46,391	—
Gain on Derivative Liability	—	(65,656)
Gain on Disposal of Asset	(4,052)	(7,148)
Changes in Assets and Liabilities:		
Trade Receivables	(1,821,303)	(1,179,635)
Costs and Estimated Earnings in Excess of Billings on Uncompleted Contract	(226,033)	—
Inventories	1,304,923	(313,396)
Prepaid Expenses and Other Current Assets	621,612	(4,804)
Other Intangible Assets	(225,108)	(96,715)
Deposits and Other Non-Current Assets	236,826	(274,871)
Accounts Payable	(699,221)	711,582
Accrued Expenses and Other Current Liabilities	(299,916)	105,651
Net Cash (Used in) Operating Activities	<u>(744,840)</u>	<u>(11,464)</u>
<i>Cash Flows From Investing Activities</i>		
Acquisitions of Property, Plant and Equipment	(206,427)	(40,401)
Proceeds from Disposal of Property, Plant and Equipment	53,000	28,786
Net Cash Provided by (Used in) Investing Activities	<u>\$ (153,427)</u>	<u>\$ (11,615)</u>
<i>Cash Flows From Financing Activities</i>		
Proceeds from Revolver Loan	54,567,575	56,715,217
Principal Repayments to Revolver Loan	(53,664,709)	(56,000,604)
Principal Repayments to Notes Payable – Enhanced	—	(673,331)
Principal Repayments on Long Term Debt	(4,599)	(15,998)
Net Cash Provided by Financing Activities	<u>898,267</u>	<u>25,284</u>
<i>Net Effect of Exchange Rate Changes on Cash</i>	<u>—</u>	<u>(2,205)</u>
<i>Net Change in Cash</i>	<u>—</u>	<u>—</u>
<i>Cash at Beginning of Period</i>	<u>—</u>	<u>—</u>
<i>Cash at End of Period</i>	<u>\$ —</u>	<u>\$ —</u>
<i>Supplemental Disclosure of Cash Flow Information:</i>		
Cash Payments for Interest	\$ 790,575	\$ 598,769
<i>Supplemental Schedule of Non Cash Investing and Financing Activities:</i>		
Issuance of Restricted Common Stock for Related Party Personal Guaranty on Note Payable	\$ 329,074	\$ 504,863

The Accompanying Notes are an Integral Part of the Financial Statements

LAPOLLA INDUSTRIES, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1. Basis of Presentation, Critical Accounting Policies, Estimates, and Assumptions.

The condensed financial statements included herein are unaudited. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the SEC. In the opinion of management, the accompanying statements reflect adjustments necessary to present fairly the financial position, results of operations and cash flows for those periods indicated, and contain adequate disclosure to make the information presented not misleading. Adjustments included herein are of a normal, recurring nature unless otherwise disclosed in the Notes to the condensed financial statements. The condensed financial statements included herein should be read in conjunction with the financial statements and Notes thereto included in Lapolla's latest annual report on Form 10-K in order to fully understand the basis of presentation. Results of operations for interim periods are not necessarily indicative of the results of operations for a full year. Certain amounts in the prior years have been reclassified to conform to the 2014 unaudited condensed financial statement presentation. Reference is made to Management's Discussion and Analysis of Financial Condition and Results of Operations on page 14. *See* Part I, Item 1A, in our Annual Report on Form 10-K for the year ended December 31, 2013 ("2013 Annual Report") for risk factors that could impact results. *Refer to* the Company's 2013 Annual Report for a description of major accounting policies. There have been no material changes to these accounting policies during the three and nine months ended September 30, 2014.

Fixed-Price Contracts

The Company's AirTight Division performs work under fixed-price contracts. The lengths of the fixed-price contracts vary but are typically less than one year. In accordance with industry practice, the Company includes asset and liability accounts relating to fixed-price contracts, including related deferred income taxes, if applicable, in current assets and liabilities even when such amounts are realizable or payable over a period in excess of one year. Revenues from fixed-price contracts are recognized on the percentage-of-completion method, measured by the percentage of costs incurred to date to estimated total costs for each contract. Fixed-price contract costs include all direct material, labor costs, equipment and those indirect costs related to contract performance, such as indirect labor, supplies, tools, and repairs costs. General and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions and estimated profitability, including those arising from contract penalty provisions and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined. The asset "costs and estimated earnings in excess of billings on uncompleted contracts" represents revenues recognized in excess of amounts billed. The liability "billings in excess of costs and estimated earnings on uncompleted contracts" represents billings in excess of revenues recognized.

Income Taxes

The Company's provision for income taxes is determined using the U.S. federal statutory rate. The Company recognizes deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of our assets and liabilities along with net operating loss and tax credit carryovers. The Company's deferred tax asset was approximately \$23.1 million and \$23.5 million at September 30, 2014 and December 31, 2013, respectively. The Company recorded a valuation allowance against the deferred tax asset of \$23.1 million and \$23.5 million at September 30, 2014 and December 31, 2013, respectively, reducing its net carrying value to zero. The Company had no increase or decrease in unrecognized income tax benefits or any accrued interest or penalties relating to tax uncertainties at September 30, 2014 and December 31, 2013. Unrecognized tax benefits are not expected to increase or decrease within the next twelve months.

Impairment of Long-Lived Assets

Property, Plant and Equipment

Property, plant and equipment is recorded at cost and depreciated using the straight-line method, which deducts equal amounts of the cost of each asset from earnings every year over its estimated economic useful life. The estimated economic useful life of an asset is monitored to determine its appropriateness, especially in light of changed business circumstances. Property, plant, and equipment held for use is grouped for impairment testing at the lowest level for which there is an identifiable cash flow. Impairment testing of the asset group occurs whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Such circumstances would include a significant decrease in the market value of a long-lived asset grouping, a significant adverse change in the manner in which the asset grouping is being used or in its physical condition, a history of operating or cash flow losses associated with the use of the asset grouping, or changes in the expected useful life of the long-lived assets. If such circumstances are determined to exist, an estimate of undiscounted future cash flows produced by that asset group is compared to the carrying value to determine whether impairment exists. If an asset group is determined to be impaired, the loss is measured based on the difference between the asset group's fair value and its carrying value. An estimate of the asset group's fair value is based on the discounted value of its estimated cash flows. Assets to be disposed of by sale are reported at the lower of carrying amount or fair value less cost to sell. The assumptions underlying cash flow projections represent our best estimates at the time of the impairment review. Factors that we must estimate include industry and market conditions, sales volume and prices, costs to produce, etc. Changes in key assumptions or actual conditions that differ from estimates could result in an impairment charge. Management believes it uses reasonable and supportable assumptions when performing impairment reviews and cannot predict the occurrence of future events and circumstances that could result in impairment charges. The Company does not believe any indicators of impairment exist for property, plant and equipment at September 30, 2014. Net property, plant and equipment totaled \$1,457,539 and \$1,600,679 as of and for the quarter and year ended September 30, 2014 and December 31, 2013, respectively. Depreciation expense totaled \$96,695 and \$110,838, of which \$54,479 and \$69,052, and \$300,619 and \$343,538, of which \$173,624 and \$212,492, was included in cost of sales, for the three and nine months ended September 30, 2014 and 2013, respectively.

LAPOLLA INDUSTRIES, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED-CONTINUED)

Note 1. Basis of Presentation, Critical Accounting Policies, Estimates, and Assumptions - continued.

Goodwill

Goodwill represents the excess of the aggregate purchase price over the fair value of net tangible and identifiable intangible asset of an acquired business. Goodwill was \$4,234,828 at September 30, 2014 and December 31, 2013. The Company operates two reporting units or segments, Foam and Coatings. Disclosures related to goodwill are included in Note 9 to the financial statements. The Company evaluates goodwill for impairment on an annual basis, or more frequently if management believes indicators of impairment exist, by comparing the carrying value of each reportable segment to its estimated fair value. The annual evaluation is performed in the fourth quarter of each calendar year. The impairment test requires the Company to compare the fair value of each reporting unit to its carrying value, including assigned goodwill. As of September 30, 2014, the Company does not believe any indicators of impairment exist for goodwill that would require additional analysis before the 2014 annual evaluation.

Other Intangible Assets

The Company had other intangible assets consisting primarily of customer lists, product formulations, trade names, and non-competes that were acquired as part of business combinations. Other intangible assets are tested for impairment as part of the long-lived asset grouping impairment tests. Impairment testing of the asset group occurs whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. *See* impairment discussion above under Property, Plant and Equipment for a description of how impairment losses are determined. Disclosures related to other intangible assets are included in Note 9 to the financial statements. Significant management judgment is required in the forecasts of future operating results that are used in the Company's impairment evaluations. The estimates used are consistent with the plans and estimates that management uses to manage its business. It is possible, however, that the plans may change and estimates used may prove to be inaccurate. If the Company's actual results, or the plans and estimates used in future impairment analyses, are lower than the original estimates used to assess the recoverability of these assets, then the Company could incur future impairment charges, which would adversely affect financial performance. The Company does not believe any indicators of impairment exist for other intangible assets at September 30, 2014. Net other intangible assets totaled \$1,177,837 and \$1,165,157 as of September 30, 2014 and December 31, 2013, respectively. Amortization expense totaled \$78,653 and \$80,325, and \$212,428 and \$338,776, for the three and nine months ended September 30, 2014 and 2013, respectively.

Revenue Recognition

Sales are recognized as risk and title to products transfers to the customer (which generally occurs at the time shipment is made), the sales price is fixed or determinable, and collectability is reasonably assured. Sales channels include direct sales, distributors, and independent representatives. Amounts billed for shipping and handling are included in sales (freight). Freight included in sales totaled \$245,379 and \$291,466, and \$720,394 and \$851,699, for the three and nine months ended September 30, 2014 and 2013, respectively. Costs incurred for shipping and handling are included in cost of sales. Sales are recorded net of sales tax. Freight included in cost of sales totaled \$1,102,799 and \$882,121, and \$3,136,657 and \$2,549,389, for the three and nine months ended September 30, 2014 and 2013, respectively.

Share-Based Compensation

The Company accounts for stock-based compensation by measuring and recognizing the cost of employee or director services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The fair value of share based awards is estimated at the grant date using a straight line closing trading stock price based valuation model and the portion that is ultimately expected to vest is recognized as compensation cost over the requisite service period. Share based compensation expense was \$189,670 and \$309,762, and \$563,369 and \$969,676, for the three and nine months ended September 30, 2014 and 2013, respectively. If additional stock options or stock awards are granted, financial performance will be negatively affected, and if outstanding stock options or stock awards are forfeited or canceled, resulting in non-vesting of such stock options or stock awards, financial performance will be positively affected. In either instance, the Company's financial performance may change depending on stock option or stock award activities in future periods.

Allowance for Doubtful Accounts

The Company presents trade receivables, net of allowances for doubtful accounts, to ensure trade receivables are not overstated due to uncollectible accounts. Allowances, when required, are calculated based on a detailed review of certain individual customer accounts and an estimation of the overall economic conditions affecting our customer base. The Company reviews a customer's credit history before extending credit. The allowance for doubtful accounts was approximately \$698,000 and \$317,000 at September 30, 2014 and December 31, 2013, respectively. If the financial condition of customers were to deteriorate based on worsening overall economic conditions, resulting in an impairment of their ability to make payments to the Company, then additional allowances may be required in future periods, which would adversely affect the Company's financial performance.

LAPOLLA INDUSTRIES, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED-CONTINUED)

Note 1. Basis of Presentation, Critical Accounting Policies, Estimates, and Assumptions - continued

Advertising and Marketing

Advertising and marketing costs are generally expensed as incurred. Expenditures for trade magazines and television commercials are expensed at the time the first advertisement is printed or shown on television. Expenditures for certain advertising and marketing activities related to trade shows are deferred within the Company's fiscal year when the benefits clearly extend beyond the interim period in which the expenditure is made, generally not to exceed 90 days. Other advertising and marketing expenditures that do not meet the deferred criteria are expensed when the advertising occurs. Deferred advertising capitalized was \$167,836 and \$66,719 for the nine months ended September 30, 2014 and 2013, respectively. Total advertising and marketing costs expensed were \$218,930 and \$129,176, and \$806,578 and \$732,493, for the three and nine months ended September 30, 2014 and 2013, respectively.

Net Income (Loss) Per Common Share

Basic income (loss) per share is based upon the net income (loss) applicable to common shares after preferred dividend requirements and upon the weighted average number of common shares outstanding during the period. Diluted income (loss) per share reflects the effect of the assumed conversions of convertible securities and exercise of stock options only in periods in which such effect would have been dilutive. For the three and nine months ended September 30, 2014 and 2013, basic and diluted net (loss) per share are the same since (a) the Company has reflected a net loss for the period presented and (b) the potential issuance of shares of common stock of the Company would be anti-dilutive.

New Accounting Standards Not Yet Adopted

In May 2014, the FASB issued ASU No. 2014-09, " *Revenue from Contracts with Customers* ." The ASU will supersede most of the existing revenue recognition requirements in U.S. GAAP and will require entities to recognize revenue at an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. The new standard also requires significantly expanded disclosures regarding the qualitative and quantitative information of an entity's nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The pronouncement is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period and is to be applied retrospectively, with early application not permitted. The Company is currently evaluating the impact the pronouncement will have on the consolidated financial statements and related disclosures.

In April 2014, the FASB issued an accounting standards update that raises the threshold for disposals to qualify as discontinued operations and allows companies to have significant continuing involvement with and continuing cash flows from or to the discontinued operation. It also requires additional disclosures for discontinued operations and new disclosures for individually material disposal transactions that do not meet the definition of a discontinued operation. This guidance will be effective for fiscal years beginning after December 15, 2014, which will be the Company's fiscal year 2015, with early adoption permitted. The Company does not expect the adoption of the guidance will have a material impact on the Company's condensed financial statements.

In August 2014, the FASB issued ASU No. 2014-15, " *Presentation of Financial Statements—Going Concern: Disclosures of Uncertainties about an Entity's Ability to Continue as a Going Concern* ." The amendments in this ASU are intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. This ASU provides guidance to an organization's management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations in the financial statement footnotes. The pronouncement is effective for annual reporting periods ending after December 15, 2016 and interim periods within annual periods beginning after December 15, 2016. Early adoption is permitted for annual or interim reporting periods for which the financial statements have not previously been issued. The Company is currently evaluating the impact the pronouncement will have on the condensed financial statements and related disclosures.

Note 2. Liquidity.

The Company had an accumulated deficit of \$88,823,919 on September 30, 2014, had a net loss of \$2,328,265 during the nine months ended September 30, 2014, and used \$744,840 of cash in operating activities during the nine months ended September 30, 2014. As a result, there are concerns about the liquidity of the Company at September 30, 2014. The Company has a working capital surplus of \$6,685,065. Management believes that the cash generated from operations, the cash available under the Revolver Loan, subject to borrowing base limitations, and the Chairman's Financial Substitution Commitment, based on budgeted sales and expenses as supported by credit, margin and expense controls, are sufficient to fund the Company's operations, including capital expenditures, for the next 12 months.

Note 3. Dependence on Few Suppliers.

The Company is dependent on a few suppliers for certain raw materials and finished goods. For the three and nine month periods ended September 30, 2014 and 2013, raw materials and finished goods purchased from the three largest suppliers accounted for approximately 44% and 44%, and 43% and 53%, of purchases, respectively.

LAPOLLA INDUSTRIES, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED-CONTINUED)

Note 4. Trade Receivables.

Trade receivables are comprised of the following at:

	September 30, 2014	December 31, 2013
Trade Receivables	\$ 9,562,804	\$ 8,011,176
Less: Allowance for Doubtful Accounts	(697,785)	(316,587)
Trade Receivables, Net	<u>\$ 8,865,019</u>	<u>\$ 7,694,589</u>

Note 5. Costs and Estimated Earnings on Uncompleted Contract.

The following is a summary of contracts in progress at:

	September 30, 2014
Costs Incurred on Uncompleted Contracts	\$ 961,644
Estimated Net Income on Uncompleted Contracts	228,059
	<u>1,189,703</u>
Billings to Date	(963,670)
	<u>\$ 226,033</u>

This amount is included in the accompanying condensed balance sheet under the following captions at:

	September 30, 2014
Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts	\$ 226,033
Billing in Excess of Costs and Estimated Earnings on Uncompleted Contracts	—
	<u>\$ 226,033</u>

Note 6. Inventories.

The following is a summary of inventories at:

	September 30, 2014	December 31, 2013
Raw Materials	\$ 1,139,123	\$ 1,804,959
Finished Goods	2,977,889	3,616,976
Total Inventories	<u>\$ 4,117,012</u>	<u>\$ 5,421,935</u>

Note 7. Prepaid Expenses and Other Current Assets.

The following is a summary of prepaid expenses and other current assets at:

	September 30, 2014	December 31, 2013
Prepaid Insurances	\$ 150,647	\$ 582,654
Prepaid Marketing	166,770	152,667
Prepaid Consulting	44,048	66,208
Prepaid Other	267,237	357,839
Note Receivable, Net	—	90,946
Total Prepaid Expenses and Other Current Assets	<u>\$ 628,702</u>	<u>\$ 1,250,314</u>

Note 8. Property, Plant and Equipment.

The following is a summary of property, plant and equipment at:

	September 30, 2014	December 31, 2013
Vehicles	\$ 573,717	\$ 649,487
Leasehold Improvements	288,777	288,777
Office Furniture and Equipment	297,737	327,329
Computers and Software	896,339	1,185,333
Machinery and Equipment	2,503,062	2,466,007
Total Property, Plant and Equipment	\$ 4,559,632	\$ 4,916,933
Less: Accumulated Depreciation	(3,102,093)	(3,316,254)
Total Property, Plant and Equipment, Net	<u>\$ 1,457,539</u>	<u>\$ 1,600,679</u>

LAPOLLA INDUSTRIES, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED-CONTINUED)

Note 9. Goodwill and Other Intangible Assets.

Goodwill

The following is a summary of Goodwill at:

	<u>September 30, 2014</u>	<u>December 31, 2013</u>
Foam	\$ 2,932,208	\$ 2,932,208
Coatings	1,302,620	1,302,620
Total Goodwill	<u>\$ 4,234,828</u>	<u>\$ 4,234,828</u>

Other Intangible Assets

	<u>September 30, 2014</u>			<u>December 31, 2013</u>		
	<u>Gross Amount</u>	<u>Accumulated Amortization</u>	<u>Net Amount</u>	<u>Gross Amount</u>	<u>Accumulated Amortization</u>	<u>Net Amount</u>
Product Formulation	\$ 138,471	\$ (88,467)	\$ 50,004	\$ 138,471	\$ (81,544)	\$ 56,927
Trade Names	750,186	(306,722)	443,464	740,325	(269,212)	471,113
Approvals and Certifications	<u>1,763,002</u>	<u>(1,078,633)</u>	<u>684,369</u>	<u>1,547,754</u>	<u>(910,637)</u>	<u>637,117</u>
	<u>\$2,651,659</u>	<u>\$ (1,473,822)</u>	<u>\$1,177,837</u>	<u>\$2,426,550</u>	<u>\$ (1,261,393)</u>	<u>\$1,165,157</u>

Note 10. Deposits and Other Non-Current Assets, Net.

The following is a summary of deposits and other non-current assets at:

	<u>September 30, 2014</u>	<u>December 31, 2013</u>
Deferred Financing Fees	\$ 211,519	\$ 285,246
Prepaid Expenses	19,523	46,744
Other Receivables	65,205	55,293
Deposits	153,585	153,584
Note Receivable, Net	—	145,791
Total Deposits and Other-Non-Current Assets	<u>\$ 449,832</u>	<u>\$ 686,658</u>

Note 11. Accrued Expenses and Other Current Liabilities.

The following is a summary of accrued expenses and other current liabilities at:

	<u>September 30, 2014</u>	<u>December 31, 2013</u>
Accrued Payroll	\$ 67,877	\$ 169,785
Accrued Commissions	101,534	61,000
Accrued Inventory Purchases	116,974	178,616
Accrued Taxes and Other	806,690	606,275
Accrued Insurance	34,022	427,395
Deferred Finance Charge Income	29,882	13,824
Total Accrued Expenses and Other Current Liabilities	<u>\$ 1,156,979</u>	<u>\$ 1,456,895</u>

Note 12. Financing Instruments.

(a) Loan and Security Agreement . The Company maintains a \$13,000,000 revolver loan (“Revolver Loan”) pursuant to a Loan and Security Agreement with Bank of America, N.A. (“Bank”), under which the Company granted the Bank a continuing security interest in and lien upon all Company assets (“Loan Agreement”). The Base Rate is equal to the greater of (a) the Prime Rate; (b) the Federal Funds Rate, plus 0.50%; or (c) LIBOR for a 30 day interest period, plus 1.50%. The Company is required to submit its Borrowing Base calculation to the Bank daily. If, at any time, the Company’s Borrowing Base calculation is less than the amount outstanding under the Revolver Loan, and that amount remains unpaid or is not increased from future Borrowing Base calculations to an amount equal to the balance outstanding under the Revolver Loan at any given time, the Bank, in its discretion, may accelerate any and all amounts outstanding under the Revolver Loan. At September 30, 2014 and December 31, 2013, the balance outstanding on the Revolver Loan was \$5,442,030 and \$4,539,163, and the weighted-average interest rate was 4.4% and 4.5%, respectively. At September 30, 2014, the available balance was \$1,077,892. Under the Loan Agreement, the Company was required to have a certain Fixed Charge Coverage Ratio (FCCR) as of the last day of each month. As of September 30, 2014, the Company was not in compliance with this covenant primarily because of a non-recurring note receivable write-off. Accordingly, the Bank agreed to amend the definition of FCCR to 1.0 to 1.0. The Bank also agreed to amend the Revolver Termination Date from March 31, 2016 to February 15, 2015, which will allow us to continue to draw under the Revolver Loan until February 15, 2015. As a result, the Company was in compliance with all of the Loan Agreement debt covenants at September 30, 2014. *See also* Note 17 – Subsequent Events, Items (a) and (b), for more information.

LAPOLLA INDUSTRIES, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED-CONTINUED)

Note 12. Financing Instruments – continued.

(b) Note Purchase Agreements .

(i) New Enhanced Note . The Company issued an aggregate of \$7.2 million in Subordinated Secured Promissory Notes to Enhanced Jobs for Texas Fund, LLC (“Enhanced Jobs”) and Enhanced Credit Supported Loan Fund, LP (“Enhanced Credit”), pursuant to a Note Purchase Agreement, of which \$5.7 million was to Enhanced Credit and \$1.5 million was to Enhanced Jobs, both of which mature on December 10, 2016, under which the Company granted a second lien on all its assets after the Bank (“New Enhanced Note”). Interest is payable monthly and broken down into current pay interest at the rate of 7.25% per annum, and PIK interest at the rate of 3.75% (which is added to the principal balance of the outstanding notes) to create the aggregate interest rate of 11%. In connection with the Prior Enhanced Note (defined below) being refinanced in connection with the New Enhanced Note (*Refer to* (iii) below), a purchase discount of \$542,886 was recognized and is being amortized to interest expense using the effective interest method over the three year term of the New Enhanced Note (*See also* (ii) below). At September 30, 2014 and December 31, 2013, the balance outstanding on the New Enhanced Note was \$7,027,882 and \$6,683,561 and the effective interest rate was 23.6% and 29.0%, respectively. At September 30, 2014, interest expense – amortization of discount was \$136,512. Under the New Enhanced Note, the Company was required to have a certain EBITDA for the three months ended as of the last day of each month and FCCR as of the last day of each month. As of September 30, 2014, the Company was not in compliance with these covenants primarily because of a non-recurring note receivable write-off. Accordingly, Enhanced Jobs and Enhanced Credit agreed to amend the definition of FCCR to 1.0 to 1.0 and the EBITDA requirements. In addition, the PIK interest rate was changed from 3.75% to 4.25%. As a result, the Company was in compliance with all of the New Enhanced Note debt covenants at September 30, 2014. *See also* Note 17 – Subsequent Events, Item (c), for more information.

(ii) New Guaranty Agreement . In connection with the New Enhanced Note described in (i) above, Richard J. Kurtz, Chairman of the Board and principal stockholder (the “Chairman”), as guarantor, entered into a Guaranty Agreement with Enhanced Credit, as agent under the New Enhanced Note, to secure the Company’s performance under the New Enhanced Note. The Company, in exchange for the Chairman’s personal guaranty of the obligations under the New Enhanced Note, granted the Chairman 3,681,000 shares of restricted common stock, which shares vest monthly on a pro rata basis over the three year term of the New Enhanced Note (“New Guaranty Shares”). The New Guaranty Shares were valued at \$.60 per share for an aggregate of \$2,208,600. The New Guaranty Shares are being recorded as interest expense – related party, thereby increasing the effective interest rate on the New Enhanced Note. At September 30, 2014 and December 31, 2013, there were 916,054 and 73,821 New Guaranty Shares vested, valued and recorded in the aggregate at \$549,633 and \$44,293, respectively.

(iii) Prior Enhanced Note . Upon receipt of the \$7.2 million under the New Enhanced Note described in (i) above on December 10, 2013, the Company paid off the outstanding balances due under the prior Note Purchase Agreement, dated as of June 29, 2012, entered into with Enhanced Jobs and Enhanced Capital Texas Fund LP (“Enhanced Capital”), in the amount of \$1,673,381 for Enhanced Jobs and \$1,673,381 for Enhanced Capital (“Prior Enhanced Note”), and all related agreements were terminated. At December 9, 2013 and prior to the payoff of the balance outstanding on the Prior Enhanced Note of \$3,346,762 (as described above), the effective interest rate was 29.2%.

(iv) Prior Guaranty Agreement . As a result of the payoff of the Prior Enhanced Notes as described in (iii) above, the Company canceled an aggregate of 1,376,712 unvested shares (with an unrecorded valued of \$371,801) which shares were previously issued in connection with the personal guaranty required for the Prior Enhanced Note from the Chairman to secure the Company’s performance under the Prior Enhanced Note (“Prior Guaranty Shares”). The Prior Guaranty Shares were valued at \$.27 per share for an aggregate of \$1,350,000. The Prior Guaranty Shares were recorded as interest expense – related party, thereby increasing the effective interest rate on the Prior Enhanced Note.

(c) Note Payable – Related Party . On April 16, 2012, the Company issued a \$1,300,000 promissory note, bearing interest at 5% per annum, to the Chairman in exchange for an equal amount of proceeds, which is subordinate to the Loan Agreement and the New Enhanced Note described in (a) and (b)(i) above and matures on June 10, 2017. At September 30, 2014 and 2013, interest expense – related party was \$54,667 and \$52,634, respectively.

Note 13. Related Party Transactions.

(a) On April 28, 2014, the Company granted an aggregate of 400,000 five-year stock options to four non-employee directors, consisting of Jay C. Nadel, Arthur J. Gregg, Augustus J. Larson, and Howard L. Brown, each for 100,000 shares of common stock, at an exercise price equal to \$0.42 per share. Each of the foregoing stock options vest over a period of two (2) years at the rate of 50,000 options on April 30, 2015 and 50,000 options on April 30, 2016, and are exercisable after one (1) year from each respective vesting date. All stock options automatically vest and are exercisable upon a change in control. For the three and nine months ended September 30, 2014, the company recognized approximately \$14,000 and \$33,000 in expense related to these options, respectively. The options are valued using the Black-Scholes model. The total fair value of the grant to be recognized is \$155,027. In addition, the cash compensation to the foregoing non-employee directors was increased from \$10,000 per year, payable quarterly, to \$12,500 per year, effective January 1, 2014.

(b) On April 28, 2014, the Company granted an aggregate of 1,025,000 five-year stock options to eight key employees, including the named executive officers, consisting of Douglas J. Kramer, Michael T. Adams, Harvey L. Schnitzer, and Charles A. Zajackowski, of which 350,000 options were for Mr. Kramer, 150,000 options each were for Mr. Adams and Mr. Schnitzer, and 100,000 options were for Mr. Zajackowski, and 275,000 options were for other key employees, each for shares of the Company’s common stock, at an exercise price equal to \$0.42 per share. Each of the foregoing stock options vest over a period of three (3) years at the rate of 33 and 1/3 percent at December 31, 2014, December 31, 2015, and December 31, 2016, and are exercisable upon vesting. All stock options automatically vest upon a change in control. For the three and nine months ended September 30, 2014, the company recognized approximately \$34,000 and \$83,000 in expense related to these options, respectively. The options are valued using the Black-Scholes model. The total fair value of the grant to be recognized is \$368,189.

LAPOLLA INDUSTRIES, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED-CONTINUED)

Note 13. Related Party Transactions - continued.

(c) On May 14, 2014, the Company granted five-year stock options to the Chairman for an aggregate of 400,000 shares of the Company's common stock, at an exercise price equal to \$0.54 per share. The foregoing stock options vest over a period of two (2) years at the rate of 200,000 options on May 14, 2015 and May 14, 2016, respectfully, and once vested, are immediately exercisable. Upon commencement of a change in control, all unvested stock options automatically vest. For the three and nine months ended September 30, 2014, the company recognized approximately \$13,000 and \$38,000 in expense related to these options, respectively. The options are valued using the Black-Scholes model. The total fair value of the grant to be recognized is \$199,305.

(d) For the three and nine months ended September 30, 2014, 20,367 and 334,471 shares of common stock, including anti-dilution shares, were issued to a non-employee director for advisory and consulting services, which transactions were valued and recorded in the aggregate at \$13,563 and \$193,777, respectively.

(e) For the three and nine months ended September 30, 2014, 308,707 and 916,054 shares of common stock previously issued **to the Chairman in connection with his personal guaranty of the New Enhanced Note vested, which transactions were valued and recorded in the aggregate at \$185,224 and \$549,633, and** classified as interest expense – related party. *See also* Note 12 – Financing Instruments Item (b)(ii) – New Guaranty Agreement, for more information.

(f) For the three and nine months ended September 30, 2014, the Company accrued an aggregate of \$18,654 and \$54,667 in interest relating to the promissory note to the Chairman. *See also* Note 12 – Financing Instruments, Item (c) – Note Payable – Related Party, for more information.

Note 14. Net Income (Loss) Per Common Share – Basic and Diluted.

Basic income (loss) per share is based upon the net income (loss) applicable to common shares after preferred dividend requirements and upon the weighted average number of common shares outstanding during the period. Diluted income (loss) per share reflects the effect of the assumed exercise of stock options and warrants only in periods in which such effect would have been dilutive.

The computation of the Company's basic and diluted earnings per share at:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Net loss available to common shareholders	\$ (1,014,359)	\$ (297,178)	\$ (2,328,265)	\$ (1,325,088)
Weighted average common shares outstanding	115,204,510	112,155,974	114,821,758	110,945,316
Dilutive effect of equity incentive plans	350,000	350,000	350,000	350,000
Weighted average common shares outstanding, assuming dilution	115,487,651	112,274,357	114,143,420	111,035,142
Basic earnings per common share	\$ (0.01)	\$ (0.00)	\$ (0.02)	\$ (0.01)
Diluted earnings per common share	\$ (0.01)	\$ (0.00)	\$ (0.02)	\$ (0.01)

At September 30, 2014, a total of 2,460,000 shares of common stock underlying vested and exercisable stock options were excluded from the calculation of diluted earnings per common share, of which 350,000 stock options had exercise prices less than the market value of the common shares (in-the-money) and 2,110,000 stock options had exercise prices greater than or equal to the market value of the common shares (out-of-the-money). At September 30, 2013, a total of 3,055,833 shares of common stock underlying vested and exercisable stock options were excluded from the calculation of diluted earnings per common share, of which 350,000 stock options were in-the-money and 2,705,833 stock options were out-of-the-money. Such out-of-the-money securities could be included in the calculation in the future if the market value of the Company's common shares increases and is greater than the exercise price of these securities and they have not expired.

Note 15. Securities Transactions.

(a) During the third quarter of 2014, the Company vested an aggregate of 308,707 shares of restricted common stock previously issued **to the Chairman in connection with his personal guaranty of the New Enhanced Note, which transactions were valued and recorded in the aggregate at \$185,224, and** classified as interest expense – related party.

(b) During the third quarter of 2014, the Company issued an aggregate of 20,367 anti-dilution shares of restricted common stock in connection with an agreement for advisory and consulting services, which transactions were valued and recorded in the aggregate at \$13,563.

LAPOLLA INDUSTRIES, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED-CONTINUED)

Note 16. Business Segment Information.

Business Segments

The Company is a leading national manufacturer and supplier operating two segments, Foam and Coatings, based on manufacturing competencies. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company allocates resources to segments and evaluates the performance of segments based upon reported segment sales. Administrative expenses are allocated to both segments. Unallocated costs reflect certain corporate expenses, insurance, investor relations, and gains and losses related to the disposal of corporate assets and derivative liabilities and are included in *Unallocated Amounts*. There are no intersegment sales or transfers.

	Three Months Ended September 30,					
	2014			2013		
	Foam	Coatings	Totals	Foam	Coatings	Totals
Sales	\$15,381,003	\$2,493,305	\$17,874,308	\$15,299,778	\$2,774,323	\$18,074,101
Depreciation	32,695	5,300	37,995	31,835	5,773	37,608
Amortization of Other Intangible Assets	60,913	9,874	70,787	61,196	11,097	72,293
Interest Expense	239,389	38,806	278,195	175,513	31,826	207,339
Segment Profit	\$ 90,515	\$ 204,844	\$ 295,359	\$ 695,746	\$ 412,992	\$ 1,108,738
Segment Assets ⁽¹⁾	17,350,894	3,575,856	20,926,750	17,791,684	3,942,638	21,734,322
Expenditures for Segment Assets	\$ —	\$ —	\$ —	\$ 15,707	\$ 2,848	\$ 18,555

	Nine Months Ended September 30,					
	2014			2013		
	Foam	Coatings	Totals	Foam	Coatings	Totals
Sales	\$45,554,927	\$7,106,449	\$52,661,376	\$45,103,935	\$7,733,452	\$52,837,387
Depreciation	98,872	15,424	114,296	100,579	17,262	117,841
Amortization of Other Intangible Assets	165,385	25,800	191,185	260,272	44,626	304,898
Interest Expense	700,634	109,297	809,931	572,439	98,149	670,588
Segment Profit	\$ 911,939	\$ 728,586	\$ 1,640,525	\$ 1,909,559	\$1,136,106	\$ 3,045,665
Segment Assets ⁽¹⁾	17,420,376	3,506,374	20,926,750	17,907,817	3,826,505	21,734,322
Expenditures for Segment Assets	\$ 178,570	\$ 27,857	\$ 206,427	\$ 34,488	\$ 5,913	\$ 40,401

The following are reconciliations of reportable segment profit or loss, and assets, to the Company's consolidated totals:

	For The Nine Months Ended September 30,		For The Nine Months Ended September 30,	
	2014	2013	2014	2013
	Profit or Loss			
Total Profit or Loss for Reportable Segments	\$ 295,359	\$ 1,108,738	\$ 1,640,525	\$ 3,045,665
Unallocated Amounts:				
Corporate Expenses	(1,309,718)	(1,405,916)	(3,968,790)	(4,370,753)
Income (Loss) Before Income Taxes	\$ (1,014,359)	\$ (297,178)	\$ (2,328,265)	\$ (1,325,088)

	At September 30, 2014	At December 31, 2013
Assets		
Total Assets for Reportable Segments ⁽¹⁾	\$ 20,926,750	\$ 21,661,548
Other Unallocated Amounts ⁽²⁾	230,052	392,612
Consolidated Total	\$ 21,156,802	\$ 22,054,160

⁽¹⁾ Segment assets are the total assets used in the operation of each segment.

⁽²⁾ Includes corporate assets which are principally cash and cash equivalents and deposits.

LAPOLLA INDUSTRIES, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED-CONTINUED)

Note 16. Business Segment Information - continued.

Geographic Area Information

The Company does not operate any manufacturing sites nor maintain a permanent establishment in any particular country outside of the United States at this time. The Company's products are sold to independent distributors globally for select target markets. Sales are attributed to geographic areas based on customer location. Long-lived assets are attributable to geographic areas based on asset location.

	Three Months Ended September 30,									
	2014					2013				
	United States	Europe	Middle East	Rest of World	Total	United States	Europe	Middle East	Rest of World	Total
Sales	\$16,587,621	705,906	—	580,781	\$17,874,308	\$15,157,883	458,781	1,568,589	888,848	\$18,074,101
Long-Lived Assets	20,926,750	—	—	—	20,926,750	21,734,322	—	—	—	21,734,322

	Nine Months Ended September 30,									
	2014					2013				
	United States	Europe	Middle East	Rest of World	Total	United States	Europe	Middle East	Rest of World	Total
Sales	\$48,843,085	1,701,042	660,000	1,457,249	\$52,661,376	45,082,381	1,063,272	4,176,558	2,515,176	\$52,837,387
Long-Lived Assets	20,926,750	—	—	—	20,926,750	21,734,322	—	—	—	21,734,322

Note 17. Subsequent Events.

(a) **Loan and Security Agreement Amendment** . On November 14, 2014, the Company and the Bank entered into an amendment, effective August 31, 2014, to the Loan Agreement. Under the Loan Agreement, the Company was required to have a certain FCCR as of the last day of each month. The Company was not in compliance with this covenant primarily because of a non-recurring note receivable write-off. Accordingly, the Bank agreed to amend the definition of FCCR to 1.0 to 1.0. The Bank also agreed to amend the Revolver Termination Date from March 31, 2016 to February 15, 2015, which will allow us to continue to draw under the Revolver Loan until February 15, 2015. As a result of the amendment, the Company regained compliance with all of its Loan Agreement debt covenants at September 30, 2014.

(b) **Chairman's Financial Substitution Commitment** . On November 14, 2014, the Chairman of the Board and majority stockholder provided Management with a financial commitment to ensure payment of the amount outstanding under the Revolver Loan pursuant to the Loan Agreement, which matures on February 15, 2015, and make available working capital of up to \$1.5 Million for the Company's ongoing operations from the date hereof and on or after the maturity date of the Loan Agreement ("Financial Substitution Commitment"). This Financial Substitution Commitment will either be satisfied from his personal funds, or, from funds caused by him to be otherwise provided by an appropriate lending or other institution, and any funds provided thereunder will have a maturity date of June 10, 2017. The Financial Substitution Commitment will be superseded in the event and to the extent that the Company is independently funded by a third party source, either privately or institutionally, at or before the time the Financial Substitution Commitment is due and the Revolver Loan is repaid and Loan Agreement obligation is fully satisfied, and working capital of \$1.5 Million for the Company's ongoing operations is obtained from the date hereof and on or after the maturity date of the Loan Agreement. Management requested that the Chairman of the Board fund \$250,000 under this Financial Substitution Commitment to meet a request from the Bank which payment was made on November 14, 2014. See (d) below.

(c) **New Enhanced Note Amendment** . On November 14, 2014, the Company and Enhanced Jobs and Enhanced Capital entered an amendment, effective August 31, 2014, to the Note Purchase Agreement. Under the New Enhanced Note, the Company was required to have a certain EBITDA for the three months ended as of the last day of each month and FCCR as of the last day of each month. As of September 30, 2014, the Company was not in compliance with these covenants primarily because of a non-recurring note receivable write-off. Accordingly, Enhanced Jobs and Enhanced Credit agreed to amend the definition of FCCR to 1.0 to 1.0 and the EBITDA requirements. In addition, the PIK interest rate was changed from 3.75% to 4.25%. As a result of the amendment, the Company regained compliance with all of its New Enhanced Note debt covenants at September 30, 2014.

(d) On November 14, 2014, the Company issued a \$250,000 promissory note, bearing interest at 8% per annum, to the Chairman in exchange for an equal amount of cash proceeds, which is subordinate to the Loan Agreement and the New Enhanced Note and matures June 10, 2017.

(e) On October 14, 2014, the Company granted Douglas J. Kramer, CEO and President, the right to acquire 1,150,000 shares of the Company's common stock, \$0.01 par value per share, at an exercise price per share equal to the fair market value of a share of the Company's common stock on the date of grant, determined based on the per share closing price on such date, or \$425 per share, which options were immediately vested and exercisable at the time of grant ("Kramer Options"). The Kramer Options were granted as partial replacement for 2,000,000 stock options were granted on July 12, 2005 which expired July 12, 2013 (the "Prior Expired Options"). The Prior Expired Options were inadvertently extended to December 31, 2015, however, due to the 8 year life limitation, they were deemed canceled at the end of 8 years. The Company also undertook to grant the additional 850,000 stock options (to make up for the total 2,000,000 stock options) on January 2, 2015 since the equity Incentive Plan only permits the grant of a total of 2,000,000 stock options during any calendar year (and Mr. Kramer was previously granted 850,000 stock options during the 2014 year for other incentives).

(f) The Company has evaluated subsequent events through the date of filing this report.

FORWARD LOOKING STATEMENTS

Statements made by us in this report that are not statements of fact constitute "forward-looking statements". These forward-looking statements are necessarily estimates reflecting the best judgment of management and express our opinions and current expectations about trends and factors which may impact future operating results. You can identify these and other forward-looking statements by the use of words such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "intends," "potential," "continue," or the negative of such terms, or other comparable terminology. Such statements rely on a number of assumptions concerning future events, many of which are outside of our control, and involve risks and uncertainties that could cause actual results to differ materially from opinions and expectations. Although we believe our expectations are based on reasonable assumptions, judgments, and estimates, forward-looking statements involve known and unknown risks, uncertainties, contingencies, and other factors that could cause our or our industry's actual results, level of activity, performance or achievement to differ materially from those discussed in or implied by any forward-looking statements and could cause our financial condition, results of operations, or cash flows to be materially adversely affected. For a discussion of risks that relate to our business and investing in shares of our common stock, you should carefully review the risks and uncertainties described under the heading "Part I – Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2013. Except as required under the federal securities laws and the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"), we do not have any intention or obligation to update publicly any forward-looking statements, whether as a result of new information, future events, changes in assumptions, or otherwise.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview of Presentation

This financial review presents our operating results for the three and nine months ended September 30, 2014 and 2013, and our financial condition at September 30, 2014. To supplement our condensed financial statements presented on a GAAP basis, we disclose non-GAAP measures as EBITDA and Adjusted EBITDA because management uses these supplemental non-GAAP financial measures to evaluate performance period over period, to analyze the underlying trends in its business, and to establish operational goals and forecasts that are used in allocating resources. In addition, we believe many investors use these non-GAAP measures to monitor the Company's performance. Our presentation includes these non-GAAP financial measures, and a reconciliation of EBITDA and Adjusted EBITDA to the GAAP measures most directly comparable thereto. The GAAP measure most directly comparable to EBITDA and Adjusted EBITDA is net income or loss. The non-GAAP financial measures of EBITDA and Adjusted EBITDA should not be considered as an alternative to net income or loss or any other measure of financial performance or liquidity presented in accordance with GAAP. EBITDA and Adjusted EBITDA are not presentations made in accordance with GAAP and have important limitations as analytical tools. You should not consider EBITDA or Adjusted EBITDA in isolation or as substitutes for analysis of our results as reported under GAAP. Because EBITDA and Adjusted EBITDA exclude some, but not all, items that affect net income and is defined differently by different companies, our definitions of EBITDA and Adjusted EBITDA may not be comparable to similarly titled measures of other companies. In addition, the following review should be read in conjunction with information presented in Part I, Item 6 – Selected Financial Data relating to non-GAAP financial measures EBITDA and Adjusted EBITDA and the financial statements and related notes for the year ended December 31, 2013 contained in the annual report on Form 10-K for the year ended December 31, 2013. *Refer to Note 1 – Summary of Significant Accounting Policies* for further information regarding significant accounting policies and *Note 16 – Business Segment and Geographic Area Information* to our financial statements listed under Item 1 of Part I of this report for further information regarding our business segments and geographic area data.

EBITDA

We define EBITDA as net income or loss before interest, income taxes, depreciation and amortization of other intangible assets. EBITDA is used as a supplemental financial measure by external users of our financial statements, such as investors, commercial banks, trade suppliers and research analysts, to assess: (a) the financial performance of our assets, operations and return on capital without regard to financing methods, capital structure or historical costs basis, (b) the ability of our assets to generate cash sufficient to pay interest on our indebtedness; and (c) the viability of acquisitions and capital expenditure projects. EBITDA is not prepared in accordance with GAAP. EBITDA should not be considered an alternative to net income or loss, operating income or loss, cash flow from operating activities or any other measure of financial performance or liquidity presented in accordance with GAAP. EBITDA excludes some, but not all, items that affect net income or loss and operating income or loss.

Adjusted EBITDA

We utilize Adjusted EBITDA to assist in reviewing financial results and for management incentives. Adjusted EBITDA is defined as EBITDA increased by total share based compensation included in net income or loss. Management believes that Adjusted EBITDA provides information that reflects our economic performance. Management reviews our monthly financial results on an Adjusted EBITDA basis. Adjusted EBITDA has no impact on reported volumes or sales.

Adjusted EBITDA is used as a supplemental financial measure by management to describe our operations and economic performance to the Company's financial institutions, relating to: (a) the economic results of our operations; and (b) repeatable operating performance that is not distorted by non-recurring items, certain other non-cash items, or market volatility. Adjusted EBITDA is not prepared in accordance with GAAP. Adjusted EBITDA should not be considered as an alternative to net income or loss, income or loss from operations, cash flows from operating activities or any other measure of financial performance or liquidity presented in accordance with GAAP.

The Company believes that presenting EBITDA and Adjusted EBITDA, in addition to the corresponding GAAP financial measures, provides investors greater transparency to the information used by management for financial and operational decision-making and allows investors to see the Company's results "through the eyes" of management. We further believe that providing this information assists investors in understanding the Company's operating performance and the methodology used by management to evaluate and measure such performance.

Performance for the Three Months Ended September 30, 2014 compared to the Three Months Ended September 30, 2013

Overall Results of Operations

The following table presents selected condensed financial and operating data derived from the unaudited condensed financial statements of the Company as of the dates and for the periods indicated. In addition, the table presents our unaudited non-GAAP financial measures, EBITDA and Adjusted EBITDA, and includes our reconciliation to net income or loss, its most directly comparable financial measure calculated and presented in accordance with GAAP.

	Three Months Ended September 30,	
	2014	2013
<i>Summary of Overall Results of Operations</i>		
Sales	\$ 17,874,308	\$ 18,074,101
Operating Income (Loss)	(436,077)	94,294
Other (Income) Expense	578,282	391,472
Net Loss	(1,014,359)	(297,178)
EBITDA (Unaudited)	\$ (222,693)	\$ 379,840
Adjusted EBITDA (Unaudited)	\$ (20,630)	\$ 689,602
<i>Reconciliation of EBITDA and Adjusted EBITDA to Net Loss:</i>		
Net Loss:	\$ (1,014,359)	\$ (297,178)
Additions / (Deductions):		
Interest Expense	306,505	226,808
Interest Expense – Related Party	203,877	187,870
Interest Expense – Amortization of Discount	46,007	—
Tax Expense (Benefit)	59,929	71,177
Depreciation	96,695	110,838
Amortization of Other Intangible Assets	78,653	80,325
EBITDA	\$ (222,693)	\$ 379,840
Additions / (Deductions):		
Share Based Compensation ⁽¹⁾	202,063	309,762
Adjusted EBITDA	\$ (20,630)	\$ 689,602

⁽¹⁾ Represents non-cash share based compensation for the periods then ended.

Sales

Sales were \$17,874,308, of which \$15,381,003 were for foams and \$2,493,305 were for coatings, in the third quarter of 2014 compared to \$18,074,101, of which \$15,299,778 were for foams and \$2,774,323 were for coatings, in the third quarter of 2013. Total sales volume for the third quarter of 2014 decreased by \$559,893 or 3.3%, of which \$78,517 or 0.5% was for foams and \$481,376 or 17.4% was for coatings, as a result of decreased demand, which decrease in sales volume was offset by higher selling prices during the third quarter of 2014 adding approximately \$360,100 or 2.0% to sales, of which \$159,742 or 1.0% was for foams and \$200,358 or 7.2% was for coatings resulting in a net decrease in sales for the third quarter of 2014 of \$199,793 or 1.1% from the third quarter of 2013.

Cost of Sales

Cost of sales was \$14,588,682, of which \$12,717,336 was for foams and \$1,871,346 was for coatings, in the third quarter of 2014 compared to \$14,136,145, of which \$12,209,091 was for foams and \$1,927,054 was for coatings, in the third quarter of 2013. The increase in cost of sales of \$452,537 or 3.2% was primarily due to \$260,829 increase in material costs; \$220,678 increase in freight costs; and \$182,790 increase in other manufacturing costs, these costs were partially offset by increases in selling price. Freight costs increased due to higher trip rates, while material costs rose due to increased pricing from raw materials in the third quarter of 2014 compared to the third quarter of 2013. Foam cost of sales increased \$508,245 or 4.2%, primarily due to \$247,220 increase in material costs; \$199,470 increase freight costs; and \$159,338 increase in other manufacturing costs, these costs are partially offset by increases in the selling price. Coatings cost of sales decreased \$55,708, or 2.9%, primarily due to lower sales volumes; offset by an increase of \$13,609 in material costs; \$21,208 increase in freight costs; and \$25,452 increase in other manufacturing costs.

Gross Profit

Gross profit was \$3,285,626, of which \$2,663,667 was for foams and \$621,959 was for coatings, in the third quarter of 2014 compared to \$3,937,956, of which \$3,090,687 was for foams and \$847,269 was for coatings, in the third quarter of 2013. The decrease in gross profit of \$652,330 or 16.6% was due to the \$199,793 or 1.1% decrease in sales, augmented by the \$452,537 or 3.2% increase in cost of sales, which resulted in a decrease to gross margin of 3.4%. Foam gross profit decreased \$427,020 or 13.8%, as a result of a decrease in demand and higher cost of sales, which contributed to a decrease in gross margin of 2.3%, while coatings gross profit decreased \$225,310 or 26.6%, primarily from the decrease in sales, which contributed to a reduction in gross margin of 1.1%.

Operating Expenses

Total operating expenses were \$3,721,703, of which \$2,314,900 was for foams, \$375,280 was for coatings, and \$1,031,523 was for corporate expenses, in the third quarter of 2014 compared to \$3,843,662, of which \$2,237,202 was for foams, \$405,683 was for coatings, and \$1,200,777 was for corporate expenses, in the third quarter of 2013, resulting in a net decrease of \$121,959, or 3.2%.

SG&A was \$3,341,230 in the third quarter of 2014 compared to \$3,396,028 in the third quarter of 2013. The decrease in SG&A of \$54,798 or 1.6%, was due to decreases of: \$120,092 or 38.8%, for share-based compensation primarily related to fully vested shares in connection with an advisory and consultant agreement; \$87,496 or 5.8%, for payroll and related employee benefits from reductions in our workforce; \$58,815 or 17.7%, for sales commissions from lower sales and gross profit margin; \$33,499 or 15.1%, for travel and related services due to a decrease in employee travel; \$20,050 or 4.8%, for corporate office expenses primarily related to savings in cellphone expenses and bank fees; \$14,503 or 34.3%, for rents; \$8,816 or 6.2%, for distribution; \$1,377 or 44.8%, for advertising; offset by increases of: \$157,435 or 88.5%, for bad debt resulting from an increase in customer insolvencies; \$91,131 or 72.3%, for marketing and promotions primarily related to the Ty Pennington contract; \$30,293 or 30.1%, for insurance expense due to expanded coverage; \$10,991 or 172.4%, for investor relations.

Professional fees were \$129,295 in the third quarter of 2014 compared to \$192,196 in the third quarter of 2013. The decrease in professional fees of \$62,901 or 32.7% was primarily due to a favorable settlement relating to litigation.

Depreciation expense was \$42,216 in the third quarter of 2014 compared to \$41,786 in the third quarter of 2013. The increase in depreciation expense of \$430 or 1.0% was due to an increase in depreciable assets.

Amortization of other intangible assets expense was \$78,653 in the third quarter of 2014 compared to \$80,325 in the third quarter of 2013. The decrease in amortization of other intangible assets expense of \$1,672 or 2.1% was due to a decrease in amortizable assets.

Consulting fees were \$130,309 in the third quarter of 2014 compared to \$133,327 in the third quarter of 2013. The decrease in consulting fees of \$3,018 or 2.3% was due to a decrease in business consulting services.

Other (Income) Expense

Total other (income) expense was \$578,282 of which \$258,225 was for foams, \$41,862 was for coatings, and \$278,195 was corporate expenses, in the third quarter of 2014 compared to \$391,472 of which \$157,731 was for foams, \$28,602 was for coatings, and \$205,139 was for corporate expenses, in the third quarter of 2013, resulting in a net increase of \$186,810 or 47.7%.

Interest expense was \$306,505 in the third quarter of 2014 compared to \$226,808 in the third quarter of 2013. The increase in interest expense of \$79,697 or 35.1% was due to a higher monthly average amount outstanding on the Revolver Loan at a weighted-average interest rate of 3.8%, augmented by a higher amount outstanding on the New Enhanced Note at an interest rate of 11.0% in the current quarter.

Interest expense for related party was \$203,877 in the third quarter of 2014 compared to \$187,870 in the third quarter of 2013. The increase in interest expense for related party of \$16,007 or 8.5% was due to share-based compensation expense classified as interest expense related to the vesting of New Guaranty Shares.

Interest expense related to our amortized purchase discount was \$46,007 in the third quarter of 2014 compared to \$0 in the second quarter of 2013. The increase in the interest expense for the purchase discount of \$46,007 was related to the amortization of the purchase discount associated with the New Enhanced Note. There was no interest expense for the purchase discount in the prior comparable period.

Other, net loss was \$21,893 in the third quarter of 2014 compared to gain of \$23,206 in the third quarter of 2013. The decrease in other, net loss of \$45,099 or 194.3% was primarily due to an increase of \$39,781 in foreign currency transaction loss.

Net Loss

We had an overall net loss of \$1,014,359, of which \$1,309,718 was from corporate expenses, offset by \$295,359 of total segment profits, in the third quarter of 2014 compared to a net loss of \$297,178, of which \$1,405,916 was from corporate expenses, offset by \$1,108,738 of total segment profits, in the third quarter of 2013. The increase in the overall net loss of \$717,181 or 241.3% was due to a decrease of \$652,330 or 16.6% in gross profit, an increase of \$186,810 or 47.7% in total other expense, offset by a decrease \$121,959 or 3.2% in operating expenses.

Our total segment profits were \$295,359, of which \$90,515 was for foams and \$204,844 was for coatings, in the third quarter of 2014 compared to \$1,108,738, of which \$695,746 was for foams and \$412,992 was for coatings, in the third quarter of 2013. The decrease in total segment profits of \$813,380 or 73.4% was due to a decrease of \$652,330 or 16.6%, in segment gross profits, augmented by an increase of \$161,050, or 5.7%, in segment expenses.

Net loss per share was \$0.01 in the third quarter of 2014 compared to \$0.00 in the third quarter of 2013.

Performance for the Nine Months Ended September 30, 2014 compared to the Nine Months Ended September 30, 2013

Overall Results of Operations

The following table presents selected condensed financial and operating data derived from the unaudited condensed financial statements of the Company as of the dates and for the periods indicated. In addition, the table presents our unaudited non-GAAP financial measure EBITDA and Adjusted EBITDA, and includes our reconciliation to net income or loss, its most directly comparable financial measure calculated and presented in accordance with GAAP.

	Nine Months Ended September 30,	
	2014	2013
<i>Summary of Overall Results of Operations</i>		
Sales	\$ 52,661,376	\$ 52,837,387
Operating (Loss)	(740,128)	(91,109)
Other (Income) Expense	1,558,137	1,233,979
Net Loss	(2,328,265)	(1,325,088)
EBITDA (Unaudited)	\$ (87,225)	\$ 827,864
Adjusted EBITDA (Unaudited)	\$ 496,619	\$ 1,797,540
<i>Reconciliation of EBITDA and Adjusted EBITDA to Net Loss:</i>		
Net Loss:	\$ (2,328,265)	\$ (1,325,088)
Additions / (Deductions):		
Interest Expense	879,052	783,590
Interest Expense – Related Party	604,298	557,585
Interest Expense – Amortization of Discount	136,512	—
Tax Expense (Benefit)	108,131	129,463
Depreciation	300,619	343,538
Amortization of Other Intangible Assets	212,428	338,776
EBITDA	\$ (87,225)	\$ 827,864
Additions / (Deductions):		
Share Based Compensation ⁽¹⁾	583,844	969,676
Adjusted EBITDA	\$ 496,619	\$ 1,797,540

⁽¹⁾ Represents non-cash share based compensation for the periods then ended.

Sales

Sales were \$52,661,376, of which \$45,554,927 were for foams and \$7,106,449 were for coatings, in the nine months ended September 30, 2014 compared to \$52,837,387, of which \$45,103,935 were for foams and \$7,733,452 were for coatings, in the nine months ended September 30, 2013. Total sales volume for the nine months ended September 30, 2014 decreased by \$839,334 or 1.6%, of which \$1,047,026 or 13.6% was for coatings, which decrease in sales of coatings was offset by an increase of \$207,692 or 0.5% for foams, compared to nine months ended September 30, 2013. The decrease in total sales was offset by higher selling prices adding approximately \$663,323 or 1.3%, of which \$243,300 or 0.5% was for foams and \$420,023 or 5.4% was for coatings, resulting in a net decrease in sales of \$ 176,001 or 0.3%

Cost of Sales

Cost of sales was \$42,437,341, of which \$37,217,789 was for foams and \$5,219,552 was for coatings, in the nine months ended September 30, 2014 compared to \$41,416,495, of which \$36,044,975 was for foams and \$5,371,520 was for coatings, in the nine months ended September 30, 2013. The increase in cost of sales of \$1,020,846, or 2.5%, was primarily due to an increase of \$404,911 in material costs; \$587,268 increase in freight costs; \$366,752 increase in other manufacturing costs, these costs were partially offset by increases in selling price. Freight costs increased due to higher trip rates, while material costs rose due to increased pricing from raw materials in the nine months ended September 30, 2014 compared to September 30, 2013. Foam cost of sales increased \$1,172,814, or 3.3%, primarily due to \$386,068 increase in material costs; \$532,120 increase freight costs; and \$321,642 increase in other manufacturing costs. Coatings cost of sales decreased \$151,968 or 2.8%, primarily due to lower sales volumes; offset by an increase of \$18,843 in material costs; \$55,148 increase in freight costs; and \$45,110 increase in other manufacturing costs.

Gross Profit

Gross profit was \$10,224,035, of which \$8,337,138 was for foams and \$1,886,897 was for coatings, in the nine months ended September 30, 2014 compared to \$11,420,892, of which \$9,058,960 was for foams and \$2,361,932 was for coatings, in the nine months ended September 30, 2013. The decrease in gross profit of \$1,196,857 or 10.5% was due to higher cost of sales of \$1,020,846 or 2.5% and a decrease in sales of \$176,011 or 0.3%, which resulted in a reduction to gross margin of 2.2%. Foam gross profit decreased \$721,822 or 8.0%, primarily from the increase of cost of sales, which contributed to a reduction in gross margin of 1.3%, while coatings gross profit decreased \$475,035 or 20.1%, as result of lower sales and cost of sales, which contributed to a reduction in gross margin of 0.9%.

Operating Expenses

Total operating expenses were \$10,964,163, of which \$6,748,863 was for foams, \$1,052,389 was for coatings, and \$3,162,911 was for corporate expenses, in the nine months ended September 30, 2014 compared to \$11,512,001, of which \$6,605,953 was for foams, \$1,132,980 was for coatings, and \$3,773,068 was for corporate expenses, in the nine months ended September 30, 2013, resulting in a net decrease of \$547,838, or 4.8%.

SG&A was \$9,774,425 in the nine months ended September 30, 2014 compared to \$9,873,835 in the nine months ended September 30, 2013. The decrease in SG&A of \$99,410 or 1.0%, was due to decreases of: \$406,306, or 41.9%, for share-based compensation primarily related to fully vested shares in connection with an advisory and consultant agreement; \$83,117 or 48.3%, for rents due to termination of leases in Georgia and Canada in 2013; \$73,346 or 16.4%, for distribution due to improvements in inventory management; \$55,554 or 1.3% for payroll and related employee benefits from reductions in our workforce; \$50,893 or 6.0%, for sales commissions from lower sales and gross profit margin; \$36,895 or 5.7%, for travel and related services due to a decrease in employee travel; \$31,760 or 2.8%, for corporate office expenses primarily related to savings in cellphone expenses and decreases in bank fees and corporate taxes; offset by increases of: \$413,143 or 216.7%, for bad debt resulting from an increase in customer insolvencies; \$92,261 or 30.5%, for insurance expense due to expanded coverage; \$58,972 or 290.9%, for investor relations due to an expanded investor relations program; \$45,502 or 6.9%, for marketing and promotions primarily related to the Ty Pennington contract; \$28,583 or 39.1% for advertising due to an increase in national and local campaigns.

Professional fees were \$485,243 in the nine months ended September 30, 2014 compared to \$816,688 in the nine months ended September 30, 2013. The decrease in professional fees of \$331,445 or 40.6% was due to a recovery, in 2014, of legal fees from our insurance companies and various settlements relating to litigation.

Depreciation expense was \$126,995 in the nine months ended September 30, 2014 compared to \$131,046 in the nine months ended September 30, 2013. The decrease in depreciation expense of \$4,051 or 3.1% was due to a decrease in depreciable assets.

Amortization of other intangible assets expense was \$212,428 in the nine months ended September 30, 2014 compared to \$338,776 in the nine months ended September 30, 2013. The decrease in amortization of other intangible assets of \$126,348 or 37.3% was due to a decrease in amortizable assets, including customer lists and trade names.

Consulting fees were \$365,072 in the nine months ended September 30, 2014 compared to \$351,656 in the nine months ended September 30, 2013. The increase in consulting fees of \$13,416 or 3.8% was due to an increase in business consulting services.

Other (Income) Expense

Total other (income) expense was \$1,588,137, of which \$676,731 was for foams, \$105,526 was for coatings, and \$805,880 was for corporate expenses, in the nine months ended September 30, 2014 compared to \$1,233,979, of which \$543,055 was for foams, \$93,139 was for coatings, and \$597,785 was for corporate expenses, in the nine months ended September 30, 2013, resulting in a net increase of \$354,158 or 28.7%.

Interest expense was \$879,052 in the nine months ended September 30, 2014 compared to \$783,590 in the nine months ended September 30, 2013. The increase in interest expense of \$95,462 or 12.2%, was due to a higher amount outstanding on the New Enhanced Note at an interest rate of 11.0% in the current period compared to 13.1% in the prior comparable period, augmented by a higher monthly average amount outstanding on the Revolver Loan at a weighted-average interest rate of 4.4%.

Interest expense for related party was \$604,298 in the nine months ended September 30, 2014 compared to \$557,585 in the nine months ended September 30, 2013. The increase in interest expense for related party was \$46,713, or 8.4%, of which \$44,681 was for share-based compensation expense classified as interest expense related to the issuance of New Guaranty Shares, and \$2,032 was accrued interest related to a promissory note.

Interest expense related to our amortized purchase discount was \$136,512 in the nine months ended September 30, 2014 compared to \$0 in the nine months ended September 30, 2013. The increase in the interest expense for the purchase discount of \$136,512 was related to the amortization of the purchase discount associated with the New Enhanced Note. There was no interest expense for the purchase discount in the prior comparable period.

Gain on derivative liability was \$0 in the nine months ended September 30, 2014 compared to \$65,656 in the nine months ended September 30, 2013. The decrease in gain on derivative liability of \$65,656, or 100.0%, was due to the expiration of all outstanding warrants as of June 30, 2013.

Other, net gain was \$31,725 in the nine months ended September 30, 2014 compared to \$41,540 in the nine months ended September 30, 2013. The decrease in other, net gain of \$9,815 or 23.6% was primarily due to foreign currency transaction loss related to our Canadian sales.

Net Loss

We had an overall net loss of \$2,328,265, of which \$3,968,790 was from corporate expenses, offset by \$1,640,525 from total segment profits, in the nine months ended September 30, 2014 compared to a net loss of \$1,325,088, of which \$4,370,853 was from corporate expenses, offset by \$3,045,765 from total segment profits, in the nine months ended September 30, 2013. The increase in the overall net loss of \$1,003,177 or 75.7% was due to a decrease of \$1,196,857 or 10.5%, in gross profit, an increase of \$354,158 or 28.7%, in total other expense, offset by a decrease of \$547,838 or 4.8%, in operating expenses.

Our total segment profits were \$1,640,525, of which \$911,941 was for foams and \$728,584 was for coatings, in the nine month period ended September 30, 2014 compared to \$3,045,766, of which \$1,909,659 was for foams and \$1,136,107 was for coatings, in the nine month period ended September 30, 2013. The decrease in total segment profits of \$1,405,242 or 46.1% was due to a decrease of \$1,196,857 or 10.5%, in segment gross profits, and an increase of \$208,385 or 2.5% in segment expenses.

Net loss per share was \$0.02 in the nine months ended September 30, 2014 and \$0.01 in the nine months ended September 30, 2013.

Liquidity and Capital Resources

We do not maintain any cash on hand by design. Instead, we maintain a \$13 million asset-based bank financed Revolver Loan that includes an automatic cash sweep feature that identifies any cash available in our bank accounts at the end of a banking business day and then applies that cash to reduce our outstanding Revolver Loan balance for that day to fund our continuing operations. The reduction serves to decrease our daily interest expense to the extent cash is identified and swept over to reduce the Revolver Loan. Disbursements are paid daily by our bank from cash being made available under our Revolver Loan based on a borrowing base calculation prepared daily for funding. Cash available under our Revolver Loan based on the borrowing base calculation at September 30, 2014 and 2013, was \$1,077,892 and \$1,365,037, respectively. Stockholders' Equity decreased \$1,194,787, or 95.0%, from the period ended December 31, 2013 to September 30, 2014, due to the net loss of \$2,328,265, offset by amounts attributable to issuances of common stock for share-based compensation and the issuance of New Guaranty Shares, compared to, an increase of \$185,723, or 15.6%, from the period ended December 31, 2012 to the period ended September 30, 2013, due to the net loss of \$1,325,088, offset by amounts attributable to issuances of common stock for share-based compensation and the issuance of New Guaranty Shares.

Management believes that the cash generated from operations, the Revolver Loan availability, subject to borrowing base limitations which may adversely impact our ability to raise capital, and the Chairman's Financial Substitution Commitment, based on budgeted sales and expenses and implemented minimum sales margin and cost controls, are sufficient to fund operations, including capital expenditures, for the next 12 months. Notwithstanding the foregoing, we evaluate capital raising opportunities for private placements of debt or common or preferred stock from time to time to not only gauge market conditions but also to ensure additional capital is readily available to fund aggressive growth developments. If we raise additional capital from the sale of capital stock (except for permitted issuances) or debt (other than permitted indebtedness), we are required under the New Enhanced Note to prepay, including any prepayment penalty, the amount raised up to the amount outstanding under the New Enhanced Note as of the date of the closing of the transaction out of the net proceeds of the capital raised.

Net cash used in operating activities was \$744,840 for the nine months ended September 30, 2014, compared to net cash used in operating activities of \$11,464 for the nine months ended September 30, 2013. The cash used in operations for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013 was attributable to the net loss of \$2,328,265 for the current nine month period, including the effect of adjustments to reconcile net loss to cash provided by operating activities and adjusting for non-cash items, primarily decreases of \$42,919 in depreciation due to a decrease in depreciable assets, \$126,348 in amortization of other intangible assets due to a decrease in amortizable assets including customer lists and non-competes from previous acquisitions, and \$424,219 in share-based compensation expense due to completion of vesting of shares originally granted by the Company pursuant to an advisory and consultant agreement in February 2011, offset by increases of \$413,142 in provision for losses due to an increase in customer insolvencies, \$46,713 in interest expense due to the issuance of New Guaranty Shares being classified as interest expense, and \$136,512 in interest expense due to the purchase discount being amortized over the life of the New Enhanced Note, which matures December 2016. The foregoing was augmented by decreases of \$1,304,923 in inventories, \$621,612 in prepaid expenses and other current assets, and \$236,826 in deposits and other non-current assets, and increases of \$1,821,303 in trade receivables, \$225,108 in other intangible assets, \$226,033 in costs and estimated earnings in excess of billings, and \$699,221 in accounts payable, and \$299,916 in accrued expenses and other current liabilities, due primarily to operating activities during the current nine month period ended September 30, 2014.

The Company has four material debt covenants to comply with relating to its Loan Agreement: (i) capital expenditures are limited to \$625,000 on an annual basis, (ii) a borrowing base calculation defined as an amount determined by a detailed calculation equal to 85% of eligible accounts receivable, plus 55% of eligible inventory cannot be exceeded ("Borrowing Base"); (iii) maintain a Fixed Charge Coverage Ratio (defined as the ratio, determined for any period on a consolidated basis for the Company, of (a) EBITDA to (b) the sum of capital expenditures (except those financed with borrowed money other than revolver loans), cash used to pay taxes, interest expense (other than payment-in-kind), principal payments made on borrowed money, and distributions made, in each case determined for such period)("FCCR"), tested monthly as of the last day of each calendar month, in each case for the most recently completed twelve calendar months, equal to a certain minimum ratio, and (iv) maintain minimum liquidity equal to or greater than \$500,000. The Company is required to submit its Borrowing Base calculation to the Bank daily. If, at any time, the Company's Borrowing Base calculation is less than the amount outstanding under the Revolver Loan, and that amount remains unpaid or is not increased from future Borrowing Base calculations to an amount equal to the balance outstanding under the Revolver Loan at any given time, or the Bank, in its discretion, may accelerate any and all amounts outstanding under the Revolver Loan. The Company was not initially in compliance with all of its debt covenants and entered into an amendment on November 13, 2014, which caused the Company to regain compliance. As a result, the Company was in compliance with all of the Loan Agreement debt covenants at September 30, 2014. *Refer to* Item 5 for a description of the amendment.

The Company has four material debt covenants to comply with relating to its New Enhanced Note: (i) capital expenditures are limited to \$625,000 on an annual basis, (ii) a minimum Adjusted EBITDA which cannot for the three (3) months ending on the last day of each month set forth in a schedule be less than the corresponding amount set forth in the schedule for such period, (iii) maintain an FCCR, tested monthly as of the last day of each calendar month, in each case for the most recently completed twelve calendar months, equal to a certain minimum ratio, and (iv) maintain minimum liquidity equal to or greater than \$500,000. The Company was not initially in compliance with all of its debt covenants and entered into an amendment on November 13, 2014, which caused the Company to regain compliance. As a result, the Company was in compliance with all of the New Enhanced Note debt covenants at September 30, 2014. *Refer to* Item 5 for a description of the amendment.

Net cash used in investing activities was \$153,427 for the nine months ended September 30, 2014, compared to net cash used of \$11,615 for the nine months ended September 30, 2013. We invested \$206,427 in property, plant and equipment for the nine months ended September 30, 2014, of which \$118,047 was for a new vehicle, \$43,473 was for construction in progress for upgrades to our IT systems, \$39,214 was for machinery and equipment related to our manufacturing facilities, and 5,693 was for computers and software for the sales force. We recaptured an aggregate of \$53,000 from dispositions of vehicles traded in or sold. We invested \$40,401 in property, plant and equipment for the nine months ended September 30, 2013, of which \$3,090 was for office furniture and equipment, \$24,320 was for computers and software, \$7,331 was for vehicles, and \$5,660 was for machinery and equipment related to our manufacturing facilities, and disposed of an aggregate of \$28,786 in property, plant and equipment related to vehicles.

Net cash provided by financing activities was \$898,267 for the nine months ended September 30, 2014, compared to net cash provided of \$25,284 for the nine months ended September 30, 2013. We borrowed a cumulative aggregate of \$54,567,575 and made principal repayments for a cumulative aggregate of \$53,664,709 under our Bank Revolver Loan, and \$4,599 on our long term debt primarily related to financed vehicles, for the nine months ended September 30, 2014. We borrowed a cumulative aggregate of \$56,715,217 under our Bank Revolver Loan, and made principal repayments for a cumulative aggregate of \$56,000,604 under our Bank Revolved Loan, an aggregate of \$673,331 under our Note Purchase Agreement, and \$15,998 on our long term debt for financed vehicles, for the nine months ended September 30, 2103.

Off Balance Sheet Arrangements

We have no off-balance sheet transactions, arrangements, obligations (including contingent obligations), or other relationships with unconsolidated entities or other persons that have, or may have, a material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Item 4. Controls and Procedures.

Quarterly Disclosure Controls and Procedures Evaluation

We carried out an evaluation, under the supervision and with the participation of our management, including our Principal Executive Officer and our Principal Financial Officer, of the effectiveness of our disclosure controls and procedures as of September 30, 2014, the end of the quarterly period covered by this report. Based on the foregoing, our Principal Executive Officer and our Principal Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective and operating at the reasonable assurance level. There has been no change in our internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting subsequent to the date of this report.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

Various Lawsuits and Claims Arising in the Ordinary Course of Business

We are involved in various lawsuits and claims arising in the ordinary course of business, which are, in our opinion, immaterial both individually and in the aggregate with respect to our consolidated financial position, liquidity or results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Recent Sales of Unregistered Securities

(a) During the quarterly period ended September 30, 2014, the Company issued aggregate of 308,707 shares of common stock, which vested monthly on a pro rata basis over the term of the New Enhanced Note, to the Chairman in exchange for his personal guaranty of the Company's obligations under the New Enhanced Note. These shares were valued at \$.60 per share, and \$185,224 in aggregate. The issuances of these shares to the Chairman were exempt from the registration requirements of the Securities Act of 1933, as amended, in reliance upon Section 4(a)(2) of the Securities Act of 1933, as amended, and Rule 506 promulgated thereunder. The Chairman was an accredited investor (as defined by Rule 501 under the Securities Act of 1933, as amended) at the time of the issuance.

(b) During the quarterly period ended September 30, 2014, the Company issued aggregate of 20,367 shares of common stock to Jay Nadel, which vested monthly, in accordance with the anti-dilution provision of the Advisory and Consulting Agreement between the Company and Mr. Nadel. These shares were valued at \$13,563. The issuances of these shares to Mr. Nadel were exempt from the registration requirements of the Securities Act of 1933, as amended, in reliance upon Section 4(a)(2) of the Securities Act of 1933, as amended, and Rule 506 promulgated thereunder. Mr. Nadel was an accredited investor (as defined by Rule 501 under the Securities Act of 1933, as amended) at the time of the issuance.

Item 5. Other Information.

(a) **Loan and Security Agreement Amendment** . On November 14, 2014, the Company and the Bank entered into an amendment, effective August 31, 2014, to that certain Loan and Security Agreement dated August 31, 2010, as amended, wherein pertinent part: (I) the definitions of: (1) "Fixed Charge Coverage Ratio" was changed to the ratio of the sum of (i) EBITDA, (ii) subordinated debt incurred during such period on or after August 31, 2014, and (iii) up to \$267,000 in an account charged off by the Company in August, 2014, to the sum of capital expenditures, cash taxes paid, interest expense (other than PIK), certain principal payments made on borrowed money other than revolver loans, and distributions made, in each case determined for a period; (2) "Revolver Termination Date" was changed to February 15, 2015; and (3) "Subordinated Debt" was changed to debt incurred by the Company that (i) is subject to a subordination agreement between the Bank and the holder of such debt that expressly subordinates and makes junior in right of payment to the full payment of all obligations, and (ii) is on terms satisfactory to the Bank; and (II) the Fixed Charge Coverage Ratio was changed to require at least 1.0 to 1.0, provided that, if the Company fails to maintain such Fixed Charge Coverage Ratio as of any date of determination but, on or before the date the Company is required to provide to the Bank its monthly financial statements for the month ending as of such date of determination, the Company incurs additional subordinated debt that, when included in the determination of Fixed Charge Coverage Ratio as of such date of determination would prevent a breach of this covenant, then the Company will be deemed to have satisfied this covenant as of such date of determination and no default will have occurred on such date. *Refer to* Exhibit 10.1 for the complete text.

Item 5. Other Information - continued.

(b) **Chairman's Financial Substitution Commitment** . On November 14, 2014, the Chairman of the Board and majority stockholder provided Management with a Financial Substitution Commitment to ensure payment of the amount outstanding under the Revolver Loan pursuant to that certain Loan Agreement, as amended, which matures on February 15, 2015, and make available working capital of up to \$1.5 Million for the Company's ongoing operations from the date hereof and on or after the maturity date of the Loan Agreement. This Financial Substitution Commitment will either be satisfied from his personal funds, or, he will cause the funds to be otherwise provided by an appropriate lending or other institution, and any funds provided thereunder will have a maturity date of June 10, 2017. The Financial Substitution Commitment will be superseded in the event and to the extent that the Company is independently funded by a third party source, either privately or institutionally, at or before the time the Financial Substitution Commitment is due and the Revolver Loan is repaid and Loan Agreement obligation is fully satisfied, and working capital of \$1.5 Million for the Company's ongoing operations is obtained from the date hereof and on or after the maturity date of the Loan Agreement. Management requested that the Chairman of the Board fund \$250,000 under this Financial Substitution Commitment to meet a request from the Bank which payment was made on November 14, 2014. *Refer to* Exhibit 10.2 for the complete text. See also (d) below.

(c) **New Enhanced Note Amendment** . On November 14, 2014, the Company and Enhanced Jobs for Texas Fund, LLC and Enhanced Capital Texas Fund, LP entered an amendment effective August 31, 2014 to that certain Note Purchase Agreement dated June 29, 2012, wherein pertinent part: (I) the definitions of: (1) "Fixed Charge Coverage Ratio" was changed to the ratio of the sum of (i) EBITDA, (ii) subordinated debt incurred during such period on or after August 31, 2014 up to a maximum aggregate amount over all periods of \$500,000, and (iii) up to \$267,000 in Accounts charged off by Borrower in August, 2014, to the sum of Capital Expenditures cash taxes paid, interest expense (other than PIK), certain principal payments made on indebtedness (other than with respect to Revolver Loans), and distributions made, in each case determined for such period; provided that principal payments made with respect to the Enhanced Indebtedness during December 2013 in an amount not exceeding \$150,000 shall not be included in the calculation of the FCCR; (2) PIK was changed from "3.75%" to "4.25%"; (3) minimum EBITDA for the three (3) months ending on the last day of each month were changed to new amounts for each period; (II) the Fixed Charge Coverage Ratio was changed to require at least 1.0 to 1.0, provided that, if the Company fails to maintain such Fixed Charge Coverage Ratio as of any date of determination but, on or before the date the Company is required to provide its monthly financial statements for a month ending as of such date of determination, the Company incurs additional subordinated debt (up to the aggregate limit of \$500,000) that, when included in the determination of Fixed Charge Coverage Ratio as of such date of determination would prevent a breach of this covenant, then the Company shall be deemed to have satisfied this covenant as of such date of determination and no default will have occurred on such date; and (III) Minimum Liquidity was changed to be not less than \$500,000. *Refer to* Exhibit 10.3 for the complete text.

(d) On November 14, 2014, the Company issued a \$250,000 promissory note, bearing interest at 8% per annum, to the Chairman in exchange for an equal amount of cash proceeds, which is subordinate to the Loan Agreement and the New Enhanced Note and matures June 10, 2017.

(e) On October 14, 2014, the Company granted Douglas J. Kramer, CEO and President, the right to acquire 1,150,000 shares of the Company's common stock, \$0.01 par value per share, at an exercise price per share equal to the fair market value of a share of the Company's common stock on the date of grant, determined based on the per share closing price on such date, or \$.425 per share, which options were immediately vested and exercisable at the time of grant ("Kramer Options"). The Kramer Options were granted as partial replacement for 2,000,000 stock options were granted on July 12, 2005 which expired July 12, 2013 (the "Prior Expired Options"). The Prior Expired Options were inadvertently extended to December 31, 2015, however, due to the 8 year life limitation, they were deemed canceled at the end of 8 years. The Company also undertook to grant the additional 850,000 stock options (to make up for the total 2,000,000 stock options) on January 2, 2015 since the equity Incentive Plan only permits the grant of a total of 2,000,000 stock options during any calendar year (and Mr. Kramer was previously granted 850,000 stock options during the 2014 year for other incentives).

Item 6. Exhibits.

See Index of Exhibits on Page 23.

SIGNATURES

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

LAPOLLA INDUSTRIES, INC.

Date: November 17, 2014

By: /s/ Douglas J. Kramer, CEO

Name: Douglas J. Kramer

Title: CEO and President

LAPOLLA INDUSTRIES, INC.

Date: November 17, 2014

By: /s/ Charles A. Zajackowski, CFO

Name: Charles A. Zajackowski

Title: CFO, Treasurer, and Principal Accounting Officer

INDEX OF EXHIBITS

Exhibit Number	Description
10.1*	Eleventh Amendment dated November 14, 2014 to that certain Loan and Security Agreement dated August 31, 2010 between Lapolla and Bank of America, N.A.
10.2*	Financial Commitment from Richard J. Kurtz dated November 14, 2014.
10.3*	Second Amendment dated November 14, 2014 to that certain Note Purchase Agreement between Lapolla and Enhanced dated December 10, 2013.
31.1*	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32*	Certification of Principal Executive Officer and Principal Financial Officer pursuant to § 906 of Sarbanes-Oxley Act of 2002.
101	Interactive Data Files

* Filed herewith

Exhibit 10.1

ELEVENTH AMENDMENT TO LOAN AND SECURITY AGREEMENT

This Eleventh Amendment to Loan and Security Agreement (this “Amendment”), effective as of August 31, 2014, is between BANK OF AMERICA, N.A., a national banking association (“Lender”) and LAPOLLA INDUSTRIES, INC., a Delaware corporation (“Borrower”).

RECITALS

A. Lender and Borrower are parties to that certain Loan and Security Agreement, dated as of August 31, 2010 (as amended by (i) that certain First Amendment to Loan and Security Agreement, dated as of August 31, 2010; (ii) that certain Second Amendment to Loan and Security Agreement, dated as of March 14, 2011; (iii) that certain Third Amendment to Loan and Security Agreement, dated as of May 11, 2011; (iv) that certain Fourth Amendment to Loan and Security Agreement, dated as of August 17, 2011; (v) that certain Fifth Amendment to Loan and Security Agreement, dated as of November 18, 2011; (vi) that certain Sixth Amendment to Loan and Security Agreement, dated as of April 12, 2012; (vii) that certain Seventh Amendment to Loan and Security Agreement, dated as of June 29, 2012; (viii) Eighth Amendment to Loan and Security Agreement, dated as of November 15, 2012; (ix) that certain Ninth Amendment to Loan and Security Agreement, dated as of March 31, 2013; and (x) that certain Tenth Amendment to Loan and Security Agreement, dated as of December 10, 2013, the “Loan Agreement”).

B. Lender and Borrower desire to amend the Loan Agreement as herein set forth.

NOW, THEREFORE, in consideration of the premises herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

ARTICLE I
Definitions

Section 1.1 Definitions. Capitalized terms used in this Amendment, to the extent not otherwise defined herein, shall have the same definitions assigned to such terms in the Loan Agreement, as amended hereby.

ARTICLE II
Amendments to the Loan Agreement

Section 2.1 Amendments to Section 1.1. Section 1.1 of the Loan Agreement is hereby amended by deleting the definitions of “Fixed Charge Coverage Ratio,” “Revolver Termination Date,” and “Subordinated Debt” in their entirety and substituting the following, respectively, in lieu thereof:

“Fixed Charge Coverage Ratio: the ratio, determined for any period on a consolidated basis for Borrower and Subsidiaries, of (a) the sum of (i) EBITDA, (ii) Subordinated Debt incurred during such period on or after August 31, 2014, and (iii) up to \$267,000 in Accounts charged off by Borrower in August, 2014, to (b) the sum of Capital Expenditures (except those financed with Borrowed Money other than Revolver Loans), cash taxes paid, interest expense (other than payment-in-kind), principal payments made on Borrowed Money other than Revolver Loans, excluding (solely) principal payments made on the Subordinated Term Debt due December 1, 2013, in an amount not exceeding \$150,000, and Distributions made, in each case determined for such period.”

“Revolver Termination Date: February 15, 2015.”

“Subordinated Debt: Debt incurred by Borrower that (i) is subject to a subordination agreement between Lender and the holder of such Debt, in form and substance satisfactory to Lender, which, among other things, expressly subordinates and makes junior in right of payment to the Full Payment of all Obligations, and (ii) is on terms (including maturity, interest, fees, repayment, covenants, and subordination) satisfactory to Lender.”

Section 2.2 Amendment to Section 10.1.2(b). Section 10.1.2(b) of the Loan Agreement is hereby amended by

deleting the parenthetical “(but within 75 days after the last month in a Fiscal Year)” therefrom.

Section 2.3 Amendment to Section 10.3.2. Section 10.3.2 of the Loan Agreement is hereby amended by deleting such section in its entirety and substituting the following in lieu thereof:

“10.3.2 Fixed Charge Coverage Ratio. Maintain a Fixed Charge Coverage Ratio, tested monthly as of the last day of each calendar month for the twelve-month period then ended, of at least 1.0 to 1.0, provided that, if Borrower fails to maintain such Fixed Charge Coverage Ratio as of any date of determination but, on or before the date Borrower is required to provide to Lender its monthly financial statements in accordance with Section 10.1.2(b) hereof for the month ending as of such date of determination, Borrower incurs additional Subordinated Debt that, when included in the determination of Fixed Charge Coverage Ratio as of such date of determination would prevent a breach of this covenant, then Borrower shall be deemed to have satisfied this covenant as of such date of determination and no Default shall have occurred as a result thereof.”

Section 2.4 Amendment to Section 11.1(f). Section 11.1(f) of the Loan Agreement is hereby amended by deleting such section in its entirety and substituting the following in lieu thereof:

“(f) Any breach or default of an Obligor occurs under any document, instrument, or agreement to which it is a party or by which it or any of its Properties is bound, relating to (i) any Subordinated Debt, including, without limitation, the New Subordinated Term Debt, or (ii) any other Debt (other than the Obligations) in excess of \$100,000, if (in either such case) the maturity of or any payment in respect of such Debt may be accelerated or demanded due to such breach;”

Section 2.5 Amendment to Section 12.3.1. Section 12.3.1 of the Loan Agreement is hereby amended by adding the following sentence to the end of such section:

“A copy of all notices and other communications sent to Lender shall also be sent to Lender’s counsel at the below address as provided in this section:

“K&L Gates, LLP
1717 Main Street, Suite 2800
Dallas, Texas 75201
Attention: David Weitman and Elizabeth Helm
Email: david.weitman@klgates.com and elizabeth.helm@klgates.com”

ARTICLE III Consent

Section 3.1 Consent. Under Section 10.1.2(b) of the Loan Agreement, Borrower is required to deliver to Lender its monthly financial statements, as more fully described therein, within 20 days after the end of each month. Borrower has requested Lender’s consent to deliver its financial statements for the months ending August 31, 2014, and September 30, 2014, on or before November 13, 2014. Lender consents to Borrower’s delivery of its financial statements of the months ending August 31, 2014, and September 30, 2014, on or before November 13, 2014. This consent is limited to Section 10.1.2(b) of the Loan Agreement and for the period set forth above and shall not be construed as a consent to any other variation from the requirements of the Loan Agreement.

ARTICLE IV Conditions Precedent

Section 4.1 Conditions Precedent. The effectiveness of this Amendment is subject to the satisfaction of the following conditions precedent, unless specifically waived in writing by Lender:

(a) The representations and warranties contained herein and in all other Loan Documents shall be true and correct as of the date hereof as if made on the date hereof;

(b) No Default or Event of Default shall have occurred and be continuing;

(c) Lender and Borrower shall have executed this Amendment;

(d) Lender shall have received confirmation that all of the proceeds of the additional subordinated loan to Borrower from Richard Kurtz, in the amount of not less than \$250,000, shall have been deposited by wire transfer in immediately available funds denominated in Dollars in a US Dominion Account;

(e) Lender shall have received true and complete copies of all documents, instruments, and agreements evidencing or otherwise related to the additional \$250,000 subordinated loan from Richard Kurtz to Borrower;

(f) Lender shall have received an amendment to that certain Subordination Agreement, dated as of April 16, 2012, among Borrower, Lender, and Richard Kurtz, in form and substance satisfactory to Lender;

(g) Borrower shall have delivered to Lender such financial statements as required under Section 10.1.2(b) of the Loan Agreement for the months ending August 31, 2014, and September 30, 2014;

(h) All corporate proceedings taken in connection with the transactions contemplated by this Amendment shall be reasonably satisfactory to Lender and its legal counsel; and

(i) Lender shall have received reimbursement for its legal fees and expenses as described in Section 6.3 hereof.

ARTICLE V

Ratifications, Representations, and Warranties

Section 5.1 Ratifications by Borrower. The terms and provisions set forth in this Amendment shall modify and supersede all inconsistent terms and provisions set forth in the Loan Agreement and, except as expressly modified and superseded by this Amendment, the terms and provisions of the Loan Agreement are ratified and confirmed and shall continue in full force and effect. The Loan Agreement as amended by this Amendment shall continue to be legal, valid, binding and enforceable in accordance with its terms.

Section 5.2 Renewal and Extension of Security Interests and Liens. Borrower hereby (i) renews and affirms the liens and security interests created and granted in the Loan Documents, and (ii) agrees that this Amendment shall in no manner affect or impair the liens and security interests securing the Obligations, and that such liens and security interests shall not in any manner be waived, the purposes of this Amendment being to modify the Loan Agreement as herein provided, and to carry forward all liens and security interest securing same, which are acknowledged by Borrower to be valid and subsisting.

Section 5.3 Representations and Warranties. Borrower represents and warrants to Lender that (i) the execution, delivery and performance of this Amendment and any and all Loan Documents executed and/or delivered in connection herewith have been authorized by all requisite corporate action on the part of Borrower and will not violate the articles or bylaws of Borrower or any agreement to which Borrower is a party, including, without limitation, any documents or agreements evidencing or related to the New Subordinated Term Debt; (ii) the representations and warranties contained in the Loan Agreement as amended hereby and in each of the other Loan Documents are true and correct on and as of the date hereof as though made on and as of the date hereof; (iii) no Default or Event of Default under the Loan Agreement has occurred and is continuing; (iv) no default or event of default has occurred and is continuing in respect of the New Subordinated Term Debt; and (v) Borrower is in full compliance with all covenants and agreements contained in the Loan Agreement, as amended hereby.

ARTICLE VI

Miscellaneous

Section 6.1 Survival of Representations and Warranties. All representations and warranties made in the Loan

Agreement or any other Loan Document, including without limitation, any Loan Document furnished in connection with this Amendment, shall survive the execution and delivery of this Amendment and the other Loan Documents, and no investigation by Lender or any closing shall affect such representations and warranties or the right of Lender to rely thereon.

Section 6.2 Reference to Loan Agreement . Each of the Loan Documents and the Loan Agreement and any and all other agreements, documents or instruments now or hereafter executed and delivered pursuant to the terms hereof or pursuant to the terms of the Loan Agreement as amended hereby, are hereby amended so that any reference in such Loan Documents to the Loan Agreement shall mean a reference to the Loan Agreement as amended hereby.

Section 6.3 Expenses of Lender . Borrower agrees to pay on demand all reasonable costs and expenses incurred by Lender directly in connection with the preparation, negotiation and execution of this Amendment and the other Loan Documents executed pursuant hereto and any and all amendments, modifications, and supplements thereto, including, without limitation, the costs and fees of Lender's legal counsel, and all costs and expenses incurred by Lender in connection with the enforcement or preservation of any rights under the Loan Agreement, as amended hereby, or any other Loan Document, including, without limitation, the reasonable costs and fees of Lender's legal counsel.

Section 6.4 Severability . Any provision of this Amendment held by a court of competent jurisdiction to be invalid or unenforceable shall not impair or invalidate the remainder of this Amendment and the effect thereof shall be confined to the provision so held to be invalid or unenforceable.

Section 6.5 **APPLICABLE LAW** . **THIS AMENDMENT SHALL BE DEEMED TO HAVE BEEN MADE AND TO BE PERFORMABLE IN AND SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS, WITHOUT GIVING EFFECT TO ANY CONFLICT OF LAW PRINCIPLES (BUT GIVING EFFECT TO FEDERAL LAWS RELATING TO NATIONAL BANKS).**

Section 6.6 Release of Claims . **To induce Lender to enter into this Amendment, Borrower voluntarily, knowingly, and unconditionally releases, acquits, and forever discharges Lender and its prior, current, or future officers, directors, agents, employees, successors, and assigns (collectively, the "Released Parties"), from any and all liabilities, claims, demands, damages, expenses, actions, or causes of action of any kind or nature (if there be any), owned by, through, or under Borrower, whether absolute or contingent, disputed or undisputed, at law or in equity, or known or unknown, that such Person now has or ever had against any of the Released Parties arising under or in connection with any of the Loan Documents or otherwise, including, without limitation, any such liabilities, claims, demands, damages, expenses, actions, or causes of action arising out of or relating to a claim of breach of contract, fraud, lender liability or misconduct, breach of fiduciary duty, usury, unfair bargaining position, unconscionably, violation of law, negligence, error or omission in accounting or calculations, misappropriation of funds, tortious conduct or reckless or willful misconduct. Borrower represents and warrants to Lender that it has not transferred or assigned to any Person any claim that it ever had or claimed to have against Lender.**

Section 6.7 Waiver of Jury Trial . **To the fullest extent permitted by applicable law, the parties hereto each hereby waives the right to trial by jury in any action, suit, counterclaim, or proceeding arising out of or related to this Amendment.**

Section 6.8 Successors and Assigns . This Amendment is binding upon and shall inure to the benefit of the parties hereto and their respective successors, assigns, heirs, executors, and legal representatives, except that none of the parties hereto other than Lender may assign or transfer any of its rights or obligations hereunder without the prior written consent of Lender.

Section 6.9 Counterparts . This Amendment may be executed in one or more counterparts, each of which when so executed shall be deemed to be an original, but all of which when taken together shall constitute one and the same instrument. A facsimile or digital copy of this Amendment shall be deemed to be an original thereof.

Section 6.10 Effect of Waiver . No consent or waiver, express or implied, by Lender to or for any breach of or deviation from any covenant, condition or duty by Borrower, shall be deemed a consent to or waiver of any other breach of the same or any other covenant, condition or duty.

Section 6.11 Headings . The headings, captions, and arrangements used in this Amendment are for convenience only and shall not affect the interpretation of this Amendment.

Section 6.12 Conflicting Provisions . If any provision of the Loan Agreement as amended hereby conflicts with any provision of any other Loan Document, the provision in the Loan Agreement shall control.

Section 6.13 **ENTIRE AGREEMENT** . **THIS AMENDMENT, THE LOAN AGREEMENT AND ALL OTHER LOAN DOCUMENTS EXECUTED AND DELIVERED IN CONNECTION WITH AND PURSUANT TO THIS AMENDMENT AND THE LOAN AGREEMENT REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.**

[Remainder of page blank; signature page follows.]

EXECUTED as of the date first written above.

BANK OF AMERICA, N.A.

By: /s/ H. Michael Wills, SVP
H. Michael Wills, Senior Vice President

LAPOLLA INDUSTRIES, INC.

By: /s/ Michael T. Adams, EVP
Michael T. Adams, Executive Vice President

Exhibit 10.2

Richard J. Kurtz
Nine Duck Pond Road
Alpine, New Jersey 07632

November 14, 2014

Lapolla Industries, Inc.
15402 Vantage Parkway East
Suite 322
Houston, Texas 77032

Re: Bank of America Financial Substitution Commitment

Gentlemen:

This is in response to your request that I provide an assurance as to funding to: (1) pay off the amount outstanding under the revolver loan (“Revolver Loan”) pursuant to that certain Loan and Security Agreement, as amended, between Bank of America, N.A. (“Bank”) and Lapolla Industries, Inc. (the “Company”), which matures on February 15, 2015 (“Loan Agreement”); and (2) make available working capital of up to \$1.5 Million for the Company’s ongoing operations from the date hereof and on or after the maturity date of the Loan Agreement (“Financial Substitution Commitment”).

I hereby confirm that, upon the request of Management, I so commit to provide funding for the Financial Substitution Commitment.

This commitment will either be satisfied from personal funds, or, I will cause the funds to be otherwise provided by an appropriate lending or other institution. If such funding is required to be made personally by me, such funding will take the form of a loan bearing 8% interest per annum, which matures June 10, 2017. If such funding is otherwise provided by an appropriate lending or other institution, such funding will take the form as determined by such lending or other institution and approved by the Board of Directors of the Company and mature June 10, 2017.

I have been further advised and understand that the aforesaid commitment and obligation shall be superseded and become null and void in the event and to the extent that the Company is independently funded by a third party source, either privately or institutionally: (1) at or before the time the Financial Substitution Commitment is due and the Revolver Loan is repaid and Loan Agreement obligation is fully satisfied; and (2) working capital of \$1.5 Million for the Company’s ongoing operations is obtained from the date hereof and on or after the maturity date of the Loan Agreement.

In the event that I, or the lending institution utilized by me, loan funds for payment of the above Financial Substitution Commitment, and the Company thereafter raises funds through any other available independent means, at my option and sole discretion, such funds shall be first utilized to repay loans made to satisfy the Financial Substitution Commitment.

Very truly yours,

/s/ Richard J. Kurtz

Richard J. Kurtz

Exhibit 10.3

AMENDMENT NO. 2 TO NOTE PURCHASE AGREEMENT

THIS AMENDMENT NO. 2 TO NOTE PURCHASE AGREEMENT (this “ Amendment ”), dated as of November 14, 2014, with an effective date as of August 31, 2014 (the “ Effective Date ”), is by and among **LAPOLLA INDUSTRIES, INC.**, a Delaware corporation (the “ Borrower ”), **ENHANCED CREDIT SUPPORTED LOAN FUND, LP**, a Delaware limited partnership, and the other Purchasers party hereto. Unless otherwise defined herein or the context otherwise requires, capitalized terms used herein shall have the meanings ascribed thereto in the Note Purchase Agreement (as defined below).

WHEREAS, the Purchasers have extended certain credit facilities in favor of the Borrower pursuant to that certain Note Purchase Agreement, dated as of December 10, 2013 by and between the Borrower and the Purchasers (as amended by that certain Amendment No. 1 dated April 8, 2014 (“ Amendment No. 1 ”), the “ Note Purchase Agreement ”); and

WHEREAS, the Borrower and the Purchasers have agreed, subject to the terms and conditions hereof, to amend the Note Purchase Agreement by (i) changing certain covenants in the Note Purchase Agreement, and (ii) providing for the payment of legal fees in connection with this amendment; and

NOW, THEREFORE, in consideration of the agreements hereinafter set forth, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

1. Amendment to Note Purchase Agreement. Upon execution of this Amendment by the parties hereto, the Note Purchase Agreement is amended as of the Effective Date as follows:

(a) Section 1.1 is hereby amended by adding the definition of Amendment No. 2 to Note Purchase Agreement as follows:

“ Amendment No. 2 to Note Purchase Agreement ” means that certain Amendment No. 2 to Note Purchase Agreement dated as of November 14, 2014 between the Purchasers and the Borrower.

(b) Section 1.1 is hereby amended by amending and restating the definitions of “Fixed Charge Coverage Ratio” and “Subordinated Debt” as follows:

“ Fixed Charge Coverage Ratio : the ratio, determined for any period on a consolidated basis for Borrower and Subsidiaries, of (a) the sum of (i) EBITDA, (ii) Subordinated Debt incurred during such period on or after August 31, 2014 up to a maximum aggregate amount over all periods of \$500,000, and (iii) up to \$267,000 in Accounts charged off by Borrower in August, 2014, to (b) the sum of Capital Expenditures (except those financed with Indebtedness (other than with respect to Revolver Loans (as defined in the Senior Credit Agreement)), cash taxes paid, interest expense (other than payment-in-kind), principal payments made on Indebtedness (other than with respect to Revolver Loans), and Distributions made, in each case determined for such period; provided that principal payments made with respect to the Enhanced Indebtedness during December 2013 in an amount not exceeding \$150,000 shall not be included in the calculation of the Fixed Charge Coverage Ratio.”

“ Subordinated Debt : Indebtedness incurred by Borrower that (i) is subject to a subordination agreement between Agent and the holder of such Indebtedness, in form and substance satisfactory to Agent, which, among other things, expressly subordinates and makes junior in right of payment to the payment in full in cash of all Obligations, and (ii) is on terms (including maturity, interest, fees, repayment, covenants, and subordination) satisfactory to Agent.”

(a) Section 2.4(a) is hereby amended by replacing “3.75%” with “4.25%”.

(b) Section 6.1(a)(ii) is hereby amended and restated as follows:

(ii) as soon as practicable after the end of each month, and in any event within twenty-five (25) days thereafter, a

balance sheet of the Borrower as of the end of such month, a monthly aging report for accounts receivable and accounts payable showing aging, write-offs, and reserves, a copy of the most recent borrowing base certificate delivered in connection with the Senior Indebtedness, a statement of income and a statement of cash flows of the Borrower for such month and for the fiscal year to date, including a comparison to plan figures for such period prepared in accordance with GAAP consistently applied (except as noted therein);

(c) Section 7.18 is hereby amended and restated as follows:

Section 7.18 Minimum EBITDA. Permit its EBITDA for the three (3) months ending on the last day of each month set forth below to be less than the corresponding amount set forth below for such period:

<u>Three Month Period Ended</u>	<u>Minimum EBITDA</u>
February 28, 2014	\$176,963*
March 31, 2014	(\$212,190)
April 30, 2014	(\$116,215)
May 31, 2014	\$170,247
June 30, 2014	\$543,179
July 31, 2014	\$748,637
August 31, 2014	\$315,939
September 30, 2014	\$183,756
October 31, 2014	\$95,992
November 30, 2014	\$94,682
December 31, 2014	(\$11,955)
January 31, 2015	(\$140,955)
February 28, 2015	(\$189,015)
March 31, 2015	(\$75,812)
April 30, 2015	\$68,800
May 31, 2015	\$190,880
June 30, 2015	\$317,601
July 31, 2015	\$392,527
August 31, 2015	\$461,035
September 30, 2015	\$497,861
October 31, 2015	\$460,861
November 30, 2015	\$383,642
December 31, 2015	\$274,211
January 31, 2016	\$253,743
February 28, 2016	\$342,064
March 31, 2016	\$504,159
April 30, 2016	\$722,280
May 31, 2016	\$850,910
June 30, 2016	\$1,018,721
July 31, 2016	\$1,100,352
August 31, 2016	\$1,205,180
September 30, 2016	\$1,277,165
October 31, 2016	\$1,289,091
November 30, 2016	\$1,119,637

(*) For purposes of the February 2014 minimum EBITDA calculation the Borrower will be permitted to add-back to EBITDA the amount of \$236,737 which represents a portion of the Note Receivable to Dena Lynn Sosebee and Chemical Design, Corporation dated May 14, 2013 in the amount of \$515,708.69 and Amended on February 14, 2014 in the amount of \$473,473.40 which the Borrower elected to reserve \$236,737 as of December 31, 2013.

(d) Section 7.19 is hereby amended and restated as follows:

“Section 7.19 Fixed Charge Coverage Ratio. Permit its Fixed Charge Coverage Ratio for the twelve (12) months ending on the last day of each calendar month to be less than (i) 0.90 to 1.0 for the periods ended December 31, 2013, January 31, 2014, February 28, 2014, May 31, 2014, June 30, 2014, (ii) 0.80 to 1.0 for the periods ended March 31, 2014 and April 30, 2014 and (iii) 1.0 to 1.0 for the periods ended July 31, 2014 and thereafter, provided that, if Borrower fails to maintain such Fixed Charge Coverage Ratio as of any date of determination but, on or before the date Borrower is required to provide to Agent its monthly financial statements in accordance with Section 6.1(a) hereof for the month ending as of such date of determination, Borrower incurs additional Subordinated Debt (up to the aggregate limit of \$500,000 set forth in the definition of Fixed Charge Coverage Ratio) that, when included in the determination of Fixed Charge Coverage Ratio as of such date of determination would prevent a breach of this covenant, then Borrower shall be deemed to have satisfied this covenant as of such date of determination and no Default shall have occurred as a result thereof.”

(e) Section 7.20 is hereby amended and restated as follows:

Section 7.20 Minimum Liquidity. Permit its Liquidity to be less than \$500,000.

2. **Amendment to Amendment No. 1**. Amendment No. 1 is hereby amended as of April 8, 2014 to revise the first date referenced to be April 8, 2014 and to delete the second sentence of Section 6.

3. **Loan Documents Generally**. All references to the Note Purchase Agreement in the Loan Documents and any other documents evidencing, securing or otherwise relating to the credit extended by Purchasers in favor of Borrower shall mean the Note Purchase Agreement and as modified hereby and this Amendment shall itself constitute a Loan Document.

4. **Representations and Warranties**. The Borrower hereby represents and warrants to the Purchasers that:

(a) No Default or Event of Default will exist after giving pro forma effect to this Amendment, the consent contained herein and the transactions contemplated by and consented to in this Amendment;

(b) Giving effect to this Amendment, the representations and warranties set forth in the Note Purchase Agreement are, subject to the limitations set forth therein, true and correct in all material respects as of the date hereof (except for those which expressly relate to an earlier date) and each of such representations and warranties (except to the extent such representations and warranties expressly relate to an earlier date) together with each of the representations and warranties contained in this Amendment shall be true and correct on and as of the date of consummation of the transactions contemplated by and consented to in this Amendment, as if such representations and warranties were made on such date ;

(c) The Borrower has the organizational power and authority to execute and deliver this Amendment and to perform its obligations hereunder and has taken all necessary organizational action to authorize the execution, delivery and performance by it of this Amendment; and

(d) The Borrower has duly executed and delivered this Amendment, and this Amendment constitutes its legal, valid and binding obligation enforceable in accordance with its terms.

5. **Amendment; No Implied Waiver**. This Amendment shall be limited precisely as written and shall not operate as a consent to any other action or inaction by the Borrower, or as a waiver or amendment of any right, power, or remedy of the Purchasers under the Note Purchase Agreement or the other Loan Documents nor constitute a consent to any action or inaction, or a waiver or amendment of any provision contained in the Note Purchase Agreement and the other Loan Documents except as specifically provided herein.

6. **Reaffirmation of Borrower Obligations; Other Acknowledgement and Consents**. The Borrower hereby:

(a) Agrees that it is truly and justly indebted to the Purchasers for all of the Borrower's obligations under the Note Purchase Agreement and the other Loan Documents without defense, offset or counterclaim of any kind whatsoever and reaffirms and admits the validity and enforceability of the Note Purchase Agreement and the Loan Documents to which it is a party and the liens upon and security interests in the collateral which were granted pursuant to the Loan Documents to which it is a party;

(b) Consents to the execution and delivery of this Amendment by the Borrower and to the terms and conditions set forth herein and any other waivers, consents or amendments which the Purchasers deems appropriate;

(c) Agrees to be bound by the terms and conditions of the Note Purchase Agreement as amended or modified by this Amendment;

(d) Acknowledges and agrees that all obligations of the Borrower under the Note Purchase Agreement, as amended and modified by this Amendment, and the other Loan Documents pursuant to which the Borrower grants any security to the Purchasers, are secured pursuant to the Loan Documents and all references in the Loan Documents to the secured obligations or language of similar meaning shall hereafter be deemed to include the Borrower's obligations to the Purchasers under the Note Purchase Agreement, as modified by this Amendment and the other instruments, documents and agreements executed and delivered pursuant hereto or in connection herewith; and

(e) Notwithstanding any prior disregard of any of the terms of the Note Purchase Agreement or any of the Loan Documents, agrees that the terms of the Note Purchase Agreement and each of the Loan Documents shall be strictly adhered to on and after the date hereof in accordance with the terms hereof.

7. **Effectiveness**. This Agreement shall become effective as of the date set forth on the first page hereof at such time as each of the following conditions is satisfied:

(a) **Representations**. The representations and warranties contained herein and in all other Loan Documents shall be true and correct as of the date hereof as if made on the date hereof.

(b) **Default**. No Default or Event of Default shall have occurred and be continuing.

(c) **This Agreement**. Agent shall have received counterparts of this Amendment, duly executed by Borrower and each Purchaser, and acknowledgment of this Agreement from each Guarantor.

(d) **Kurtz Loan**. Agent shall have received evidence that Richard Kurtz shall have made an additional subordinated loan to Borrower in the amount of not less than \$250,000 and Agent shall have received true and complete copies of all documents, instruments, and agreements evidencing or otherwise related to the additional subordinated loan from Richard Kurtz to Borrower.

(e) **Kurtz Documents**. Agent shall have received an amendment to that certain Subordination Agreement, dated as of December 10, 2013, among Borrower, Agent, and Richard Kurtz, in form and substance satisfactory to Agent. Agent shall have received an amendment to that certain Guaranty Agreement, dated as of December 10, 2013, Richard Kurtz in favor of Agent, in form and substance satisfactory to Agent.

(f) **Corporate Documentation**. Agent shall have received (i) a secretary certificate certifying the resolutions of the board of directors of Borrower authorizing the execution of this Amendment and the Amendment No. 1 and (ii) an opinion of counsel for the Borrower in form and substance satisfactory to Agent with respect to this Amendment and Amendment No. 1

(g) **Fees and Expenses**. Agent shall have received reimbursement for all outstanding fees and expenses of the Agent.

8. **Further Assurances**. The Borrower will execute such additional documents as are reasonably requested by the Purchasers to reflect the terms and conditions of this Amendment and will cause to be delivered such agreements, certificates, legal opinions and other documents as are reasonably required by the Purchasers.

9. **Counterparts/Telecopy**. This Amendment may be executed by the parties hereto in several counterparts, each of which shall be deemed to be original and all of which shall constitute together but one and the same agreement. Delivery of executed counterparts of this Amendment by telecopy shall be effective as an original and shall constitute a representation that an original shall be delivered.

10. **Governing Law/Consent to Jurisdiction/Waiver of Jury Trial**. **THIS AMENDMENT SHALL BE DEEMED TO BE A CONTRACT MADE UNDER AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF NEW YORK AND THE PARTIES HERETO HEREBY CONSENT TO THE JURISDICTION OF THE COURTS OF THE STATE OF NEW YORK SITTING IN NEW YORK COUNTY AND OF THE UNITED**

STATES DISTRICT COURT OF THE 2ND CIRCUIT, AND ANY APPELLATE COURT FROM ANY THEREOF, IN ANY ACTION BROUGHT TO ENFORCE ANY RIGHTS UNDER THIS AGREEMENT AND ANY RELATED DOCUMENT OR INSTRUMENT. EACH OF THE PARTIES HERETO HEREBY WAIVES THE RIGHT TO TRIAL BY JURY IN ANY ACTION, SUIT, COUNTERCLAIM OR PROCEEDING ARISING OUT OF OR RELATED TO THIS AMENDMENT .

11. Survival. All warranties, representations and covenants made by Borrower herein, or in any agreement referred to herein or in any certificate, document or other instrument delivered by it or on its behalf under this Amendment, shall be considered to have been relied upon by the Purchasers. All statements in any such certificate or other instrument shall constitute warranties and representations by Borrower hereunder. All warranties, representations, and covenants made by Borrower hereunder or under any other agreement or instrument shall be deemed continuing until the payment in full, in cash, and indefeasible satisfaction of all obligations and any other obligations of Purchasers and any commitment of Purchasers to extend credit to Borrower shall have been irrevocably terminated.

[Signatures are on the following page]

IN WITNESS WHEREOF, the Borrower and the other parties listed below have caused this Amendment to be duly executed as of the day and year first above written.

BORROWER:

LAPOLLA INDUSTRIES, INC.

By: /s/ Michael T. Adams, EVP
Michael T. Adams, Executive Vice President

AS AGENT FOR PURCHASER AND AS PURCHASER:

ENHANCED CREDIT SUPPORTED LOAN FUND, LP
By: Enhanced CSLF GP, LLC, its general partner

By: /s/ Douglas Cruishank
Name: Douglas Cruikshank
Title: Manager

PURCHASER:

ENHANCED JOBS FOR TEXAS FUND, LLC

By: /s/ Michael A.G. Korengold
Name: Michael A.G. Korengold
Title: President and CEO

RATIFICATION, ACKNOWLEDGMENT AND CONSENT OF GUARANTORS

Each of the undersigned Guarantors hereby (i) acknowledges that such Guarantor has read the preceding Amendment No. 2 to Note Purchase Agreement (the "Second Amendment") dated as of November 14, 2014 between LaPolla Industries, Inc., Enhanced Credit Supported Loan Fund, LP, and the other parties thereto.; (ii) reaffirms and ratifies such Guarantor's obligations under Guarantor's Guaranty made by such Guarantor as of December 10, 2013 to and for the benefit of Agent (as defined therein) (together with all amendments, supplements, exhibits and modifications thereto, each a "Guaranty") , and (iii) acknowledges that Guarantor's obligations pursuant to the Guaranty are enforceable without defense, offset or counterclaim.

IN WITNESS WHEREOF, each Guarantor hereby executes this instrument as of November 14, 2014.

FOREST HILL TERRACE ASSOCIATES, L.P.

BY: FOREST HILL TERRACE ASSOCIATES, GP, LLC, its General Partner

By /s/ Richard J. Kurtz
Name: Richard J. Kurtz
Title:

FOREST HILL TERRACE ASSOCIATES, GP, LLC

By /s/ Richard J. Kurtz
Name: Richard J. Kurtz
Title:

Richard J. Kurtz

/s/ Richard J. Kurtz

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Douglas J. Kramer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lapolla Industries, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 17, 2014

LAPOLLA INDUSTRIES, INC.

/s/ Douglas J. Kramer, CEO

Douglas J. Kramer
Principal Executive Officer

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Charles A. Zajackowski, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lapolla Industries, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 17, 2014

LAPOLLA INDUSTRIES, INC.

/s/ Charles A. Zajackowski, CFO

Charles A. Zajackowski
Principal Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The following certifications are being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350 and in accordance with SEC Release No. 33-8238. These certifications shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, nor shall they be incorporated by reference in any filing of the Company under the Securities Act of 1933, as amended, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Certification of Principal Executive Officer

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Lapolla Industries, Inc., a Delaware corporation (the “Company”), hereby certifies, to his knowledge, that:

- (i) the accompanying Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2014 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 17, 2014

LAPOLLA INDUSTRIES, INC.

/s/ Douglas J. Kramer, CEO

Douglas J. Kramer
Principal Executive Officer

A signed original of this written statement required by Section 906 has been provided to Lapolla Industries, Inc. and will be retained by Lapolla Industries, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Certification of Principal Financial Officer

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Lapolla Industries, Inc., a Delaware corporation (the “Company”), hereby certifies, to his knowledge, that:

- (i) the accompanying Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2013 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 17, 2014

LAPOLLA INDUSTRIES, INC.

/s/ Charles A. Zajackowski, CFO

Charles A. Zajackowski
Principal Financial Officer

A signed original of this written statement required by Section 906 has been provided to Lapolla Industries, Inc. and will be retained by Lapolla Industries, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.