

LAPOLLA INDUSTRIES INC

FORM 10-Q (Quarterly Report)

Filed 11/12/15 for the Period Ending 09/30/15

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, 2015

OR

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

For the transition period from _____ to _____

Commission File No. 001-31354



Lapolla Industries, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

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, including area code)

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES 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, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

The number of shares outstanding of the issuer's common stock, par value \$0.01 per share, as of November 6, 2015, was 121,882,122.

LAPOLLA INDUSTRIES, INC.
FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2015
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PART I — FINANCIAL INFORMATION

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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, 2015</u>	<u>December 31, 2014</u>
Current Assets:		
Cash	\$ —	\$ —
Trade Receivables, Net	10,523,059	8,880,364
Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts	40,377	18,411
Inventories	5,986,394	5,268,025
Prepaid Expenses and Other Current Assets	487,036	1,149,279
Total Current Assets	<u>17,036,866</u>	<u>15,316,079</u>
Property, Plant and Equipment	1,156,903	1,364,613
Other Assets:		
Goodwill	4,234,828	4,234,828
Other Intangible Assets, Net	1,216,937	1,183,452
Deposits and Other Non-Current Assets, Net	286,998	399,083
Total Other Assets	<u>5,738,763</u>	<u>5,817,363</u>
Total Assets	<u>\$ 23,932,532</u>	<u>\$ 22,498,055</u>
<i>Liabilities and Stockholders' Equity</i>		
Current Liabilities:		
Accounts Payable	\$ 6,614,928	\$ 6,985,373
Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts	124,582	—
Accrued Expenses and Other Current Liabilities	2,180,004	1,758,660
Total Current Liabilities	<u>8,919,514</u>	<u>8,744,033</u>
Other Liabilities:		
Non-Current Portion of Revolver Loan	5,526,097	5,435,005
Non-Current Portion of Note Payable – New Enhanced Note	7,539,026	7,157,852
Non-Current Portion of Note Payable – Related Party	500,000	250,000
Accrued Interest – Note Payable – Related Party	32,772	3,173
Deferred Tax Liability	273,450	—
Total Other Liabilities	<u>13,871,345</u>	<u>12,846,030</u>
Total Liabilities	<u>22,790,859</u>	<u>21,590,063</u>
Stockholders' Equity:		
Common Stock, \$.01 Par Value; 140,000,000 Shares Authorized; 121,770,383 and 119,839,566 Issued and Outstanding for September 30, 2015 and December 31, 2014, respectively.	1,217,704	1,198,396
Additional Paid-In Capital	91,536,495	89,989,110
Accumulated Deficit	(91,489,615)	(90,156,603)
Accumulated Other Comprehensive Loss	(122,911)	(122,911)
Total Stockholders' Equity	<u>1,141,673</u>	<u>907,992</u>
Total Liabilities and Stockholders' Equity	<u>\$ 23,932,532</u>	<u>\$ 22,498,055</u>

The Accompanying Notes are an Integral Part of the Condensed Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Sales	\$ 20,181,747	\$ 17,874,308	\$ 57,218,565	\$ 52,661,376
Cost of Sales	15,340,095	14,588,682	44,351,544	42,437,341
Gross Profit	4,841,652	3,285,626	12,867,021	10,224,035
Operating Expenses:				
Selling, General and Administrative	3,391,061	3,341,230	10,471,712	9,774,425
Professional Fees	335,126	129,295	941,822	485,243
Depreciation	35,244	42,216	108,070	126,995
Amortization of Other Intangible Assets	59,904	78,653	191,400	212,428
Consulting Fees	139,764	130,309	499,187	365,072
Total Operating Expenses	3,961,099	3,721,703	12,212,191	10,964,163
Operating Income (Loss)	880,553	(436,077)	654,830	(740,128)
Other (Income) Expense:				
Interest Expense	334,721	306,505	994,984	879,052
Interest Expense – Related Party	195,970	203,877	579,233	604,298
Interest Expense – Amortization of Discount	45,623	46,007	135,715	136,512
Other, Net	(2,400)	21,893	4,460	(31,725)
Total Other (Income) Expense	573,914	578,282	1,714,392	1,588,137
Income (Loss) Before Income Taxes	306,639	(1,014,359)	(1,059,562)	(2,328,265)
Income Tax Expense	91,150	—	273,450	—
Net Income (Loss)	\$ 215,489	\$ (1,014,359)	\$ (1,333,012)	\$ (2,328,265)
Net (Loss) Per Share – Basic	\$ 0.00	\$ (0.01)	\$ (0.01)	\$ (0.02)
Weighted Average Shares Outstanding	121,556,074	115,204,510	121,076,103	114,821,758
Net (Loss) Per Share – Diluted	\$ 0.00	\$ (0.01)	\$ (0.01)	\$ (0.02)
Weighted Average Shares Outstanding	121,558,306	115,204,510	121,076,103	114,821,758

The Accompanying Notes are an Integral Part of the Condensed Financial Statements

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

	Nine Months Ended September 30,	
	2015	2014
<i>Cash Flows From Operating Activities</i>		
Net Loss	\$ (1,333,012)	\$ (2,328,265)
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities:		
Depreciation	267,748	300,619
Amortization of Other Intangible Assets	191,400	212,428
Provision for Losses on Accounts Receivable	245,451	603,796
Share Based Compensation Expense	1,017,062	583,844
Interest Expense – Related Party	579,233	604,298
Interest Expense – Enhanced Notes PIK	245,459	207,809
Interest Expense – Amortization of Discount	135,715	136,512
Loss on Foreign Currency Exchange	50,841	46,391
Gain on Disposal of Assets	(3,709)	(4,052)
Deferred Income Tax Provision	273,450	—
Changes in Assets and Liabilities:		
Trade Receivables	(1,943,336)	(1,821,303)
Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts	(21,966)	(226,033)
Inventories	(718,369)	1,304,923
Prepaid Expenses and Other Current Assets	662,243	621,612
Other Intangible Assets	(224,885)	(225,108)
Deposits and Other Non-Current Assets	112,085	236,826
Accounts Payable	(366,099)	(699,221)
Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts	124,582	—
Accrued Expenses and Other Current Liabilities	421,344	(299,916)
Net Cash Used in Operating Activities	<u>\$ (284,763)</u>	<u>\$ (744,840)</u>
<i>Cash Flows From Investing Activities</i>		
Additions to Property, Plant and Equipment	(56,329)	(206,427)
Proceeds from Disposal of Property, Plant and Equipment	—	53,000
Net Cash Used in Investing Activities	<u>\$ (56,329)</u>	<u>\$ (153,427)</u>
<i>Cash Flows From Financing Activities</i>		
Proceeds from Revolver Loan	58,771,663	54,567,575
Principal Repayments to Revolver Loan	(58,680,571)	(53,664,709)
Proceeds from Note Payable – Related Party	250,000	—
Principal Repayments on Long Term Debt	—	(4,599)
Net Cash Provided by Financing Activities	<u>341,092</u>	<u>898,267</u>
<i>Net Effect of Exchange Rate Changes on Cash</i>	—	—
<i>Net Change In Cash</i>	—	—
<i>Cash at Beginning of Period</i>	—	—
<i>Cash at End of Period</i>	<u>\$ —</u>	<u>\$ —</u>
<i>Supplemental Disclosure of Cash Flow Information:</i>		
Cash Payments for Income Taxes	\$ —	\$ —
Cash Payments for Interest	899,747	790,575
<i>Supplemental Schedule of Non Cash Investing and Financing Activities:</i>		
Issuances of Common Stock for Guarantee by Related Party classified as Interest Expense	\$ 916,056	\$ 916,056

The Accompanying Notes are an Integral Part of the Condensed 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 generally accepted accounting principles ("GAAP") in the United States have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission ("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.

These unaudited condensed financial statements should be read in conjunction with the risk factors and the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, which was filed with the SEC on March 31, 2015, 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. The Company's critical accounting policies were described in Note 1 to the audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. There have been no significant changes in the Company's accounting policies during the nine months ended September 30, 2015. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and reported amounts of revenue and expenses. Actual results could differ from these estimates.

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 \$25.2 million and \$23.5 million at September 30, 2015 and December 31, 2014, respectively. The Company recorded a valuation allowance against the deferred tax asset of \$24.8 million and \$23.5 million at September 30, 2015 and December 31, 2014, respectively, reducing its net carrying value to approximately \$350,000. 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, 2015 and December 31, 2014. Unrecognized tax benefits are not expected to increase or decrease within the next twelve months.

Note 2. Recent Accounting Pronouncements.

Recently Adopted Accounting Standards

In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-08, "*Presentation of Financial Statements and Property, Plant, and Equipment - Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*," which amends the definition of a discontinued operation by raising the threshold for a disposal to qualify as discontinued operations. The ASU will also require entities to provide additional disclosures about discontinued operations as well as disposal transactions that do not meet the discontinued operations criteria. 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 adopted the provisions of the guidance in the first quarter of 2015. The adoption did not have a material impact on the Company's financial statements.

In June 2014, the FASB issued ASU No. 2014-12, "*Compensation — Stock Compensation: Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period* ." The standard requires that a performance target that affects vesting of share-based payments and that could be achieved after the requisite service period be treated as a performance condition that affects vesting and as such, should not be reflected in estimating the grant-date fair value of the award. The standard is effective for annual and interim periods beginning after December 15, 2015. The Company adopted the provisions of the guidance in the first quarter of 2015. The adoption did not have a material impact on the Company's financial statements.

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, 2017, 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 Company's financial statements and related disclosures.

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

Note 2. Recent Accounting Pronouncements - continued.

New Accounting Standards Not Yet Adopted - continued

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 that is 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 Company’s financial statements and related disclosures.

In January 2015, the FASB issued ASU No. 2015-01, “ *Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items.*” This ASU eliminates from GAAP the concept of extraordinary items and the need for an entity to separately classify, present, and disclose extraordinary events and transactions, while retaining certain presentation and disclosure guidance for items that are unusual in nature or occur infrequently. The pronouncement is effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period and may be applied retrospectively, with early application permitted. The Company is currently evaluating the impact the pronouncement will have on the Company’s financial statements and related disclosures.

In April 2015, the FASB issued ASU No. 2015-03, “ *Simplifying the Presentation of Debt Issuance Costs .*” The accounting guidance requires that debt issuance costs related to a recognized debt liability be reported on the Statements of Financial Condition as a direct deduction from the carrying amount of that debt liability. The pronouncement is effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period, with early application permitted for financial statements that have not been previously issued. The Company is currently evaluating the impact the pronouncement will have on the Company’s financial statements and related disclosures.

In April 2015, the FASB issued ASU 2015-05, “ *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement .*” which provides guidance about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. This ASU is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015, and early adoption is permitted. The Company is currently evaluating the impact the pronouncement will have on the Company’s financial statements and related disclosures.

In July 2015, the FASB issued ASU 2015-11, “ *Inventory (Topic 330): Simplifying the Measurement of Inventory .*” which applies to inventory that is measured using first-in, first-out (“FIFO”) or average cost. Under the updated guidance, an entity should measure inventory that is within scope at the lower of cost and net realizable value, which is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. Subsequent measurement is unchanged for inventory that is measured using last-in, last-out (“LIFO”). This ASU is effective for annual and interim periods beginning after December 15, 2016, and should be applied prospectively with early adoption permitted at the beginning of an interim or annual reporting period. The Company is currently evaluating the impact the pronouncement will have on the Company’s financial statements and related disclosures.

In September 2015, the FASB issued ASU 2015-16, “ *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments .*” which eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. Acquirers would now recognize measurement-period adjustments during the period in which they determine the amount of the adjustment. This ASU is effective for annual and interim reporting periods beginning after December 15, 2015, including interim periods within those fiscal years, and should be applied prospectively to adjustments for provisional amounts that occur after the effective date with early adoption permitted for financial statements that have not been issued. The Company does not expect the adoption of this guidance to have a material impact on the consolidated financial statements.

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

Note 3. Liquidity.

The Company had an accumulated deficit of \$91,489,615 on September 30, 2015, had a net loss of \$1,333,012 during the nine months ended September 30, 2015, and used \$284,763 of cash in operating activities during the nine months ended September 30, 2015. As a result, there are concerns about the liquidity of the Company at September 30, 2015. The Company has a working capital surplus of \$8,117,352. Management believes any cash generated from operations and the cash available under the Revolver Loan (defined in Note 12(a)), subject to borrowing base limitations, 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 4. 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 period ended September 30, 2015 and 2014, raw materials and finished goods purchased from the three largest suppliers accounted for approximately 34% and 37%, and 41% and 45%, of purchases, respectively.

Note 5. Trade Receivables.

Trade receivables are comprised of the following at:

	September 30, 2015	December 31, 2014
Trade Receivables	\$ 11,057,166	\$ 9,497,247
Less: Allowance for Doubtful Accounts	(534,107)	(616,883)
Trade Receivables, Net	<u>\$ 10,523,059</u>	<u>\$ 8,880,364</u>

Note 6. Costs and Estimated Earnings on Uncompleted Contracts.

The following is a summary of contracts in progress at:

	September 30, 2015	December 31, 2014
Costs Incurred on Uncompleted Contracts	\$ 770,835	\$ 964,121
Estimated Earnings on Uncompleted Contracts	208,595	246,471
	979,430	1,210,592
Billings to Date	(1,063,635)	(1,192,181)
	<u>\$ (84,205)</u>	<u>\$ 18,411</u>

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

	September 30, 2015	December 31, 2014
Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts	\$ 40,377	\$ 18,411
Billing in Excess of Costs and Estimated Earnings on Uncompleted Contracts	(124,582)	—
	<u>\$ (84,205)</u>	<u>\$ 18,411</u>

Note 7. Inventories.

The following is a summary of inventories at:

	September 30, 2015	December 31, 2014
Raw Materials	\$ 1,277,238	\$ 1,461,040
Finished Goods	4,709,156	3,806,985
Total Inventories	<u>\$ 5,986,394</u>	<u>\$ 5,268,025</u>

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

Note 8. Prepaid Expenses and Other Current Assets.

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

	September 30, 2015	December 31, 2014
Prepaid Insurances	\$ 155,620	\$ 568,088
Prepaid Marketing	81,615	172,919
Prepaid Consulting	43,164	60,266
Prepaid Other	206,637	348,006
Total Prepaid Expenses and Other Current Assets	<u>\$ 487,036</u>	<u>\$ 1,149,279</u>

Note 9. Property, Plant and Equipment.

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

	September 30, 2015	December 31, 2014
Vehicles	\$ 462,400	\$ 475,357
Leasehold Improvements	288,777	288,777
Office Furniture and Equipment	305,185	297,737
Computers and Software	939,055	897,102
Machinery and Equipment	2,505,644	2,503,062
Total Property, Plant and Equipment	<u>\$ 4,501,061</u>	<u>\$ 4,462,035</u>
Less: Accumulated Depreciation	<u>(3,344,158)</u>	<u>(3,097,422)</u>
Total Property, Plant and Equipment, Net	<u>\$ 1,156,903</u>	<u>\$ 1,364,613</u>

Note 10. Goodwill and Other Intangible Assets.

Goodwill

The following is a summary of Goodwill at:

	September 30, 2015	December 31, 2014
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

	September 30, 2015			December 31, 2014		
	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Product Formulation	\$ 138,471	\$ (97,699)	\$ 40,772	\$ 138,471	\$ (90,775)	\$ 47,696
Trade Names	750,186	(356,734)	393,452	750,186	(319,224)	430,962
Approvals and Certifications	2,076,996	(1,294,283)	782,713	1,835,013	(1,130,219)	704,794
	<u>\$2,965,653</u>	<u>\$ (1,748,716)</u>	<u>\$ 1,216,937</u>	<u>\$2,723,670</u>	<u>\$ (1,540,218)</u>	<u>\$ 1,183,452</u>

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

Note 11. Deposits and Other Non-Current Assets.

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

	September 30, 2015	December 31, 2014
Deferred Financing Fees	\$ 151,997	\$ 195,201
Prepaid Expenses	19,138	7,104
Other Receivables	52,278	43,193
Deposits	63,585	153,585
Total Deposits and Other Non-Current Assets	\$ 286,998	\$ 399,083

Note 12. Accrued Expenses and Other Current Liabilities.

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

	September 30, 2015	December 31, 2014
Accrued Payroll	\$ 56,939	\$ 206,364
Accrued Commissions	160,474	113,193
Accrued Inventory Purchases	634,624	108,016
Accrued Taxes and Other	1,293,272	818,544
Accrued Insurance	18,924	482,007
Deferred Finance Charge Income	15,771	30,536
Total Accrued Expenses and Other Current Liabilities	\$ 2,180,004	\$ 1,758,660

Note 13. Financing Instruments.

(a) Loan and Security Agreement . The Company entered into a Loan and Security Agreement with Bank of America, N.A., effective September 1, 2010 (“Loan Agreement”), as amended from time to time, under which Bank of America agreed to a \$13,000,000 revolver loan (“Revolver Loan”), which matures in accordance with the following events: the earliest to occur of (a) March 31, 2019, (b) 90 days prior to the maturity date of the New Enhanced Note (as defined in Note 13 – Financing Instruments, Item (b) Note Purchase Agreement, subsection (i) below), and (c) 90 days prior to the maturity date of the indebtedness evidenced and governed by any ‘Junior Note,’ as such term is defined in that certain Subordination Agreement, dated as of April 16, 2012, by and among Borrower, Richard J. Kurtz, and Lender, Bank of America, N.A. Based on the current maturity of the New Enhanced Note, the actual maturity date of the Loan Agreement is September 11, 2016. *See also* Note 18 – Subsequent Events, Item (b), for additional information. The Company granted Bank of America a continuing security interest in and lien upon all Company assets. 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 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) the amount outstanding under the revolver Loan may not exceed the Borrowing Base (calculation defined as an amount determined by a detailed calculation and includes an amount equal to 85% of eligible accounts receivable, plus 55% of eligible inventory); (iii) 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, and (iv) maintain minimum liquidity of \$500,000. The Company is required to submit its Borrowing Base calculation to Bank of America 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 future Borrowing Base calculations do not increase to an amount equal to the balance outstanding under the Revolver Loan, Bank of America, in its sole discretion, may accelerate any and all amounts outstanding under the Revolver Loan. At September 30, 2015 and December 31, 2014, the balance outstanding on the Revolver Loan was \$5,526,097 and \$5,435,005, and the weighted-average interest rate was 4.8% and 4.4%, respectively. Cash available under our Revolver Loan based on the borrowing base calculation at September 30, 2015 and 2014 was \$2,237,428 and \$1,077,892, respectively. At September 30, 2015, the Company was in compliance with all of its Loan Agreement debt covenants.

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

Note 13. Financing Instruments - continued.

(b) Note Purchase Agreement .

(i) New Enhanced Note . The Company entered into a Note Purchase Agreement with Enhanced Jobs for Texas Fund, LLC (“Enhanced Jobs”) and Enhanced Credit Supported Loan Fund, LP (“Enhanced Credit”), on December 10, 2013, authorizing the issuance of an aggregate of \$7.2 million in subordinated secured promissory notes maturing December 10, 2016 (“New Enhanced Note”), of which \$5.7 million was to Enhanced Credit and \$1.5 million was to Enhanced Jobs. Repayment of the \$7.2 million is required on the maturity date of December 10, 2016. *See also* Note 18 – Subsequent Events, Item (b), for additional information. 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 4.25% (which is added to the principal balance of the outstanding notes) to create the aggregate interest rate of 15%. The Company has the right to prepay the New Enhanced Note, subject to a prepayment premium equal to 3% for the first year or 2% for the second year. The Company also entered into a security agreement with the New Enhanced Note providing for a second lien on all assets of the Company after Bank of America, which has a first lien on all assets of the Company. 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 a fixed charge coverage ratio, 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 minimum ratio set forth in the schedule for such month, and (iv) maintain minimum liquidity of \$500,000. A purchase discount of \$542,886 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, 2015 and December 31, 2014, the balance outstanding on the New Enhanced Note was \$7,539,026 and \$7,157,852 and the effective interest rate was 23.6% and 23.6%, respectively. At September 30, 2015, the Company was in compliance with all of its New Enhanced Note debt covenants.

(ii) New Guaranty Agreement . In connection with the New Enhanced Note described in (i) above, the Chairman and majority stockholder of the Company (the “Guarantor”), entered into a Guaranty Agreement with Enhanced Credit, as agent for the New Enhanced Note, to secure the Company’s performance under the New Enhanced Note. The Company, in exchange for Guarantor’s personal guarantee of the obligations under the New Enhanced Note, granted Guarantor 3,681,000 shares of common stock, par value \$.01 per share, 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 \$0.60 per share, the closing price of the Company’s common stock as quoted on OTC Markets on the day preceding the closing date of December 10, 2013, for an aggregate amount of \$2,208,600. The New Guaranty Shares are being recorded as interest expense – related party, thereby increasing the effective interest rate of the New Enhanced Note. At September 30, 2015 and December 31, 2014, there were 2,214,640 and 1,298,584 New Guaranty Shares vested, valued and recorded at \$1,328,784 and \$779,151, respectively.

(c) Notes Payable – Related Party .

(i) November 14, 2014 Promissory Note . The Company entered into a \$250,000 promissory note with the Chairman of the Board, bearing interest at 8% per annum, and maturing June 10, 2017, which is subordinated to the Loan Agreement and the New Enhanced Note described in (a) and (b)(i) above. At September 30, 2015 and December 31, 2014, there was \$18,362 and \$4,773 outstanding in accrued and unpaid interest, respectively.

(ii) January 21, 2015 Promissory Note . The Company entered into a \$250,000 promissory note with the Chairman of the Board, bearing interest at 8% per annum, and maturing June 10, 2017, which is subordinated to the Loan Agreement and the New Enhanced Note described in (a) and (b)(i) above. At September 30, 2015, there was \$14,410 outstanding in accrued and unpaid interest. *Refer to* Note 13 – Related Party Transactions, Item (e), for more information.

(d) Future Minimum Principal Payments on Long-Term Debt

At September 30, 2015, future minimum principal payments of long-term debt are as follows:

	Payments Due By Period				Total
	Less Than 1 Year	1 to 3 Years	4 to 5 Years	More Than 5 Years	
Revolver Loan	\$ —	\$ 5,526,097	\$ —	\$ —	\$ 5,526,097
New Enhanced Note	—	7,539,026	—	—	7,539,026
Notes Payable – Related Party	—	500,000	—	—	500,000
Total	\$ —	\$ 13,565,123	\$ —	\$ —	\$ 13,565,123

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

Note 14. Related Party Transactions.

(a) On January 1, 2015, Jomarc C. Marukot and the Company entered into an Executive Employment Agreement, dated as of January 1, 2015 (the “Marukot Agreement”), pursuant to which Mr. Marukot shall serve as the Company’s CFO and Corporate Treasurer for a term commencing on January 1, 2015 and ending December 31, 2016 (the “Employment Term”). Pursuant to the Marukot Agreement, Mr. Marukot is entitled to: (i) an annual base salary of \$190,000; (ii) annual bonus equal to 25% of his annual base salary if the Company achieves its budgeted earnings before interest, taxes, depreciation, amortization, and share based compensation (“Adjusted EBITDA”) per calendar year, which annual bonus may be increased to 30%, 35%, or more than 35% in the CEO’s discretion, of his annual base salary if the Company achieves 110%, 120%, or more than 120%, respectively, of its budgeted Adjusted EBITDA; (iii) change in control bonus of 25% of his annual base salary upon consummation of a change in control if he is still employed at the time; (iv) medical, dental, life insurance, and disability benefits; (v) four months’ portion of his annual base salary for termination due to death or disability; (vi) four months’ portion of his annual base salary, awards and benefit plans and, if he would have received it had he remained employed for four months after his actual termination date, the change in control bonus in the event of termination without cause by the Company; and (vii) twelve months annual base salary if terminated within the first twelve months of the Employment Term or the remaining annual base salary if terminated after twelve months of his employment due to a change in control. Mr. Marukot is also entitled to earn awards under equity or other plans or programs that the Company, in its discretion, determines to put into effect and to participate in compensation and benefit programs offered by the Company to its executive officers. The Marukot Agreement also provides for a non-competition provision for the Employment Term and for a period of twelve months after the termination of Mr. Marukot’s employment.

(b) On January 16, 2015, the Company granted Douglas J. Kramer, CEO and President, the right to acquire 850,000 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 \$0.325 per share, which options were immediately vested and exercisable at the time of grant (“Kramer Option”). The Kramer Option was granted as final replacement for 2,000,000 stock options 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 an eight year life limitation under the Company’s Equity Incentive Plan, as amended (the “Equity Plan”), they were deemed canceled at the end of eight years. Moreover, the Equity Plan only permits the grant of a total of 2,000,000 stock options during any calendar year. Mr. Kramer had exceeded this limit during the 2014 year and as a result, the Company was only able to grant Mr. Kramer 1,150,000 stock options during the 2014 year as partial replacement for the 2,000,000 Prior Expired Options. The transaction was valued at \$86,147, which was estimated using the Black-Scholes option pricing model and expensed on the date of grant.

(c) On January 16, 2015, the Company granted an eight-year stock option to Michael T. Adams, CGO, EVP, and Corporate Secretary, for 300,000 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 closing price on such date, or \$0.325 per share (“Adams Option”). The Adams Option vests in three equal end of calendar year increments, subject to Mr. Adams meeting certain performance criteria, commencing on December 31, 2015 and ending December 31, 2017, or upon consummation of a change in control. Once vested, the stock options are immediately exercisable. The transaction was valued at \$93,536, which was estimated using the Black-Scholes option pricing model and will be expensed over the requisite vesting period.

(d) On January 23, 2015, the Company and Bank of America, N.A. entered into a Twelfth Amendment (the “Twelfth Amendment”) to the Loan Agreement. Pursuant to the Twelfth Amendment, certain definitions were changed and a new definition was added in the Loan Agreement as follows: (1) Fixed Charge Coverage Ratio was changed to the ratio, determined for any period on a consolidated basis for the Company, of (a) the sum of (i) EBITDA, (ii) Subordinated Debt incurred during such period on or after August 31, 2014 (other than the Twelfth Amendment Subordinated Debt), and (iii) up to \$267,000 in Accounts charged off by the Company 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 10, 2013, in an amount not exceeding \$150,000, and Distributions made, in each case determined for such period; (2) Revolver Termination Date was changed (extended) to March 31, 2016; and (3) Subordinated Debt was added defining Subordinated Debt loaned to the Company by Richard Kurtz in an amount at least equal to \$250,000, required as a condition to the effectiveness of the Twelfth Amendment. *Refer to* Item (e) below for more information on the Subordinated Debt.

(e) On January 21, 2015, the Company borrowed \$250,000 from the Chairman of the Board and majority stockholder as a condition precedent to entering into the Twelfth Amendment and entered into a promissory note (the “1/21/15 Kurtz Note”). Pursuant the 1/21/15 Kurtz Note, the Company agreed to pay 8% per annum on the principal balance of \$250,000 and repay the principle balance on June 10, 2017. The 1/21/15 Kurtz Note is subordinated to the Loan Agreement and New Enhanced Note. *See also* Item (d) above.

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

Note 14. Related Party Transactions - continued.

(f) On March 23, 2015, the Company granted an eight-year stock option to Harvey L. Schnitzer, COO, for 300,000 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 closing price on such date, or \$0.41 per share ("Schnitzer Option"). The Schnitzer Option vests in three equal end of calendar year increments, subject to Mr. Schnitzer meeting certain performance criteria, commencing on December 31, 2015 and ending December 31, 2017, or upon consummation of a change in control. Once vested, the stock options are immediately exercisable. The transaction was valued at \$118,122, which was estimated using the Black-Scholes option pricing model and will be expensed over the requisite vesting period.

(g) During the three and nine months ended September 30, 2015, the Company issued an aggregate of 22,905 and 1,014,762 shares of restricted common stock pursuant to the anti-dilution provisions in an agreement with the Vice Chairman, Jay C. Nadel, for advisory and consulting services, which transactions were valued and recorded in the aggregate at \$7,330 and \$413,833, respectively.

(h) During the three and nine months ended September 30, 2015, the Company vested an aggregate of 308,707 and 916,056 shares of restricted common stock as New Guaranty Shares, issued to the Chairman of the Board and majority stockholder in connection with his personal guarantees relating to the New Enhanced Note, which transactions were valued and recorded in the aggregate at \$185,224 and \$549,633, respectively, and classified as interest expense – related party.

See also Note 18 - Subsequent Events for more information.

Note 15. 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 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 only in periods in which such effect would have been dilutive. The computation of the Company's basic and diluted earnings per share at:

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2015	2014	2015	2014
Net loss available to common shareholders (A)	\$ 215,489	\$ (1,014,359)	\$ (1,333,012)	\$ (2,328,265)
Weighted average common shares outstanding (B)	121,556,074	115,204,510	121,076,103	114,821,758
Dilutive effect of equity incentive plans	—	350,000	—	350,000
Weighted average common shares outstanding, assuming dilution (C)	121,558,306	115,487,651	121,076,103	114,821,758
Basic earnings per common share (A)/(B)	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.02)
Diluted earnings per common share (A)/(C)	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.02)

For the three and nine months ended September 30, 2015, a total of 4,459,167 shares of common stock underlying vested and exercisable stock options were excluded from the calculation of diluted earnings per common share as the exercise prices of the stock options were greater than the market value of the common shares (out-of-the-money).

For the three and nine months ended September 30, 2014, a total of 2,110,000 shares of common stock underlying vested and exercisable stock options were excluded from the calculation of diluted earnings per common share as the exercise prices of the stock options were out-of-the-money. Out-of-the money options could be included in the calculation in the future if the market value of the Company's common shares increases and is greater than their exercise price.

Note 16. Securities Transactions.

(a) During the three and nine months ended September 30, 2015, the Company issued an aggregate of 22,905 and 1,014,762 shares of restricted common stock pursuant to the anti-dilution provisions in an agreement with the Vice Chairman, Jay C. Nadel, for advisory and consulting services, which transactions were valued and recorded in the aggregate at \$7,330 and \$413,833, respectively.

(b) During the three and nine months ended September 30, 2015, the Company vested an aggregate of 308,707 and 916,056 shares of restricted common stock as New Guaranty Shares, issued to the Chairman of the Board and majority stockholder in connection with his personal guarantees relating to the New Enhanced Note, which transactions were valued and recorded in the aggregate at \$185,224 and \$549,633, respectively, and classified as interest expense – related party.

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

Note 17. Business Segment and Geographic Area 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,					
	2015			2014		
	Foam	Coatings	Totals	Foam	Coatings	Totals
Sales	\$ 16,288,731	\$ 3,893,016	\$ 20,181,747	\$ 15,381,003	\$ 2,493,305	\$ 17,874,308
Depreciation	25,601	6,119	31,720	32,695	5,300	37,995
Amortization of Other Intangible Assets	43,514	10,400	53,914	60,913	9,874	70,787
Interest Expense	232,572	55,585	288,157	239,389	38,806	278,195
Segment Profit	\$ 1,175,750	\$ 631,039	\$ 1,806,789	\$ 90,515	\$ 204,844	\$ 295,359
Segment Assets ⁽¹⁾	18,748,172	4,964,378	23,712,550	17,350,894	3,575,856	20,926,750
Expenditures for Segment Assets	\$ 28,004	\$ 6,693	\$ 34,697	\$ —	\$ —	\$ —

Business Segments - continued

	Nine Months Ended September 30,					
	2015			2014		
	Foam	Coatings	Totals	Foam	Coatings	Totals
Sales	\$ 47,448,483	\$ 9,770,082	\$ 57,218,565	\$ 45,554,927	\$ 7,106,449	\$ 52,661,376
Depreciation	80,655	16,608	97,263	98,872	15,424	114,296
Amortization of Other Intangible Assets	142,847	29,413	172,260	165,385	25,800	191,185
Interest Expense	708,981	145,986	854,967	700,634	109,297	809,931
Segment Profit	\$ 2,520,144	\$ 1,363,013	\$ 3,883,157	\$ 911,939	\$ 728,586	\$ 1,640,525
Segment Assets ⁽¹⁾	19,152,606	4,559,944	23,712,550	17,420,376	3,506,374	20,926,750
Expenditures for Segment Assets	\$ 46,711	\$ 9,618	\$ 56,329	\$ 178,570	\$ 27,857	\$ 206,427

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

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2015	2014	2015	2014
Profit or Loss				
Total Profit or Loss for Reportable Segments	\$ 1,806,789	\$ 295,359	\$ 3,883,157	\$ 1,640,525
Unallocated Amounts:				
Corporate Expenses	(1,500,150)	(1,309,718)	(4,942,719)	(3,968,790)
Income (Loss) Before Income Taxes	\$ 306,639	\$ (1,014,359)	\$ (1,059,562)	\$ (2,328,265)
Assets				
Total Assets for Reportable Segments ⁽¹⁾		\$ 23,712,550		\$ 22,142,505
Other Unallocated Amounts ⁽²⁾		179,605		355,550
Consolidated Total		\$ 23,892,155		\$ 22,498,055

⁽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 17. Business Segment and Geographic Area 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,									
	2015					2014				
	United States	Europe	Middle East	Rest of World	Total	United States	Europe	Middle East	Rest of World	Total
Sales	\$ 19,133,090	\$ 629,342	\$ —	\$ 419,315	\$ 20,181,747	\$ 16,587,261	\$ 705,906	\$ —	\$ 580,710	\$ 17,874,308
Long-Lived Assets	23,712,550	—	—	—	23,712,550	20,926,750	—	—	—	20,926,750

	Nine Months Ended September 30,									
	2015					2014				
	United States	Europe	Middle East	Rest of World	Total	United States	Europe	Middle East	Rest of World	Total
Sales	\$ 53,716,511	\$ 1,709,039	\$ —	\$ 1,793,015	\$ 57,218,565	\$ 48,843,085	\$ 1,701,042	\$ 660,000	\$ 1,457,249	\$ 52,661,376
Long-Lived Assets	23,712,550	—	—	—	23,712,550	20,926,750	—	—	—	20,926,750

Note 18. Subsequent Events.

(a) On October 21, 2015, the Company entered into an amendment ("Kramer Amendment") to the Executive Employment Agreement, effective as of January 1, 2014 with its chief executive officer and president, Douglas J. Kramer ("Kramer Agreement"), in order to change the existing definition of "EBITDA," as provided in the annual performance bonus provisions of the Kramer Agreement, to the definition of "Adjusted EBITDA" as contained in all other executive officers' annual bonus provisions adopted by the Company after the effective date of the Kramer Agreement.

(b) On November 12, 2015, pursuant to a commitment letter, effective as of October 31, 2015 (the "Commitment Letter"), Richard J. Kurtz, the chairman of the board of directors and principal stockholder of the Company, committed to provide the Company with funding to pay off the aggregate amount of \$7.2 million, plus any accrued and unpaid interest (including, but not limited to, PIK interest) (the "Obligations"), outstanding with respect to the subordinated secured promissory notes issued by the Company in favor of Enhanced Jobs for Texas Fund, LLC and Enhanced Credit Supported Loan Fund, LP (the "Enhanced Notes") pursuant to that certain Note Purchase Agreement dated December 10, 2013, as amended, between Enhanced Jobs for Texas Fund, LLC, and Enhanced Credit Supported Loan Fund, LP (collectively, the "Enhanced Parties"), and the Company, of which \$2 million will be paid on or before April 30, 2016 (the "Commitment"). As consideration for the Commitment, on November 12, 2015, the Company granted Mr. Kurtz an option to purchase 500,000 shares of the Company's common stock, \$0.01 par value per share, with (i) 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 \$0.294 per share, (ii) a term of eight (8) years and (iii) 100% of the stock option vesting and becoming immediately exercisable on the date of grant. The transaction was valued at approximately \$47,121, which was estimated using the Black-Scholes option pricing model and fully expensed on the date of grant. Pursuant to the Commitment Letter, the Commitment will be superseded and become null and void in the event and to the extent that, at or before the time the Commitment is due, the Obligations are repaid in full in immediately available cash on or prior to August 31, 2016.

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

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying condensed interim financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q and with our Annual Report on Form 10-K for the year ended December 31, 2014, which was filed with the Securities and Exchange Commission ("SEC") on March 31, 2015.

Unless the context requires otherwise, references in this Quarterly Report on Form 10-Q to the "Company," "Lapolla," "we," "our" and "us" refer to Lapolla Industries, Inc.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains "forward-looking statements," which include information relating to future events, future financial performance, financial projections, strategies, expectations, competitive environment and regulation. Words such as "may," "should," "could," "would," "predicts," "potential," "continue," "expects," "anticipates," "future," "intends," "plans," "believes," "estimates," and similar expressions, as well as statements in future tense, identify forward-looking statements. Forward-looking statements should not be read as a guarantee of future performance or results and may not be accurate indications of when such performance or results will be achieved. Forward-looking statements are based on information we have when those statements are made or management's good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause such differences include, but are not limited to:

- General economic conditions and their effect on demand for foams and coatings, particularly in the commercial construction and insulation markets, but also in the energy savings industries.
- The effects of fluctuations in sales on our business, revenues, expenses, net income, earnings per share, margins and profitability.
- The fact that many of our competitors are better established and have significantly greater resources, and may subsidize their competitive offerings with other products and services, which may make it difficult for us to attract and retain customers.
- Our dependence on a few large suppliers for a large portion of our materials required for production and sales of our products, any change in the availability of which could have a significant impact on our results of operations.
- The potential loss or departure of key personnel, including Richard J. Kurtz, our chairman of the board and majority stockholder.
- Our ability to generate internal growth, maintain market acceptance of our existing products and gain acceptance for our new products.
- Unanticipated increases in raw material prices or disruptions in supply, which could increase production costs and adversely affect our profitability.
- Restrictive loan covenants and/or our ability to repay or refinance debt under our credit facilities, which could limit our future financing options and liquidity position and may limit our ability to grow our business.
- Operating margin risk due to competitive pricing and operating efficiencies, supply chain risk, material, labor or overhead cost increases, interest rate risk and commodity risk.
- The impact of geopolitical activity on the economy, changes in government regulations such as income taxes, climate control initiatives, the timing or strength of an economic recovery in our markets and our ability to access capital markets.
- The fact that our chairman controls a majority of our combined voting power, and may have, or may develop in the future, interests that may diverge from those of other stockholders.
- Future sales of large blocks of our common stock, which may adversely impact our stock price.
- The liquidity and trading volume of our common stock.

The foregoing does not represent an exhaustive list of matters that may be covered by the forward-looking statements contained herein or risk factors that we are faced with that may cause our actual results to differ from those anticipated in our forward-looking statements. Moreover, new risks regularly emerge and it is not possible for us to predict or articulate all risks we face, nor can we assess the impact of all risks on our business or the extent to which any risk, or combination of risks, may cause actual results to differ from those contained in any forward-looking statements. Except to the extent required by applicable laws or rules, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. You should review carefully the risks and uncertainties described under the heading "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2014 for a discussion of the foregoing and other risks that relate to our business and investing in shares of our common stock.

Overview

Lapolla is a leading United States based manufacturer and global distributor of foam, coatings, and equipment, focused on developing and commercializing foams and coatings targeted at commercial and industrial and residential applications in the insulation and construction industries. We are headquartered in Houston, Texas and operate from one additional location in Englewood Cliffs, New Jersey for sales.

We operate our business on the basis of two reportable segments — Foam and Coatings. The Foam segment involves producing, and in limited instances applying through subcontractors, building envelope insulation foam for interior application, and roofing systems. The Coatings segment involves producing protective elastomeric coatings and primers. Both segments include supplying equipment and related ancillary items used in application of our products.

This financial review presents our operating results for the three and six months ended September 30, 2015 and 2014, and our financial condition at September 30, 2015.

Non-GAAP Financial Measures

To supplement our 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.

EBITDA

We define EBITDA as net income or loss before interest, income taxes, depreciation and amortization of other intangible assets.

Adjusted EBITDA

Adjusted EBITDA is defined as EBITDA increased by total share based compensation included in net income or loss.

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.

We recognize that the usefulness of EBITDA and Adjusted EBITDA as an evaluative tool may have certain limitations, including:

- EBITDA and Adjusted EBITDA do not include interest expense. Because we have borrowed money in order to finance our operations, interest expense is a necessary element of our costs and impacts our ability to generate profits and cash flows. Therefore, any measure that excludes interest expense may have material limitations;
- EBITDA and Adjusted EBITDA do not include depreciation and amortization of other intangible assets expense. Because we use capital assets, depreciation and amortization of other intangible assets expense is a necessary element of our costs and ability to generate profits. Therefore, any measure that excludes depreciation and amortization of other intangible assets expense may have material limitations;
- EBITDA and Adjusted EBITDA do not include provision for income taxes. Because the payment of income taxes is a necessary element of our costs, any measure that excludes income tax expense may have material limitations;
- EBITDA and Adjusted EBITDA do not reflect capital expenditures or future requirements for capital expenditures or contractual commitments;
- EBITDA and Adjusted EBITDA do not reflect changes in, or cash requirements for, working capital needs; and
- Adjusted EBITDA does not include share-based compensation expense.

Critical Accounting Policies

There have been no material changes to our critical accounting policies as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014.

Performance for the Three Months Ended September 30, 2015 compared to the Three Months Ended September 30, 2014

Results of Operations

The following table presents selected financial and operating data derived from the unaudited 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,	
	2015	2014
<i>Summary of Overall Results of Operations</i>		
Sales	\$ 20,181,747	\$ 17,874,308
Operating Income (Loss)	880,553	(436,077)
Other (Income) Expense	573,914	578,282
Net Income (Loss)	215,489	(1,014,359)
EBITDA	\$ 1,090,391	\$ (222,693)
Adjusted EBITDA	\$ 1,279,273	\$ (20,630)
<i>Reconciliation of EBITDA and Adjusted EBITDA to Net Loss:</i>		
Net Income (Loss):	\$ 215,489	\$ (1,014,359)
Additions / (Deductions):		
Interest Expense	334,721	306,505
Interest Expense – Related Party	195,970	203,877
Interest Expense – Amortization of Discount	45,623	46,007
Tax Expense (Benefit) ⁽¹⁾	150,499	59,929
Depreciation ⁽²⁾		
Amortization of Other Intangible Assets	59,904	78,653
EBITDA	\$ 1,090,391	\$ (222,693)
Additions / (Deductions):		
Share Based Compensation ⁽³⁾	188,882	202,063
Adjusted EBITDA	\$ 1,279,273	\$ (20,630)

⁽¹⁾ Represents amounts included in operating expenses and income tax expense.

⁽²⁾ Represents amounts included in cost of sales and operating expenses.

⁽³⁾ Represents non-cash share-based compensation expense for the periods then ended.

Sales

The following is a summary of sales for the three months ended September 30, 2015 and 2014:

	2015	2014	% Change
Foam	\$ 16,288,731	\$ 15,381,003	5.9%
Coatings	3,893,016	2,493,305	56.1%
Total Sales	\$ 20,181,747	\$ 17,874,308	12.9%

For the three months ended September 30, 2015, our total sales increased by \$2,307,439, or an increase of 12.9% from the same period in 2014. Foam sales increased \$907,728 primarily due to higher demand for our foams, which we believe is attributable to cost conscious residential and commercial building owners transitioning from traditional fiberglass insulation to energy efficient spray polyurethane foam. Coatings increased \$1,399,711 primarily due to the company focusing on higher margin coatings sales and the addition of sales representatives with significant coatings experience.

Gross Profit

The following is a summary of gross profit for the three months ended September 30, 2015 and 2014:

	2015	2014	% Change
Cost of Sales	\$ 15,340,095	\$ 14,588,682	5.2%
Gross Profit	\$ 4,841,652	\$ 3,285,626	47.4%
Gross Margin Percentage:			
Foam	22.3%	17.3%	28.9%
Coatings	31.2%	24.9%	25.3%
Total	24.0%	18.4%	30.4%

For the three months ended September 30, 2015, our gross profit increased by \$1,556,026, or an increase of 47.4% from the same period in 2014. The increase in gross profit was mainly due to operational and manufacturing efficiencies, resulting in an increase of \$947,500. Additionally, lower freight costs resulted in an increase in gross profit of \$218,974, with the remainder of the increase coming from the increase in sales.

Operating Expenses

Selling, general and administrative expenses (“SG&A”) increased \$49,831 or 1%, to \$3,391,061 for the three months ended September 30, 2015, compared to \$3,341,230 for the same period in 2014. The increase in SG&A was primarily due to increases of \$186,074 in sales commissions and \$143,289 in corporate office expenses, which were offset by a decrease in bad debt expense of \$234,473 and a combination of minimal fluctuations.

Professional fees increased \$205,831 or 159%, to \$335,126 for the three months ended September 30, 2015, compared to \$129,295 for the same period in 2014. The increase was primarily due to a nonstandard recovery of legal fees from our insurance companies during the three months ended September 30, 2014.

Depreciation expense decreased \$6,972 or 17%, to \$35,244 for the three months ended September 30, 2015, compared to \$42,216 for the same period in 2014, due to reductions in depreciable assets.

Amortization of other intangible assets expense decreased \$18,749 or 24%, to \$59,904 for the three months ended September 30, 2015, compared to 78,653 for the same period in 2014. The decrease is mainly due to a reduction in amortizable assets including customer lists and trade names.

Consulting fees remained relatively flat for the three months ended September 30, 2015, increasing \$9,455 to \$139,764, compared to \$130,309 for the same period in 2014.

Other (Income) Expense

Interest expense increased \$28,216 or 9%, to \$334,721 for the three months ended September 30, 2015, compared to \$306,505 for the same period in 2014, primarily due to a higher amount outstanding on our Note Purchase Agreement with Enhanced Jobs for Texas Fund, LLC and Enhanced Credit Supported Loan Fund, LP, dated December 10, 2013 (“New Enhanced Note”).

Interest expense – related party decreased \$7,907 or 4%, to \$195,970 for the three months ended September 30, 2015, compared to \$203,877 for the same period in 2014, due to a decrease in accrued interest for the promissory notes between the Company and the chairman and principal stockholder.

Interest expense – amortization of discount remained relatively flat for the three months ended September 30, 2015, decreasing \$384 to \$45,623, compared to \$46,007 for the same period in 2014. The amortization relates to the purchase discount associated with the New Enhanced Note.

Other income, net increased \$24,293 or 111%, to \$2,400 for the three months ended September 30, 2015, compared to a net expense of \$21,893 for the same period in 2014. The increase is primarily due to a more favorable currency conversion factor for our Canadian sales in 2015 than 2014.

Performance for the Nine Months Ended September 30, 2015 compared to the Nine Months Ended September 30, 2014

Results of Operations

The following table presents selected financial and operating data derived from the unaudited 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.

	Nine Months Ended September 30,	
	2015	2014
<i>Summary of Overall Results of Operations</i>		
Sales	\$ 57,218,565	\$ 52,661,376
Operating Income (Loss)	654,830	(740,128)
Other (Income) Expense	1,714,392	1,558,137
Net Loss	(1,333,012)	(2,328,265)
EBITDA	\$ 1,253,300	\$ (87,225)
Adjusted EBITDA	\$ 2,270,362	\$ 496,619
<i>Reconciliation of EBITDA and Adjusted EBITDA to Net Loss:</i>		
Net Loss:	\$ (1,333,012)	\$ (2,328,265)
Additions / (Deductions):		
Interest Expense	994,984	879,052
Interest Expense – Related Party	579,233	604,298
Interest Expense – Amortization of Discount	135,715	136,512
Tax Expense (Benefit) ⁽¹⁾	417,232	108,131
Depreciation ⁽²⁾	267,748	300,619
Amortization of Other Intangible Assets	191,400	212,428
EBITDA	\$ 1,253,300	\$ (87,225)
Additions / (Deductions):		
Share Based Compensation ⁽³⁾	1,017,062	583,844
Adjusted EBITDA	\$ 2,270,362	\$ 496,619

⁽¹⁾ Represents amounts included in operating expenses and income tax expense.

⁽²⁾ Represents amounts included in cost of sales and operating expenses.

⁽³⁾ Represents non-cash share-based compensation expense for the periods then ended.

Sales

The following is a summary of sales for the nine months ended September 30, 2015 and 2014:

	2015	2014	% Change
Foam	\$ 47,448,483	\$ 45,554,927	4.2%
Coatings	9,770,082	7,106,449	37.5%
Total Sales	\$ 57,218,565	\$ 52,661,376	8.7%

For the nine months ended September 30, 2015, our total sales increased by \$4,557,189, or an increase of 8.7% from the same period in 2014. Foam sales increased \$1,893,556 primarily due to higher demand for our foams, which we believe is attributable to cost conscious residential and commercial building owners transitioning from traditional fiberglass insulation to energy efficient spray polyurethane foam. Coatings sales increased \$2,663,633, or an increase of 37.5%, primarily due to the company focusing on higher margin coatings sales and the addition of sales representatives with significant coatings experience.

Gross Profit

The following is a summary of gross profit for the nine months ended September 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>	<u>% Change</u>
Cost of Sales	\$ 44,351,544	\$ 42,437,341	4.5%
Gross Profit	\$ 12,867,021	\$ 10,224,035	25.9%
Gross Margin Percentage:			
Foam	21.0%	18.3%	14.8%
Coatings	29.7%	26.6%	11.7%
Total	<u>22.5%</u>	<u>19.4%</u>	<u>16.0%</u>

For the nine months ended September 30, 2015, our gross profit increased by \$2,642,986, or an increase of 25.9% from the same period in 2014. The increase in gross profit was mainly due to operational and manufacturing efficiencies resulting in an increase of \$1,456,925. Additionally, decreased freight costs resulted in an increase in gross profit of \$249,836. Higher sales contributed \$884,763 in additional gross profit, with fluctuations in the remaining components of cost of sales being minimal.

Operating Expenses

Selling, general and administrative expenses (“SG&A”) increased \$697,287, or 7%, to \$10,471,712 for the nine months ended September 30, 2015, compared to \$9,774,425 for the same period in 2014. The increase in SG&A was primarily due to increases of \$416,916 in share-based compensation related to a consultant agreement, \$256,574 in sales commissions, and \$531,387 in corporate office expenses. These increases were offset by a decrease in bad debt expense of \$358,345 and a combination of minimal other fluctuations.

Professional fees increased \$456,579 or 94%, to \$941,822 for the nine months ended September 30, 2015, compared to \$485,243 for the same period in 2014. The increase was primarily due to a one time recovery of legal fees from our insurance companies and various settlements related to litigation during the nine months ended September 30, 2014.

Depreciation expense decreased \$18,925 or 15%, to \$108,070 for the nine months ended September 30, 2015, compared to \$126,995 for the same period in 2014, due to reductions in depreciable assets.

Amortization of other intangible assets expense decreased \$21,028 or 10%, to \$191,400 for the nine months ended September 30, 2015, compared to \$212,428 for the same period in 2014, due to a decrease in amortizable assets including customer lists and trade names.

Consulting fees increased \$134,115 or 37%, to \$499,187 for the nine months ended September 30, 2015, compared to \$365,072 for the same period in 2014, primarily due to an increase in the need for business consulting services related to recruiting employees for our Research and Development department and sales consulting for our rig manufacturing department.

Other (Income) Expense

Interest expense increased \$115,932 or 13%, to \$994,984 for the nine months ended September 30, 2015, compared to \$879,052 for the same period in 2014, primarily due to a higher amount outstanding on our Note Purchase Agreement with Enhanced Jobs for Texas Fund, LLC and Enhanced Credit Supported Loan Fund, LP, dated December 10, 2013 (“New Enhanced Note”).

Interest expense – related party decreased \$25,065 or 4%, to \$579,233 for the nine months ended September 30, 2015, compared to \$604,298 for the same period in 2014, due to a decrease in accrued interest for the promissory notes between the Company and the chairman and principal stockholder.

Interest expense – amortization of discount decreased \$797 or 1%, to \$135,715 for the nine months ended September 30, 2015, compared to \$136,512 for the same period in 2014. The amortization relates to the purchase discount associated with the New Enhanced Note.

Other expense, net increased \$36,185 or 114%, to an expense of \$4,460 for the nine months ended September 30, 2015, compared to other income of \$31,725 for the same period in 2014, due primarily to reimbursements from insurance and certain settlements received during 2014.

Liquidity and Capital Resources

We do not maintain any cash on hand by design. Instead, we maintain a \$13 million asset based revolver loan (the “Revolver Loan”) as part of our Loan and Security Agreement with Bank of America, N.A., effective September 1, 2010 (the “Loan Agreement”) 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. Disbursements are paid daily from cash being made available under our Revolver Loan based on a borrowing base calculation prepared daily for funding.

Net cash used in operating activities for the nine months ended September 30, 2015 was \$284,763, compared to \$744,840 for the same period in 2014, primarily due to the items discussed below.

During the nine months ended September 30, 2015, net non-cash contributions to net income totaled \$3,002,650. Contributory non-cash items consisted of \$459,158 for depreciation and amortization, \$245,451 for provision for losses on accounts receivable, \$1,017,062 for share-based compensation, \$960,407 for interest expense, \$50,841 for a loss on foreign currency transactions, and \$273,450 for deferred income taxes. Non-cash reductions to net income included \$3,709 for net gains on asset disposals.

During the nine months ended September 30, 2014, net non-cash contributions to net income totaled \$2,691,645. Contributory non-cash items consisted of \$513,047 for depreciation and amortization, \$603,796 for provision for losses on accounts receivable, \$583,844 for share-based compensation, \$948,619 for interest expense, \$46,391 for a loss on foreign currency transactions. Non-cash reductions to net income included \$4,052 for net gains on asset disposals.

During the nine months ended September 30, 2015, net working capital decreased by \$1,954,401 from December 31, 2014. Reductions to net working capital came from increases in accounts receivable of \$1,943,336, costs and estimated earnings in excess of billings on uncompleted contracts of \$21,966, inventory of \$718,369, intangible assets of \$224,885, and a decrease in accounts payable of \$366,099. The reductions were partially offset by decreases in other current assets of \$662,243, noncurrent assets of \$112,085 and increases in other current liabilities of \$421,344, and billings in excess of costs and estimated earnings on uncompleted contracts of \$124,582.

During the nine months ended September 30, 2014, net working capital decreased by \$1,108,220 from December 31, 2013. Reductions to net working capital came from increases in accounts receivable of \$1,821,303, costs and earnings in excess of billing on uncompleted contracts of \$226,033, intangible assets of \$225,108, and increases in accounts payable of \$699,221 and other current liabilities of \$299,916. The reductions were partially offset by increases in inventory of \$1,304,923, other current assets of \$621,612 and other noncurrent assets of \$236,826.

Net cash used in investing activities for the nine months ended September 30, 2015 was \$56,329, which was fully related to capital expenditures.

Net cash used in investing activities for the nine months ended September 30, 2014 was \$153,427, comprised of \$206,427 of capital expenditures, partially offset by \$53,000 of proceeds received from the sale of fixed assets.

Net cash generated by financing activities was \$341,092 for the nine months ended September 30, 2015, and consisted of proceeds from borrowing, net of repayments, of \$91,092 under our Revolver Loan and \$250,000 from a note payable to our chairman of the board.

Net cash generated by financing activities was \$898,267 for the nine months ended September 30, 2014, which included proceeds from borrowing, net of repayments, of \$902,866 under our Revolver Loan and repayments on other long-term debt of \$4,599.

Management believes that any cash generated from operations and the Revolver Loan availability, subject to borrowing base limitations which may adversely impact our ability to raise capital, 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 accredited sophisticated investors 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.

Credit Facilities and Other Debt

Loan Agreement: On September 1, 2010, we entered into our Loan Agreement with Bank of America, which provides for our \$13,000,000 Revolver Loan. There are four material debt covenants to comply with in the Loan Agreement: (i) capital expenditures are limited to \$625,000 on an annual basis, (ii) the amount outstanding under the Revolver Loan may not exceed the borrowing base (calculation defined as an amount determined by a detailed calculation and includes an amount equal to 85% of eligible accounts receivable, plus 55% of eligible inventory); (iii) 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, and (iv) maintain minimum liquidity of \$500,000. The Company granted Bank of America a continuing security interest in and lien upon all Company assets. At September 30, 2015 and December 31, 2014, the balance outstanding on the Revolver Loan was \$5,526,097 and \$5,435,005, respectively. Cash available under our Revolver Loan based on the borrowing base calculation at September 30, 2015 and 2014 was \$2,237,428 and \$1,077,892, respectively. At September 30, 2015, we were in compliance with our Loan Agreement and debt covenants.

New Enhanced Note: On December 10, 2013, we entered into our New Enhanced Note, which provided us with \$7.2 million in cash to refinance a prior note of \$4.4 million and the difference for working capital. Repayment of the New Enhanced Note is required on the maturity date of December 10, 2016. There are four material debt covenants to comply with in the 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 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 a fixed charge coverage ratio, tested monthly as of the last day of each calendar month, in each case for the most recently completed twelve calendar months, equal to at least 1.0 to 1.0, and (iv) maintain minimum liquidity equal of \$500,000. The Company also entered into a security agreement with the New Enhanced Note providing for a second lien on all assets of the Company after Bank of America. At September 30, 2015 and December 31, 2014, the balance outstanding on the New Enhanced Note was \$7,539,026 and \$7,157,852, respectively. At September 30, 2015, we were in compliance with our New Enhanced Note debt covenants.

November 14, 2014 Promissory Note: We entered into a \$250,000 promissory note with our chairman of the board, bearing interest at 8% per annum, and maturing June 10, 2017, which is subordinated to the Loan Agreement and the New Enhanced Note. At September 30, 2015 and December 31, 2014, there was \$18,362 and \$4,773 outstanding in accrued and unpaid interest, respectively.

January 21, 2015 Promissory Note: We entered into a \$250,000 promissory note with our chairman of the board, bearing interest at 8% per annum, and maturing June 10, 2017, which is subordinated to the Loan Agreement and the New Enhanced Note described in (a) and (b)(i) above. At September 30, 2015, there was \$14,410 outstanding in accrued and unpaid interest.

Off Balance Sheet Arrangements

As of September 30, 2015, we had 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 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures.

Management's Conclusions Regarding Effectiveness of Disclosure Controls and Procedures

As of September 30, 2015, we conducted an evaluation, under the supervision and participation of management including our chief executive officer and chief financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Securities Exchange Act of 1934, as amended). There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon this evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2015.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the fiscal quarter ended September 30, 2015 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

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 and results of operations.

During the fiscal quarter ended September 30, 2015, there were no material changes or developments in the Company's legal proceedings disclosed in Part I, Item 3 "Legal Proceedings" in our Annual Report on Form 10-K for the year ended December 31, 2014 as supplemented by the disclosures in Part II, Item 1 "Legal Proceedings" in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2015.

Item 1A. Risk Factors.

During the fiscal quarter ended September 30, 2015, there were no material changes from the risk factors previously disclosed in Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2014.

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

Recent Sales of Unregistered Securities

(a) During the fiscal quarter ended September 30, 2015, the Company issued an aggregate of 308,707 shares of restricted common stock, pursuant to a one-time grant of 3,681,000 shares of restricted common stock made on December 10, 2013 to Mr. Kurtz, our chairman, in exchange for his personal guaranty of our obligations under the New Enhanced Note, which vests monthly on a pro rata basis over three years ("Guaranty Shares"). The Guaranty Shares were valued at \$.60 per share, and \$185,224 in aggregate, of which 104,021 shares were issued on July 31, 2015 and valued and recorded at \$62,413, 104,021 shares were issued on August 31, 2015 and valued and recorded at \$62,413, and 100,665 were issued on September 30, 2015 and valued and recorded at \$60,399. The issuances of these shares to the chairman were exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), in reliance upon Section 4(a)(2) of the Securities Act, and Rule 506 promulgated thereunder. The chairman was an accredited investor (as defined by Rule 501 under the Securities Act) at the time of each issuance.

(b) During the fiscal quarter ended September 30, 2015, the Company issued an aggregate of 22,905 shares of restricted common stock to Mr. Nadel, our vice chairman, in accordance with the anti-dilution provision in his advisory and consulting agreement with us dated February 22, 2011, of which 7,718 shares were issued on July 31, 2015 and valued and recorded at \$.36 per share, or \$2,779 in aggregate, 7,718 shares were issued on August 31, 2015 and valued and recorded at \$.28 per share, or \$2,161 in aggregate, and 7,469 shares were issued on September 30, 2015 and valued and recorded at \$.32 per share, or \$2,390 in aggregate. The issuances of these shares to the vice chairman were exempt from the registration requirements of the Securities Act, in reliance upon Section 4(a)(2) of the Securities Act, and Rule 506 promulgated thereunder. The vice chairman was an accredited investor (as defined by Rule 501 under the Securities Act) at the time of each issuance.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

(a) On October 21, 2015, the Company entered into an amendment (“Kramer Amendment”) to the Executive Employment Agreement, effective as of January 1, 2014 with its chief executive officer and president, Douglas J. Kramer (“Kramer Agreement”), in order to change the existing definition of “EBITDA,” as provided in the annual performance bonus provisions of the Kramer Agreement, to the definition of “Adjusted EBITDA” as contained in all other executive officers’ annual bonus provisions adopted by the Company after the effective date of the Kramer Agreement.

(b) On November 12, 2015, pursuant to a commitment letter, effective as of October 31, 2015 (the “Commitment Letter”), Richard J. Kurtz, the chairman of the board of directors and principal stockholder of the Company, committed to provide the Company with funding to pay off the aggregate amount of \$7.2 million, plus any accrued and unpaid interest (including, but not limited to, PIK interest) (the “Obligations”), outstanding with respect to the subordinated secured promissory notes issued by the Company in favor of Enhanced Jobs for Texas Fund, LLC and Enhanced Credit Supported Loan Fund, LP (the “Enhanced Notes”) pursuant to that certain Note Purchase Agreement dated December 10, 2013, as amended, between Enhanced Jobs for Texas Fund, LLC, and Enhanced Credit Supported Loan Fund, LP (collectively, the “Enhanced Parties”), and the Company, of which \$2 million will be paid on or before April 30, 2016 (the “Commitment”). As consideration for the Commitment, on November 12, 2015, the Company granted Mr. Kurtz an option to purchase 500,000 shares of the Company’s common stock, \$0.01 par value per share, with (i) 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 \$0.294 per share, (ii) a term of eight (8) years and (iii) 100% of the stock option vesting and becoming immediately exercisable on the date of grant. The transaction was valued at approximately \$47,121, which was estimated using the Black-Scholes option pricing model and fully expensed on the date of grant. Pursuant to the Commitment Letter, the Commitment will be superseded and become null and void in the event and to the extent that, at or before the time the Commitment is due, the Obligations are repaid in full in immediately available cash on or prior to August 31, 2016.

Item 6. Exhibits.

See Index of Exhibits.

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 12, 2015

By: /s/ Douglas J. Kramer, CEO
Name: Douglas J. Kramer
Title: CEO and President

LAPOLLA INDUSTRIES, INC.

Date: November 12, 2015

By: /s/ Jomarc C. Marukot, CFO
Name: Jomarc C. Marukot
Title: CFO, Treasurer, and Principal Accounting Officer

INDEX OF EXHIBITS

Exhibit Number	Description
3.1	Composite Restated Certificate of Incorporation, as amended, and currently in effect (incorporated by reference to Exhibit 3.2 to Form 10-Q dated June 30, 2011, filed August 19, 2011).
3.2	Bylaws, as amended, and currently in effect, of the Company (incorporated by reference to Exhibit 3.11 to Form 10-KSB dated December 31, 2005, filed March 31, 2006).
10.1*	First Amendment to Executive Employment Agreement dated October 21, 2015 by and between Lapolla Industries, Inc. and Douglas J. Kramer.
10.2*	Commitment Letter, dated November 12, 2015, from Richard J. Kurtz.
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*	Certifications of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002.
101*	The following materials from the Company's Quarterly Report on Form 10-Q for the three and nine months ended September 30, 2015, formatted in XBRL (eXtensible Business Reporting Language), (i) Balance Sheets, (ii) Statements of Operations, (iii) Statements of Cash Flows, and (iv) Notes to Financial Statements

* Filed herewith

FIRST AMENDMENT TO EXECUTIVE EMPLOYMENT AGREEMENT

THIS FIRST AMENDMENT TO EXECUTIVE EMPLOYMENT AGREEMENT, effective as of October 21, 2015 (the "Amendment"), to that certain executive employment agreement effective January 1, 2014 (the "Agreement") by and between LAPOLLA INDUSTRIES, INC., a Delaware corporation (the "Company") and DOUGLAS J. KRAMER (the "Executive").

WHEREAS, the Company and the Executive are the parties to the Agreement;

WHEREAS, the Company and the Executive wish to modify the Agreement as set forth in this Amendment to change the existing definition of "EBITDA," as provided in the annual performance bonus provisions of the Agreement, to the definition of "Adjusted EBITDA" as contained in all other executive officers' annual bonus provisions adopted by the Company after the effective date of the Agreement; and

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is acknowledged by both the Company and the Executive, the Company and the Executive agree as follows:

1. Section 3.2 of the Agreement, Annual Performance Bonus, is hereby amended in its entirety to read as follows:

"3.2 Annual Performance Bonus. Executive shall be entitled to an annual bonus ("Bonus") equal to One Hundred Twenty Thousand Dollars (\$120,000) (i.e., 30% of \$400,000) if Company achieves its "Budgeted" earnings before interest, taxes, depreciation, amortization, and share based compensation ("Adjusted EBITDA") for the Company's fiscal year. The Company's Budgeted Adjusted EBITDA for each fiscal year shall be established by the Company in its sole discretion, and approved by the Board of Directors. The Bonus shall be increased to One Hundred Sixty Thousand Dollars (\$160,000) (i.e., 40% of \$400,000) if Company achieves 120% of its Budgeted Adjusted EBITDA and shall be increased to Two Hundred Thousand Dollars (\$200,000) (i.e., 50% of \$400,000) if Company achieves 140% of its Budgeted Adjusted EBITDA. Any such Bonus to which the Executive is entitled under this Section shall be paid to him by the Company in a single lump sum within thirty (30) days after the issuance of the Company's audited financial statements for such fiscal year and, in all events, by December 31 of the fiscal year following the fiscal year to which the Bonus applies."

2. Entire Agreement. This Amendment together with the Agreement shall constitute the entire agreement between the parties hereto with respect to the terms of the Executive's employment with the Company and together shall supersede all prior agreements, understandings and arrangements, oral or written, between the parties hereto with respect to such subject matter, and the terms and conditions of the Executive's employment with the Company shall be governed solely pursuant to the terms of this Amendment and the Agreement. In the event of any conflict between the terms of this Amendment and the Agreement, the terms of this Amendment shall govern.

3. Effectiveness. Except as modified by this Amendment, the Agreement shall remain in full force and effect and shall remain binding upon the Company and the Executive; provided, however, that the provisions of this Amendment shall not be a triggering event or otherwise be deemed to give the Executive any cause to terminate the Agreement and shall not give the Executive any right to claim that any of the provisions of the Agreement (not otherwise modified pursuant to this Amendment) are invalid, including without limitation the nonsolicitation and noncompetition provisions of Section 12 and the confidential information provisions of Section 13 of the Agreement.

4. Consultation with Independent Counsel. Executive represents to Company that he has been advised by Company to consult with independent counsel of his own choosing with respect to this Amendment and that he either has consulted with independent counsel or has voluntarily chosen not to do so.

5. Severability. The invalidity or unenforceability of any particular provision of this Amendment shall not affect its other provisions, and this Amendment shall be construed in all respects as if such invalid or unenforceable provision had been omitted.

6. Governing Law. This Amendment shall be construed and governed in accordance with the laws of the State of Delaware.

7. Counterparts. This Amendment may be executed in counterparts, each of which when so executed shall be deemed to be an original and both of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Amendment by facsimile or PDF shall be as effective as delivery of a manually executed counterpart of this Amendment.

IN WITNESS WHEREOF, this Amendment has been executed as of the date first written above.

LAPOLLA INDUSTRIES, INC.

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

EXECUTIVE

/s/ Douglas J. Kramer
Douglas J. Kramer

Exhibit 10.2

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

November 12, 2015

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

Re: Lapolla Industries, Inc. (the "Company") Financial Commitment (the "Commitment")

Gentlemen:

This is in response to your request that I provide an assurance, effective October 31, 2015, as to funding, on or before August 31, 2016, to pay off the aggregate amount of \$7.2 million, plus any accrued and unpaid interest (including, but not limited to, PIK interest) (the "Obligations"), outstanding with respect to the subordinated secured promissory notes issued by the Company in favor of Enhanced Jobs for Texas Fund, LLC and Enhanced Credit Supported Loan Fund, LP (the "Enhanced Notes") pursuant to that certain Note Purchase Agreement dated December 10, 2013, as amended, between Enhanced Jobs for Texas Fund, LLC, and Enhanced Credit Supported Loan Fund, LP (collectively, the "Enhanced Parties"), and the Company, of which \$2 million will be paid on or before April 30, 2016.

I hereby confirm that I commit to provide funding for this Commitment to pay the Obligations in immediately available cash.

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. Such funding will take the form as determined by me or such lending or other institution and approved by the Board of Directors of the Company.

As consideration for this Commitment, the Company agrees to grant me an option to purchase 500,000 shares of the Company's common stock, \$0.01 par value per share, with: (i) 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 the date of grant, (ii) a term of eight (8) years, and (iii) 100% vesting and becoming immediately exercisable on the date of grant.

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, at or before the time the Commitment is due, the Obligations are repaid in full in immediately available cash on or prior to August 31, 2016.

In the event that I, or the lending institution utilized by me, loan funds for payment of the above Commitment, in whole or part, and subsequent to the full payment of the Obligations 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 funding provided in accordance with this Commitment, subject to any agreement the Company has in effect at the time the funds are raised.

Very truly yours,

/s/ Richard J. Kurtz

Richard J. Kurtz

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 12, 2015

LAPOLLA INDUSTRIES, INC.

/s/ Douglas J. Kramer, PEO

Douglas J. Kramer

Principal Executive Officer

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Jomarc C. Marukot, 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 12, 2015

LAPOLLA INDUSTRIES, INC.

/s/ Jomarc C. Marukot, PFO/PAO

Jomarc C. Marukot
Principal Financial Officer and
Principal Accounting Officer

Exhibit 32

**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 (defined below) 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, 2015 (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 12, 2015

LAPOLLA INDUSTRIES, INC.

/s/ Douglas J. Kramer, PEO

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, 2015 (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 12, 2015

LAPOLLA INDUSTRIES, INC.

/s/ Jomarc C. Marukot, PFO/PAO

Jomarc C. Marukot
Principal Financial Officer and
Principal Accounting 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.