

LAPOLLA INDUSTRIES INC

FORM 10-K (Annual Report)

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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-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For The Fiscal Year Ended December 31, 2015

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)

**Securities registered pursuant to Section 12 (b) of the Act: None
Securities registered pursuant to Section 12 (g) of the Act:**

Common Stock, \$.01 par value

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the 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 (Check one):

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

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

As of June 30, 2015, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately \$12,732,661 based on the closing sales price as quoted on the OTCQB on such date. For purposes of this computation only, all officers, directors and 10% or greater stockholders of the registrant are deemed to be affiliates.

Common Stock outstanding as of March 24, 2016 — 122,366,001 shares.

DOCUMENTS INCORPORATED BY REFERENCE

None.

LAPOLLA INDUSTRIES, INC.
FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2015
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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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 larger 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 this Annual Report on Form 10-K for a discussion of the foregoing and other risks that relate to our business and investing in shares of our common stock.

As used in this report, “Lapolla,” the “Company,” “us,” “we” and “our” refer to Lapolla Industries, Inc., unless the context otherwise requires. Our Internet website address is www.lapolla.com. We make our periodic and current reports, together with amendments to these reports, available on our website, free of charge, as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission (“SEC”). The information on our website is not incorporated by reference in this Annual Report on Form 10-K.

PART I

Item 1. Business.

General 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 believe that being vertically integrated in both foam and coating systems puts Lapolla in a strong competitive position as both product lines reduce energy consumption and ultimately lead to direct savings for consumers. Lapolla's products address growing consumer awareness of the building envelope. The building envelope is the separation between the interior and the exterior environments of a building and serves as the outer shell to protect the indoor environment as well as to facilitate its climate control. Building envelopes with increased insulation levels are becoming standard practice. Consumers are increasingly involved in the selection of green building products due to rising energy costs and the recent availability of tax credits and energy rebates.

Operating Segments

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.

Foam Segment

Our foam business involves supplying spray polyurethane foam for insulation and roofing to the construction industry. Lapolla provides open and closed cell spray polyurethane foams for insulation, as well as closed cell technology for roofing applications.

Principal Products and Services and Markets

Spray foam insulation applications consist of perimeter wall, crawl space, and attic space for commercial, industrial, and residential applications. Roofing applications consist of new and retrofit commercial, industrial, and residential applications.

Open-cell spray foam technology is a cost-effective solution to improve the energy efficiency of a building. The material expands 120 times its initial volume and fills cavities of any shape providing a continuous, protective air barrier that helps to minimize air leakage and air intrusion. Open-cell foam insulation is a performance upgrade over conventional insulation that leads to energy efficiency, improved occupant comfort, a cleaner indoor environment and greater noise reduction for building/home owners.

Closed-cell spray foam insulation is one of the most efficient insulating materials commercially available, with aged R-Values above 6.0 per inch. The description "closed-cell" comes from the cell structure of the finished insulation material. One cubic inch of polyurethane foam insulation contains millions of tiny plastic thermal resistant closed cells. The blowing agent is captured within the cells which contributes to highly efficient insulating properties. In addition, closed-cell foam provides an inherent air barrier with low moisture vapor permeability, and excellent resistance to water. The density for closed-cell spray foam is approximately two pounds per cubic foot. The medium density foam provides sheer and racking strength to wall assemblies in building applications. The solid nature and sealing capability of closed-cell spray foam, inhibits moisture-driven elements.

Lapolla was the first manufacturer globally to offer a third party tested and approved wall foam system that uses the Solstice® Liquid Blowing Agent ("Solstice LBA"). Lapolla achieved this fourth generation (4G) benchmark while working closely with Honeywell to incorporate the Solstice LBA, a next-generation blowing agent from Honeywell. The product not only improves foam performance, but also delivers environmental benefits. Solstice LBA has an ultra-low global warming potential of 1, which is 99.9 percent lower than today's most commonly-used blowing agent, HFC-245fa, a hydrofluorocarbon, while retaining its insulating performance. Solstice LBA is nonflammable, has received Environmental Protection Agency approval under the Significant New Alternatives Policy (SNAP) Program and is not a volatile organic compound.

We have attained, and continue to attain, third party credentials for our spray polyurethane foam systems, which means our products are tested by independent parties to meet applicable building and construction codes, thereby enabling greater acceptance of our proprietary foam products in our target markets globally. This segment also supplies adhesives and equipment for applications. We use our own distribution facility, as well as public warehousing in strategic local areas in our target markets, to serve customers. Technology, performance, availability, product credentials, approvals, technical and customer service, and pricing are major competitive factors in our foam business.

The Foam segment includes revenue from The AirTight Division. The AirTight Division primarily focuses on marketing, promoting, and selling energy saving products and energy reduction services through subcontractors. The AirTight Multi-Family Energy Savings Program is a turn-key project service. This service provides energy assessments and analysis with the assistance of independent consultants, project design, regulatory assistance to facilitate potential rebates from state and utility authorities, and project management services. This energy conservation program is designed to save landlords substantial energy costs while dramatically reducing the properties' carbon footprint and increasing the tenants' comfort. This will increase the overall value and return on investment of the property.

Coating Segment

Our coatings business involves supplying protective coatings for roofing systems for new and retrofit commercial and industrial applications to the roofing industry. Lapolla provides an economical and effective roof coating system for application over new and existing roof substrates.

Principal Products and Services and Markets

Spray polyurethane foam roofing consists of two components: a closed-cell polyurethane foam insulation and a protective coating. The polyurethane foam adheres to the building substrate and any items that penetrate the roof surface, making it self-flashing and giving it resistance to high winds. Spray polyurethane foams also offer enhanced impact resistance. Roofs featuring spray polyurethane foam can last 20 to 30 years with minimal maintenance requirements. Spray polyurethane roofing can be applied over an existing roof without requiring the removal of the old roof. While sprayed foam can be applied to a new roof, the majority of applications involve reroofing. Spray polyurethane foam roofing is particularly suited for roofs with unusual configurations or with multiple penetrations, as the sprayed material is self-flashing. Coatings often wear or need replacement before the foam, resulting in less tear offs and reducing waste. Spray polyurethane foam roofs are also selected by architects and designers because they can be coated with compounds that enhance reflectivity. Thus, spray polyurethane foam roofs can be considered cool roofs. Additionally, spray polyurethane foam is an excellent insulator and increases the energy efficiency of a building.

Thermo-Flex™ products include technologically advanced, high solid, fire retardant, thixotropic, acrylic, elastomeric coatings uniquely formulated for the protection of spray polyurethane foam insulation. Its various formulations are designed to withstand the intense heat and ultra-violet rays of low humidity desert environments and damp heat and ultra-violet rays of humid environments.

Thermo-Prime™ products are single component, water based, acrylic primer that promotes adhesion of spray polyurethane foam to a variety of roofing substrates including built-up roof (BUR), modified bitumen, concrete, masonry, galvanized metal and wood, and eliminates odor problems normally associated with solvent borne primers.

Thermo-Caulk™ products are single component, water-based, high performance, elastomeric, knife-grade caulking, that when cured forms a tough, flexible membrane that seals out moisture. It is used as a waterproof sealer for roof seams, termination points, cracks, flashing, vents, skylights, fasteners, parapets, protrusions and duct work. It can also be used with roof fabric for three coursing weak areas of the roof.

We use our own distribution facility, as well as public warehousing in strategic local areas in our target markets to better serve our customers. Product credentials, approvals and performance, pricing, technology, technical customer service, and availability are major competitive factors in our coatings business.

Industries

The industries in which we operate involve the sale and distribution of spray polyurethane foam, coatings and the equipment used in the application process. We manufacture our spray polyurethane foam and coating products, and purchase equipment manufactured by large companies that have a global presence. The majority of the products we sell are sold to contractors and distributors, who apply the products or sell to local contractors.

Insulation foam and reflective roof coatings are aggressively growing through enhanced consumer awareness due to energy efficiency programs promoted by governmental agencies, energy companies, and private organizations. Some of these programs in the United States include the American Recovery and Reinvestment Act of 2009, Cool Roof Rating Council, Energy Star and state and utility company funded rebates to energy conscious building owners for following very specific recommendations, using R-value, reflectivity and emissivity as the general goal in reducing the environmental impact of the “heat island effect”. In addition, the advantages of spray polyurethane foam are being recognized more generally by consumers, building owners and architects, as well as regulators. We believe that this growth reflects the advantages of spray polyurethane foam as an insulator and a means of saving energy. Demand for spray polyurethane foam can be cyclical as well, and can be negatively impacted by depressed construction markets and general economic conditions.

U.S. demand for plastic foams is forecast to rise 4.1 percent per year to 2017, or to \$24.7 billion, according to the Freedonia Group. The construction sector is anticipated to enjoy particularly robust growth prospects, as renewed strength in construction activity generates significant opportunities for foam insulation products. Polyurethane represents the leading resin in the plastic foams market. Strong gains for rigid polyurethane foam will be propelled by a healthy rebound in construction activity and by changes in building codes and construction practices that call for structures to use energy more efficiently. Rigid polyurethane is one of the most effective materials available for roof and wall insulation, insulated windows and doors, and air barrier sealants. However, polyurethane foam insulation will continue to encounter competition from fiberglass and polystyrene foam.

U.S. demand for roofing is projected to rise 3.5 percent per year to 2017, or to \$27.2 billion, according to the Freedonia Group. In both the residential and nonresidential markets, new building construction will drive gains. Roofing demand in the new housing segment is expected to rise at double-digit annual rates through 2017 as housing starts rise from their low 2012 base. In the nonresidential market, sharp growth in office and commercial construction spending and gains in institutional and industrial construction expenditures are expected to boost low-slope roofing demand.

Sales and Marketing

We maintain a growing global sales force. Sales are concentrated on contractors and distributors in the insulation and roofing industries. Lapolla utilizes direct sales, independent sales representatives and distributors, and stores its products in select public warehouses that it does not own to increase penetration in select target markets and facilitate availability of products for customers. Lapolla utilizes advertising campaigns, articles in industry periodicals, trade show exposure, public relations, printed case studies, Internet and website exposure, mailers and direct sales, distribution, and marketing to obtain greater product branding and recognition. Lapolla places a high priority on sales trending to create preparedness and processes to better serve customers. Information is gathered from sales, customers, management experience, and historical trending to predict needed supply for stock and warehousing to meet the needs of customers on a timely basis. Public warehousing, distribution and direct sales allow us to supply customers in a timely and efficient manner. The combined volumes of our products are disbursed throughout a broad customer base, which decreases vulnerability from the loss of one key customer.

Most of our significant customers are contractors and general distributors that apply and resell our products for insulation and energy efficiency. They generally do not provide us with data on where they apply our products. Our sales are affected by our contractors and the level of our distributors' inventory and their ability to resell such inventory, which in turn is affected by industry trends. Our marketing and growth strategies are aimed at meeting the needs of our contractors and distributors and providing whatever products they may need at any given time rather than targeting any one particular product or seeking to expand our sales into any particular region of the world.

International

We have a global presence. Our international presence represented approximately 4.47% and 4.14% of our total product sales for the year ended December 31, 2015 and 2014, respectively. We use independent distributors to provide access to our products internationally in select target markets.

Competition

Competition is based on a combination of product credentials, approvals, price, technology, availability, performance, and limited warranties. Lapolla is expanding through aggressive sales and marketing, competitive pricing, a selective sales force comprised of direct salespersons, independent representatives, and distributors, and building owner and contractor brand awareness. Lapolla differentiates itself from competitors by offering personalized sales support and providing efficient response time on issues ranging from technical service to delivery of products. Product credentials and approvals differentiate product lines and suppliers that are more readily suited to broad use and industry acceptance. We currently maintain certain credentials and approvals to assure minimal restrictions in markets and uses.

Foam

We are one of the largest suppliers of spray polyurethane foam for insulation and roofing foam within the United States and globally expanding. The foam manufacturing industry consists of a limited number of large and medium sized manufacturing companies with global, national and regional presence primarily relying on distributors to service markets. We are able to access distribution channels and penetrate target markets through direct sales more effectively as a manufacturer of foam resins (versus being just a distributor). Our products are supplied to large, medium and small insulation, roofing, and general contractors, as well as selective distributors with connections to local markets in target areas. Most notably, the White House announced Lapolla as an official private sector partner of the President's Climate Action Plan, recognizing the company's efforts to curb the use of hydrofluorocarbons (HFCs), which are potent greenhouse gases that contribute to climate change.

Coatings

Within the coatings industry, as manufacturers specifically focused on energy efficient acrylic coatings for roofing and construction as their primary line, Lapolla is a major player in a very fragmented market due to the preferences of the applicators. The fragmented market provides the benefits of more competition for order flow and greater incentives to introduce new and innovative products.

Within the industries for our products, we believe that we are a market leader with prices generally competitive with those of our competitors. More specifically, our customers generally purchase foam and coatings products from a select few sources besides us, and our products generally comprise a large percentage of the foam and coatings products purchased by our customers. In addition, we offer customers technical service and training which many of our competitors do not do. We believe the fact that most of our customers find it important to maintain us as a valued supplier, coupled with our highly credentialed products, competitive prices and a high level of service has shielded us from the potential negative impact of volatility in raw material prices that affects our industry as a whole.

Materials and Principal Suppliers

We place a high priority on forecasting material demand to meet customer demands in the most expedient and cost effective manner and manage cash flow. The primary materials incorporated in our foams and coatings are isocyanates, polyols, catalysts, resins, titanium dioxide, and blowing agents. On the supply side, suppliers to our industry include large chemical and equipment companies. In addition, some of our largest competitors are vertically integrated, selling products they manufactured with raw materials they can source from within. Maintaining and expanding our relationships and access with our raw material suppliers is critical given our high dependence on the raw materials and equipment we purchase. Since we purchase mainly from domestic suppliers, the main factor influencing our supply is our ability to maintain and expand our existing relationships with suppliers and add new suppliers.

The suppliers of the necessary raw materials are industry leaders in both the specific chemistries and basic in the manufacturing of the raw materials for supply. The principal suppliers are DowDuPont, Covestro LLC, Wanhua Chemical (America) Co. Ltd., and Honeywell International, Inc. Although we maintain strong relationships and have commitments for continuing supply through times of shortage, a lengthy interruption of the supply of one of these materials could adversely affect our ability to manufacture and supply commercial product. With our volume potential, we believe we are a potentially lucrative target for vendors to assure their own growth and demand in 2016 and beyond. Our foam resins and acrylic coatings are manufactured in our Houston, Texas facility and we maintain sufficient manufacturing capacity to support our current forecasted demand as well as a substantial safety margin of additional capacity to meet peaks of demand and sales growth in excess of our current expectations.

Proprietary Information, Trade Secrets and Trademarks

We rely on our own proprietary technologies and trade secrets in our foam and coating segments for finished goods formulations. Additionally, we rely on trade secrets and proprietary know-how that we seek to protect, in part, through confidentiality agreements with our vendors, customers, employees and consultants. We market our products under various trademarks, for which we have registered and unregistered trademark protection. These trademarks are considered to be valuable because of their contribution to market identification of our products. Our principal registered trademarks are:

	Trademark	Registration Number	Date
●	LAPOLLA	U.S. Registration No. 4104321	February 28, 2012
●	LAPOLLA	U.S. Registration No. 4104322	February 28, 2012
●	AIRTIGHT SPRAY FOAM INSULATION	U.S. Registration No. 4139386	May 18, 2012
●	AIRTIGHT	U.S. Registration No. 3888457	December 14, 2010
●	AIRTIGHT SPRAYFOAM	U.S. Registration No. 3888458	December 14, 2010
●	AIRTIGHT SPRAYFOAM	U.S. Registration No. 3888459	December 14, 2010
●	THERMO-FLEX	U.S. Registration No. 77626768	September 16, 2014
●	THERM-O-FLEX	U.S. Registration No. 77626778	February 18, 2014

Lapolla's federal trademark registrations expire ten years after the registration date, unless renewed within one year prior to the expiration. It is the Company's intent to renew all federal registered trademarks still in use within the one year period prior to their expiration.

Research and Development

We spent \$269,000 and \$260,000 on research and development in 2the years ended December 31, 2015 and 2014, respectively, none of which costs were borne by customers.

Employees

As of December 31, 2015, we employed 72 full time individuals, none of whom are represented by a union. We believe that our relations with our employees are generally good.

Environmental Matters

We are subject to various national, federal, state, and local environmental laws and regulations and believe that our operations comply in all material respects where we have a business operation. No significant expenditures are anticipated in order to comply with environmental laws and regulations that would have a material impact on our Company in 2016.

Historical Information

We were incorporated in the state of Delaware on October 20, 1989 and underwent a variety of name changes and operations. For our current operations, we acquired 100% of the capital stock of Infiniti Paint Co., Inc., a Florida corporation, effective September 1, 2001, which was engaged in the business of developing, marketing, selling, and distributing acrylic roof coatings, roof paints, polyurethane foam systems, sealants, and roof adhesives in the Southeastern United States. On December 20, 2004, we changed our name from Urecoats Industries, Inc. to IFT Corporation. During the latter part of 2004, our Infiniti Subsidiary built and began operating a manufacturing plant in the Southeastern United States. On February 11, 2005, we acquired 100% of the capital stock of Lapolla Industries, Inc., an Arizona corporation, which was engaged in the business of manufacturing acrylic roof coatings and sealants, and distributing polyurethane foam systems in the Southwestern United States. On April 1, 2005, our Infiniti subsidiary merged with and into our Lapolla subsidiary whereas the existence of our Infiniti subsidiary ceased. On October 1, 2005, our Lapolla subsidiary merged with and into the Company, under its former name of IFT Corporation, whereas the existence of our Lapolla subsidiary ceased. On November 8, 2005, the Company changed its name to Lapolla Industries, Inc.

Item 1A. Risk Factors.

Investing in our common stock involves a high degree of risk. Before deciding to purchase, hold or sell our common stock, you should carefully consider the risks described below, together with the financial and other information contained in this Annual Report on Form 10-K for the year ended December 31, 2015 and other periodic filings with the Securities and Exchange Commission. We operate in a changing environment that involves a number of risks. Although the factors listed below are considered to be the most significant factors, they should not be considered a complete statement of all potential risks and uncertainties. Unlisted factors may present significant additional obstacles which may adversely affect our business. These known and unknown risks could materially and adversely affect our business, financial condition, operating results or liquidity, which could cause the trading price of our common stock to decline.

Risks Relating to Our Business and Industry

Our operating results may vary significantly from quarter to quarter, which makes our operating results difficult to predict and can cause our operating results in any particular period to be less than comparable quarters and expectations from time to time.

Our quarterly results may fluctuate significantly from quarter to quarter due to a variety of factors, many of which are outside our control and have the potential to materially and adversely affect our results. Factors that affect our operating results include the following:

- a change in demand or production of our products caused by severe weather conditions. Sales of our products tend to be lowest during the first and fourth fiscal quarters, with sales during the second and third fiscal quarters being comparable and marginally higher;
- the size, timing and terms of sales and orders, especially large customer orders;
- variations caused by customers delaying, deferring or canceling purchase orders or making smaller purchases than expected;
- the spending patterns of customers;
- a change in the mix of our products having different margins;
- a change in the mix of our customers and business;
- changes in pricing by us or our competitors, or the need to provide discounts to win business;
- our ability to control costs, including operating expenses;
- losses experienced in our operations not otherwise covered by insurance;
- the ability and willingness of customers to pay amounts owed to us;
- the timing of significant investments in the growth of our business, as the revenue and profit we hope to generate from those expenses may lag behind the timing of expenditures;
- costs related to the acquisition and integration of companies or assets;
- general economic trends, including changes in construction and retrofitting spending or national or geopolitical events such as economic crises, wars or incidents of terrorism; and
- future accounting pronouncements and changes in accounting policies.

Accordingly, our operating results in any particular quarter may not be indicative of the results that you can expect for any other quarter or for an entire year.

Our industries are highly competitive.

The spray polyurethane foam and coatings industries are highly competitive. Although we are one of the largest suppliers of spray polyurethane foam, many of our competitors are significantly larger and have substantially greater resources than we do and are able to achieve greater economies of scale than us and may, therefore, be able to provide their products and services to customers at lower prices than we are able to. Moreover, our competitors could develop the expertise, experience and resources to offer products that are superior in both price and quality to our products. While we seek to compete by providing more state-of-the-art products, there are few technical or other barriers to prevent much larger companies in our industry from putting more emphasis on this same strategy. Similarly, we cannot be certain that we will be able to market our business effectively in the face of competition or to maintain or enhance our competitive position within our industry, maintain our customer base at current levels or increase our customer base. Our inability to manage our business in light of the competitive forces we face could have a material adverse effect on our results of operations.

Because we currently purchase a significant portion of our materials from a few suppliers, any decrease in availability of these materials could have an adverse effect on our business, financial condition and operating results.

We depend on DowDuPont, Covestro LLC, and Wanhua Chemical (America) Co. Ltd. for a large portion of our spray polyurethane foam and acrylic coatings material purchases, and require blowing agents from Honeywell International, Inc. Any change in the availability of such materials and blowing agents, when needed to meet our manufacturing requirements, will have a significant impact on our results of operations. If any of these suppliers were to cancel, delay or reduce the amount of business we do with them for any reason, there would be a material adverse effect on our business, financial condition and operating results.

The departure or loss of key personnel could disrupt our business.

We depend heavily on the continued efforts of Richard J. Kurtz, our chairman of the board and majority stockholder, and on executive officers who are responsible for the day-to-day management of our business. In addition, we rely on our current directors, all of whom are important to our operations and would be difficult to replace. We cannot be certain that any of these individuals will continue in their respective capacities for any particular period of time. The departure or loss of key personnel, or the inability to hire and retain qualified employees, could negatively impact our ability to manage our business.

General global economic, credit and capital market conditions have had and could continue to have an adverse impact on our business, operating results and financial condition.

We are susceptible to macroeconomic downturns in the U.S. and abroad which have had, and in the future may continue to have, an adverse effect on demand for our products and consequently our operating results, financial condition and cash flows. Future negative economic conditions, as well as a slow recovery period from the current economic downturn, could lead to reduced demand for our products, increased price competition, reduced gross margins, increased risk of obsolete inventories and higher operating costs as a percentage of revenue. Disruption of the capital and credit markets may negatively impact our business, including our ability to access additional financing at a time when we would like, or need, to access those markets to run or expand our business. These events may also make it more costly for us to raise capital through the issuance of our equity securities and could reduce our net income by increasing our interest expense and other costs of capital. The diminished availability of credit and other capital could also affect the industries we serve and could result in reduction in sales volumes and increased credit and collection risks.

Any acquisitions that we complete may not perform as planned and could disrupt our business and harm our financial condition and operations.

A key element of our long term business strategy is to pursue strategic acquisitions in order to increase revenue and earnings. In the event of any future acquisitions, we could:

- issue additional securities that would dilute our current stockholders' percentage ownership or provide the purchasers of the additional securities with certain preferences over those of common stockholders, such as dividend or liquidation preferences;
- incur debt and assume liabilities; and
- incur large and immediate write-offs of intangible assets, accounts receivable or other assets.

These events could result in significant expenses and decreased revenue, which could adversely affect the market price of our common stock. In addition, integrating product acquisitions and completing any future acquisitions involve numerous operational and financial risks. These risks include difficulty in assimilating acquired operations, diversion of management's attention, and the potential loss of key employees or customers of acquired operations. Furthermore, companies acquired by us may not generate financial results consistent with our management's plans at the time of acquisition. Moreover, we will need to conduct a due diligence investigation of one or more target businesses. Intensive due diligence is time consuming and expensive due to the operations, accounting, finance and legal professionals who must be involved in the due diligence process. We may have limited time to conduct such due diligence. Even if we conduct extensive due diligence on a target business that we acquire, we cannot assure you that this diligence will uncover all material issues relating to a particular target business, or that factors outside of the target business and outside of our control will not later arise. If our diligence fails to identify issues specific to a target business or the environment in which the target business operates, we may be forced to write-down or write-off assets, restructure our operations, or incur impairment or other charges that could result in us reporting losses. Even though these charges may be non-cash items and may not have an immediate impact on our liquidity, the fact that we report charges of this nature could contribute to negative market perceptions about us or our common stock. In addition, charges of this nature may cause us to violate net worth or other covenants that we may be subject to as a result of assuming pre-existing debt held by a target business or by virtue of our obtaining post-combination debt financing.

Our revenue and demand for our products may be adversely affected by fluctuations in currency exchange rates against the U.S. dollar.

We are seeking to expand globally and fluctuations between the U.S. dollar and other currencies, such as Canadian dollars, Euro currency, Czech Koruna, British Pound Sterling, and Swedish Krona, could negatively impact the amount of our revenues and earnings and demand for our products in the future. Demand also could differ materially from the Company's expectations since the Company's prices on goods sold outside the United States are typically quoted in U.S. dollars. For example, if the Canadian dollar or Euro currency appreciates relative to the U.S. dollar, the fluctuation could result in a positive impact on revenues and demand for our products in those markets. However, if the Canadian dollar or Euro currency depreciates relative to the U.S. dollar, there could be a negative impact on the revenues and demand for our products, and such depreciation relative to the U.S. dollar could stall revenue generation due to non-competitive product pricing in such target markets. The exchange rate from the U.S. dollar to other currencies has fluctuated substantially in the past and may continue to do so in the future.

Fluctuations in the price and supply of materials used to manufacture our products may reduce our profits.

Our material costs represented approximately 69% and 74% of our revenues for the years ended December 31, 2015 and 2014, respectively. The principal materials purchased by us are isocyanates, polyols, catalysts, resins, titanium dioxide, and blowing agents. These materials and components are available from, and supplied by, a few sources at competitive prices. Unanticipated increases in material prices or disruptions in supply could increase production costs and adversely affect our profitability. We cannot provide any assurances that we will not experience difficulties sourcing our materials in the future.

We have, and expect to continue to have, credit facilities with restrictive loan covenants that may impact our ability to operate our business and to pursue our business strategies, and our failure to remain in compliance with these covenants could result in an acceleration of our indebtedness.

We will continue to rely on our credit facilities with Bank of America, N.A., Enhanced Jobs for Texas Fund, LLC, and Enhanced Credit Supported Loan Fund, for a significant portion of the working capital to operate our business and execute our strategy. These credit facilities contain certain covenants that restrict our ability to, among other things:

- undergo a change in control;
- incur new indebtedness or other obligations, subject to certain exceptions;
- pay cash dividends;
- create or incur new liens, subject to certain exceptions;
- make new acquisitions or investments in other entities, subject to certain exceptions;
- wind up, liquidate or dissolve our affairs;
- change the nature of our core business;
- alter our capital structure in a manner that would be materially adverse to our lenders; and
- make investments or advancements to affiliated or related companies.

The majority of the liquidity derived from our credit facilities is based on availability determined by a borrowing base formula. Specifically, the availability of credit is dependent upon eligible receivables, inventory and certain liens. We may not be able to maintain adequate levels of eligible assets to support our required liquidity. In addition, our credit facilities require us to meet certain debt covenants, including a minimum Adjusted EBITDA and fixed charge coverage ratio. Our ability to meet these financial provisions may be affected by events beyond our control. If, as or when required, we are unable to repay, refinance or restructure our indebtedness under, or amend the covenants contained in, our credit facilities, our lenders could institute foreclosure proceedings against the assets securing borrowings under those facilities, which would harm our business, financial condition and results of operations.

The indebtedness under our credit facilities with Bank of America, N.A. and Enhanced Capital are secured by substantially all of our assets. As a result of these security interests, such assets would only be available to satisfy claims of our general creditors or to holders of our equity securities if we were to become insolvent to the extent the value of such assets exceeded the amount of our indebtedness and other obligations. In addition, the existence of these security interests may adversely affect our financial flexibility.

Indebtedness under our credit facilities with Bank of America, N.A. is secured by a first lien, and Enhanced Capital is secured by a second lien, on substantially all of our assets. Accordingly, if an event of default were to occur under our credit facilities, Bank of America, N.A. and then Enhanced Capital would have a priority right to our assets, to the exclusion of our general creditors in the event of our bankruptcy, insolvency, liquidation, or reorganization. In that event, our assets would first be used to repay in full all indebtedness and other obligations secured by them (including all amounts outstanding under our senior secured credit agreement), resulting in all or a portion of our assets being unavailable to satisfy the claims of our unsecured indebtedness. Only after satisfying the claims of our unsecured creditors and our subsidiaries' unsecured creditors would any amount be available for our equity holders. The pledge of these assets and other restrictions may limit our flexibility in raising capital for other purposes. Because substantially all of our assets are pledged under these financing arrangements, our ability to incur additional secured indebtedness or to sell or dispose of assets to raise capital may be impaired, which could have an adverse effect on our financial flexibility.

We rely on third parties for key elements of our business whose operations are outside our control.

We rely on arrangements with third party shippers and carriers such as independent shipping companies for timely delivery of our products to our customers. As a result, we may be subject to carrier disruptions and increased costs due to factors that are beyond our control, including labor strikes, inclement weather, natural disasters and rapidly increasing fuel costs. If the services of any of these third parties become unsatisfactory, we may experience delays in meeting our customers' product demands and we may not be able to find a suitable replacement on a timely basis or on commercially reasonable terms. Any failure to deliver products to our customers in a timely and accurate manner may damage our reputation and could cause us to lose customers. We also utilize third party distributors and manufacturers' representatives to sell our products. While we are selective in whom we choose to represent us, it is difficult for us to ensure that our distributors and manufacturers' representatives consistently act in accordance with the standards we set for them. To the extent any of our end-customers have negative experiences with any of our distributors or manufacturers' representatives, it could reflect poorly on us and damage our reputation, thereby negatively impacting our financial results.

We may face impairment charges if economic environments in which our business operates and key economic and business assumptions substantially change.

Assessment of the potential impairment of property, plant and equipment, goodwill and other identifiable intangible assets is an integral part of our normal ongoing review of operations. Testing for potential impairment of long-lived assets is dependent on numerous assumptions and reflects our best estimates at a particular point in time, which may vary from testing date to testing date. The economic environments in which our businesses operate and key economic and business assumptions with respect to projected product selling prices and materials costs, market growth and inflation rates, can significantly affect the outcome of impairment tests. Estimates based on these assumptions may differ significantly from actual results. Changes in factors and assumptions used in assessing potential impairments can have a significant impact on both the existence and magnitude of impairments, as well as the time at which such impairments are recognized. Future changes in the economic environment and the economic outlook for the assets being evaluated could also result in additional impairment charges. Any significant asset impairments would adversely impact our financial results.

Existing and future litigation could impact our financial results and condition.

Our business, results of operations and financial condition could be affected by significant existing and future litigation or claims adverse to us. Types of potential litigation cases include product liability, contract, employment-related, personal injury or property damage, intellectual property, stockholder claims and claims arising from any injury or damage to persons, property or the environment from hazardous substances used, generated or disposed of in the conduct of our business. We have been in the past, and continue to be, subject to various product liability lawsuits and claims related to our products due to alleged personal injuries. Although we continue to challenge various court opinions on the subject matter, we are largely self-insured for some existing and possibly future product liability losses that may arise related to alleged personal injuries due to total pollution exclusions in some of our insurance policies. None of the existing allegations against us for alleged personal injuries have been proven in court. Due to the uncertainties of litigation, we can give no assurance that we will prevail on any claims made against us in any such lawsuit. While it is not feasible to predict the outcome of any pending lawsuits and claims, we do not believe that the disposition of any such pending matters is likely to have an adverse effect on our financial condition or liquidity, although the resolution in any reporting period of one of more of these matters could have an adverse effect on our operating results for that period. Also, we can give no assurance that any other lawsuits or claims brought in the future will not have an adverse effect on our financial condition, liquidity or operating results.

Market disruptions caused by domestic or international financial crises could affect our ability to meet our liquidity needs at a reasonable cost and our ability to meet long-term commitments, which could adversely affect our financial condition and results of operations.

We rely on credit facilities with our lenders, amongst other avenues, to satisfy our liquidity needs. Disruptions in the domestic or international credit markets or deterioration of the banking industry's financial condition, may discourage or prevent our lenders and other lenders from meeting their existing lending commitments, extending the terms of such commitments or agreeing to new commitments, such as for acquisitions or to refinance existing credit facilities. Market disruptions may also limit our ability to issue debt securities in the capital markets. We can provide no assurances that our lenders or any other lenders we may have will meet their existing commitments or that we will be able to access the credit markets in the future on terms acceptable to us or at all. Longer term disruptions in the domestic or international capital and credit markets as a result of uncertainty, reduced financing alternatives or failures of significant financial institutions could adversely affect our access to the liquidity needed for our business. Any disruption could require us to take measures to conserve cash until the market stabilizes or until alternative financing can be arranged. Such measures could include deferring capital expenditures and reducing other discretionary expenditures. Market disruptions could cause a broad economic downturn that may lead to increased incidence of customers' failure to pay for services delivered, which could adversely affect our financial condition, results of operations and cash flow.

The failure of our key computer-based systems for our administrative activities and manufacturing operations could have a material adverse effect on our business.

We currently maintain computer-based systems in the operation of our business and we depend on these systems to a significant degree for all areas of business operations. These systems are vulnerable to, among other things, damage or interruption from fire, flood, tornado, and other natural disasters, power loss, computer system and network failures, operator negligence, physical and electronic loss of data or security breaches and computer viruses. The destruction or failure of any one of our computer-based systems for any significant period of time could materially adversely affect our business, financial condition, results of operations and cash flows.

A shut down of our production could adversely affect our financial results and condition.

We maintain a foam resin blending and acrylic coatings production facility and are subject to various national, federal, state, and local environmental laws and regulations. Although we believe that our operations comply in all material respects with the various rules and regulations, we cannot ensure that environmental problems relating to our facility's operations will not develop in the future or, if they were to develop, would not require significant expenditures on our part. If any environmental problems should occur in the future, our operating results may be adversely affected.

Further, if our production facility's processing equipment breaks down or malfunctions for a prolonged period of time, we will have to rely on third party toll blenders to produce our products for us. Such alternate production methods are more costly and start up times may lead to cancellation of orders and adversely affect our business.

Our risk management activities may leave us exposed to unidentified or unanticipated risks.

Although we maintain insurance policies for our business, these policies contain deductibles and limits of coverage. Insurance liabilities are difficult to estimate due to various factors and we may be unable to effectively anticipate or measure potential risks to our company. If we suffer unexpected or uncovered losses, or if any of our insurance policies or programs are terminated for any reason or are not effective in mitigating our risks, we may incur losses that are not covered or that exceed our coverage limits and could adversely impact our results of operations, cash flows and financial position.

We may be unable to generate internal growth.

Our ability to generate internal growth will be affected by, among other factors, our ability to attract new customers, increases or decreases in the number or size of orders received from existing customers, hiring and retaining skilled employees and increasing volume utilizing our existing facilities. Many of the factors affecting our ability to generate internal growth may be beyond our control, and we cannot be certain our strategies will be implemented with positive results or that we will be able to generate cash flow sufficient to fund our operations and to support internal growth. If we do not achieve internal growth, our results of operations will suffer and we will likely not be able to expand our operations or grow our business.

Risks Relating to Our Common Stock

Our common stock is quoted on the OTCQB, and we are a “controlled company”. As a controlled Company, our common stock may be less attractive to some investors or otherwise harm our stock price.

Because we are quoted on the OTCQB and, even if we were to be listed on a securities exchange, we believe we would qualify as a “controlled company,” we are not required to have a majority of our board of directors be independent. Accordingly, should the interests of our controlling stockholder differ from those of other stockholders, the other stockholders may not have the same protections afforded by independent directors to stockholders of companies that are not controlled companies. Our status as a controlled company could make our common stock less attractive to some investors or otherwise harm our stock price.

Delaware law and our corporate charter and bylaws contain anti-takeover provisions that could delay or discourage takeover attempts that stockholders may consider favorable.

Our board of directors is authorized to issue shares of preferred stock in one or more series and to fix the voting powers, preferences and other rights and limitations of the preferred stock. Accordingly, we may issue shares of preferred stock with a preference over our common stock with respect to dividends or distributions on liquidation or dissolution, or that may otherwise adversely affect the voting or other rights of the holders of common stock. Issuances of preferred stock, depending upon the rights, preferences and designations of the preferred stock, may have the effect of delaying, deterring or preventing a change of control, even if that change of control might benefit our stockholders. In addition, we are subject to Section 203 of the Delaware General Corporation Law. Section 203 generally prohibits a public Delaware corporation from engaging in a “business combination” with an “interested stockholder” for a period of three years after the date of the transaction in which the person became an interested stockholder, unless (i) prior to the date of the transaction, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder; (ii) the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding (a) shares owned by persons who are directors and also officers and (b) shares owned by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or (iii) on or subsequent to the date of the transaction, the business combination is approved by the board and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock which is not owned by the interested stockholder. Section 203 could delay or prohibit mergers or other takeover or change in control attempts with respect to us and, accordingly, may discourage attempts to acquire us even though such a transaction may offer our stockholders the opportunity to sell their stock at a price above the prevailing market price.

Your ability to influence corporate decisions may be limited because Richard J. Kurtz owns a controlling percentage of our common stock and our lenders have final authority to approve or reject certain transactions.

Our company is controlled by Richard J. Kurtz, our chairman of the board, who beneficially owns approximately 58.61% of our outstanding common stock. As a result of this stock ownership, Mr. Kurtz can control all matters submitted to our stockholders for approval, including the election of directors and approval of any merger, consolidation or sale of all or substantially all of our assets. This concentration of voting power could delay or prevent an acquisition of our company on terms that other stockholders may desire. In addition, as the interests of Mr. Kurtz and our minority stockholders may not always be the same, this large concentration of voting power may lead to stockholder votes that are inconsistent with the best interests of our minority stockholders or the best interest of us as a whole. Furthermore, pursuant to the terms of our credit agreements with Bank of America, N.A. and Enhanced Capital, we are restricted from, among other things, entering into merger agreements or agreements for the sale of any or all of our assets outside the course of ordinary business. As such, even if certain corporate transactions may be approved by our stockholders, Bank of America, N.A. and Enhanced Capital, as the lenders under our credit agreement, have final authority to approve or reject certain of our transactions. This could lead to us not being able to effect certain transactions that may be in the best interests of our stockholders or our business.

There has been a limited market for our common stock and we cannot ensure investors that an active market for our common stock will be sustained.

There has been limited trading in our common stock and there can be no assurance that an active trading market in our common stock will be maintained. Due to the illiquidity of our common stock, the market price may not accurately reflect our relative value. There can be no assurance that an active market for our shares of common stock will develop in the future. Because our common stock is so thinly traded, even limited trading in our shares has in the past, and might in the future, lead to dramatic fluctuations in share price and investors may not be able to liquidate their investment in us at all or at a price that reflects the value of the business.

Our stock price may be volatile, which could result in substantial losses for investors.

The market price of our common stock is highly volatile and could fluctuate widely in response to various factors, many of which are beyond our control, including the following:

- additions or departures of key personnel, including Richard J. Kurtz, our chairman and majority stockholder;
- sales of our common stock, including management shares;
- our ability to execute our business plan;
- operating results that fall below expectations;
- loss of any strategic relationship;
- industry developments;
- economic and other external factors;
- our ability to manage the costs of maintaining adequate internal financial controls and procedures in connection with the acquisition of additional businesses;
- period-to-period fluctuations in our financial results; and
- announcements of acquisitions.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also significantly affect the market price of our common stock.

Offers or availability for sale of a substantial number of shares of our common stock may cause the price of our common stock to decline.

Sales of a significant number of shares of our common stock in the public market could harm the market price of our common stock and make it more difficult for us to raise funds through future offerings of common stock. Our stockholders and the holders of our options may sell substantial amounts of our common stock in the public market. The availability of these shares of our common stock for resale in the public market has the potential to cause the supply of our common stock to exceed investor demand, thereby decreasing the price of our common stock. In addition, the fact that our stockholders and option holders can sell substantial amounts of our common stock in the public market, whether or not sales have occurred or are occurring, could make it more difficult for us to raise additional financing through the sale of equity or equity-related securities in the future at a time and price that we deem reasonable or appropriate.

We do not expect to pay cash dividends in the future. As a result, any return on investment may be limited to the value of our common stock.

We do not anticipate paying cash dividends on our common stock in the foreseeable future. The payment of dividends on our common stock will depend on our earnings, financial condition and other business and economic factors as our board of directors may consider relevant. In addition, our credit agreements with Bank of America, N.A. and Enhanced Capital restrict our ability to pay cash dividends. If we do not pay dividends, our common stock may be less valuable because a return on your investment will only occur if our stock price appreciates.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. We do not currently have research coverage by securities and industry analysts and you should not invest in our common stock in anticipation that we will obtain such coverage. If we obtain securities or industry analyst coverage and if one or more of the analysts who covers us downgrades our stock or publishes inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, demand for our stock could decrease, which could cause our stock price and trading volume to decline.

We are subject to financial reporting and other requirements for which our accounting, internal audit and other management systems and resources may not be adequately prepared.

We are subject to reporting and other obligations under the Securities Exchange Act of 1934, as amended, including the requirements of Section 404 of the Sarbanes-Oxley Act. Section 404 requires us to conduct management assessments of the effectiveness of our internal controls over financial reporting. These reporting and other obligations place significant demands on our management, administrative, operational, internal audit and accounting resources. Any failure to maintain effective internal controls could have a material adverse effect on our business, operating results and stock price. In addition, our internal controls will also include those of any company or business that we may acquire in the future. Acquired companies or businesses are likely to have different standards, controls, contracts, procedures and policies, making it more difficult to implement and harmonize company-wide financial, accounting, information and other systems. As a result, our internal controls may become more complex and we may require significantly more resources to ensure they remain effective. Failure to implement required new or improved controls, or difficulties encountered in their implementation, either in our existing business or in businesses that we may acquire, could harm our operating results or cause us to fail to meet our reporting obligations.

The requirements of being a public company may strain our resources and divert management's attention.

We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, the Sarbanes-Oxley Act, the Dodd-Frank Act, and other applicable securities rules and regulations. Compliance with these rules and regulations has increased and will continue to increase our legal and financial compliance costs, make some activities more difficult, time-consuming or costly, and increase demand on our systems and resources. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management's attention may be diverted from other business concerns, which could harm our business and operating results. We may need to hire more employees in the future, which will increase our costs and expenses.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management's time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, regulatory authorities may initiate legal proceedings against us and our business may be harmed.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Our operations are conducted in leased facilities located in Houston, Texas and Englewood Cliffs, New Jersey. Our corporate headquarters and primary administrative facility is located in Houston, Texas. We manufacture our foam resins and acrylic coatings, build spray rigs, perform research and development, provide warehousing, and distribute our products from our Houston, Texas facility. We lease an additional facility in Englewood Cliffs, New Jersey, primarily for administration of The AirTight Division's operations. The Company has leases as follows:

Location	Square Footage	Term
Houston, Texas	56,375	01-01-2010 to 05-31-2016
Englewood Cliffs, New Jersey	4,500	Month-to-Month

We believe our present facilities are well maintained, in proper condition to operate at higher than current levels and are adequately insured. We do not anticipate significant difficulty in renewing or extending existing leases as they expire, or in replacing them with equivalent facilities or office locations.

Item 3. Legal Proceedings

Legal Proceedings

- (a) Neil and Kristine Markey, et al., Plaintiffs v. Lapolla Industries, Inc., Delfino Insulation, et al, Defendants.

A complaint initially entitled *Neil and Kristine Markey, individually, and on behalf of all others similarly situated, Plaintiffs, vs. Lapolla industries, Inc.*, a Delaware corporation; Lapolla International, Inc., a Delaware corporation; and Delfino Insulation Company, Inc., a New York Corporation, Defendants, was filed in the United States District Court for the Eastern District of New York and served on or about October 10, 2012 and amended last on November 11, 2013. Plaintiffs brought this lawsuit only individually, having amended out any request for a class action. The complaint alleged, among other things, that Lapolla designed, labeled, distributed, and manufactured spray polyurethane foam insulation, which created a highly toxic compound when applied as insulation resulting in exposure to harmful gases. Plaintiffs sought: actual, compensatory, and punitive damages; injunctive relief; and attorney fees. Lapolla considered the allegations to be without merit and vigorously defended the allegations. On February 4, 2015, the Court dismissed the litigation with prejudice, per the voluntary request of Plaintiffs upon the advice of their new counsel and after their original litigation counsel withdrew citing irreconcilable differences with the Plaintiffs. The Court retained jurisdiction to address a pending motion for sanctions filed by Lapolla. The primary basis for Lapolla's motion for sanctions is the Plaintiffs' and their original attorney's filing of the lawsuit without sufficient factual basis for the claims of personal injury and for failing to comply with discovery obligations to produce numerous potentially dispositive documents that Plaintiffs knew existed and their original counsel either knew or should have known existed. Lapolla seeks to recover over \$800,000 in legal fees for the defense of the lawsuit. All motions have been filed with the Court and Lapolla is awaiting a final ruling. The final outcome of this litigation cannot be determined at this time.

(b) Robert and Cynthia Gibson, individually, and as parents and natural guardians of Robert Harvey Lee Gibson, Plaintiffs v. Lapolla Industries, Inc. and Air Tight Insulation of Mid-Florida, LLC, Southern Foam Insulation, Inc., and Tailored Chemical Products, Inc., Defendants.

On March 5, 2014, the Plaintiffs filed a complaint in the Circuit Court of the 18th Judicial Circuit in and for Seminole County, Florida, against Lapolla, Air Tight Insulation of Mid-Florida, LLC, Southern Foam Insulation, Inc. and Tailored Chemical Products, Inc., alleging, among other things, negligence, strict liability design defect, strict liability failure to warn, breach of express and implied warranties, unjust enrichment, and violation of Florida's deceptive and unfair trade practices act, relating to the design, manufacture, distribution, and installation of Lapolla's spray polyurethane foam insulation, resulting in personal injuries and real property damage. Plaintiffs sought, among other things: actual, compensatory, statutory, and punitive damages; injunctive relief; medical monitoring, and attorney fees. Lapolla vigorously defended the allegations which proved to be without merit. As a result, Plaintiffs, by and through their counsel agreed to drop the lawsuit and dismiss same with prejudice. All parties shall bear their own fees and costs. Settlement documents and releases are currently being prepared and expected to be executed shortly.

(c) Michael Commaroto, Kimberly S. Commaroto, and Gretchen Schlegel, Plaintiffs v. Pasquale Guzzo a/k/a Pasqualino Guzzo PDB Home Improvements, Perfect Wall, LLC, and Jozsef Finta, Defendants.

Pasquale Guzzo a/k/a Pasqualino Guzzo PDB Home Improvements filed a third-party complaint against Lapolla Industries, Inc. in the Superior Court, Judicial District of Stamford/Norwalk, in Connecticut on January 3, 2013. Guzzo is alleging Lapolla's spray polyurethane foam product is a defective product under Connecticut law and seeking indemnification and attorney's fees. On August 28, 2013, Michael Commaroto, Kimberly S. Commaroto, and Gretchen Schlegel filed an amended complaint against Lapolla also asserting the spray polyurethane foam is a defective product. Plaintiffs seek monetary damages, punitive damages, and attorney's fees, among other relief. Lapolla considers the allegations to be without merit and is vigorously defending the allegations. The outcome of this litigation cannot be determined at this time.

(d) Evanston Insurance Company, Plaintiff v. Lapolla Industries, Inc., Defendant.

On October 28, 2013, Evanston Insurance Company filed its original complaint for declaratory judgment against Lapolla industries, Inc. in the Southern District of Texas, Houston Division. Evanston seeks a declaratory judgment that it has no duty to defend or indemnify Lapolla in the Guzzo Litigation. Lapolla made an appearance in the case on February 14, 2014 after being served with a First Amended Complaint. Lapolla considers the allegations to be without merit and is seeking declaration from the court that Evanston does have a duty to defend and indemnify Lapolla. The court ruled on the summary judgment motions on February 23, 2015, finding that Evanston had no duty to defend. The Court signed a final judgment on March 18, 2015. On April 14, 2015, Lapolla filed a Notice of Appeal. Lapolla filed its Appeal with the United States Court of Appeals for the Fifth Circuit on July 13, 2015. This matter concluded on January 11, 2016 with the 5th Circuit affirming the trial court's ruling finding no duty to defend in the Commaroto case.

(e) Joseph Greco and Penny Greco, Plaintiffs v. Lapolla Industries, Inc., Jagodzinski Construction, Inc., and John Does, Defendants.

On August 27, 2014, Joseph Greco and Penny Greco filed a Complaint in New York State Court, County of Monroe, against Lapolla, Jagodzinski Construction, Inc., and John Does. The complaint alleged, among other things, negligence, strict liability failure to warn, breach of express and implied warranties, unjust enrichment, violations of the NY deceptive trade practices act, and a NY false advertising statute, relating to the design, manufacture, distribution, and installation of Lapolla's spray polyurethane foam insulation, allegedly resulting in personal injuries and real property damage. The Grecos sought, among other things: general, compensatory, and punitive damages; restitution, and attorney fees, costs, and disbursements. Lapolla vigorously defended the allegations which proved to be without merit. As a result, Plaintiffs, by and through their counsel agreed to drop all claims against Lapolla and dismiss same with prejudice. Plaintiffs and Lapolla shall bear their own fees and costs. Settlement documents and releases are currently being prepared and expected to be executed shortly. Notwithstanding, Jagodzinski Construction, Inc. continues to seek contribution rights as to Lapolla for any of Plaintiffs' alleged damages. Lapolla is vigorously defending same claim, and asserts that it is of no merit. The outcome of the Jagodzinski contribution aspect is undetermined at this time.

(f) Various Lawsuits and Claims Arising in the Ordinary Course of Business

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

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for the Company's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

Market Information

The following table shows the range of high and low bid information for our common stock for each full quarterly period within the two most recent fiscal years. Our common stock is quoted on the OTCQB under the symbol "LPAD" and such over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

<i>Calendar Quarter</i>	2015		2014	
	<i>High</i>	<i>Low</i>	<i>High</i>	<i>Low</i>
First	\$ 0.45	\$ 0.35	\$ 0.78	\$ 0.41
Second	\$ 0.44	\$ 0.35	\$ 0.62	\$ 0.36
Third	\$ 0.38	\$ 0.18	\$ 0.56	\$ 0.28
Fourth	\$ 0.35	\$ 0.15	\$ 0.49	\$ 0.30

As of March 24, 2016, there were 340 holders of record of our common stock.

We have not declared or paid cash dividends on our common stock during the two most recent fiscal years, and we do not intend to pay any cash dividends on our common stock during the foreseeable future. Rather, we intend to retain future earnings (if any) to fund the operation and expansion of our business and for general corporate purposes. Subject to legal and contractual limits, our board of directors will make any decision as to whether to pay dividends in the future.

In addition, our Loan and Security Agreement with Bank of America, N.A., effective September 1, 2010 ("Loan Agreement"), and Note Purchase Agreement with Enhanced Jobs for Texas Fund, LLC and Enhanced Credit Supported Loan Fund, LP, dated December 10, 2013 ("Enhanced Note"), restrict our ability to pay cash dividends due to the limitation on the amount of distributions we are able to pay in order to be in compliance with our fixed charge coverage ratio ("FCCR") debt covenants in such agreements. The FCCR is tested monthly as of the last day of each calendar month for the twelve-month period then ended, and must be at least 1.0 to 1.0 under the Loan Agreement and 1.25 to 1.0 under the Enhanced Note. *See* Part II, Item 7 "Management Discussion and Analysis of Financial Condition and Results of Operations, Liquidity and Capital Resources" for more information.

Recent Sales of Unregistered Securities.

(a) During the quarterly period ended December 31, 2015, the Company issued an aggregate of 308,707 shares of common stock pursuant to a one-time grant of 3,681,000 shares of common stock, which is vesting monthly on a pro rata basis over a three year period, to Mr. Kurtz, the Chairman, in exchange for his personal guaranty of the Company's obligations under the Enhanced Note ("Guaranty Shares"). These shares were valued at \$.60 per share, and \$185,224 in aggregate, of which 104,021 shares were issued on October 31, 2015 and valued and recorded at \$62,413, 100,665 shares were issued on November 30, 2015 and valued and recorded at \$60,400, and 104,021 were issued on December 31, 2015 and valued and recorded at \$62,413. 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 the issuance.

(b) During the quarterly period ended December 31, 2015, the Company issued an aggregate of 20,981 shares of common stock, which vested upon issuance, to Mr. Nadel, the Vice Chairman, in accordance with the anti-dilution provision in his advisory and consulting agreement with the Company, of which 7,718 shares were issued on October 31, 2015 and valued and recorded at \$0.29 per share, or \$2,238, 7,469 shares were issued on November 30, 2015 and valued and recorded at \$0.29 per share, or \$2,166, and 5,794 shares were issued on December 31, 2015 and valued and recorded at \$0.32 per share, or \$1,825. The issuances of these shares to Mr. Nadel 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. Mr. Nadel was an accredited investor (as defined by Rule 501 under the Securities Act) at the time of the issuance.

Issuer Purchases of Equity Securities.

We did not repurchase any of our securities during the fourth quarter of the fiscal year ended December 31, 2015.

Item 6. Selected Financial Data.

Not applicable.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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 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 each of the two years in the period ended December 31, 2015, and our financial condition at December 31, 2015.

Except for the historical information contained herein, the following discussion contains forward-looking statements which are subject to known and unknown risks, uncertainties and other factors that may cause our actual results to differ materially from those expressed or implied by such forward-looking statements. We discuss such risks, uncertainties and other factors throughout this report and specifically under Item 1A of Part I of this report, entitled "*Risk Factors* ." In addition, the following review should be read in conjunction with information presented in Part I, *Item 1 – Business* relating to non-GAAP financial measures EBITDA and Adjusted EBITDA, as well as the information presented in our financial statements and the related notes to our financial statements.

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.

Results of Operations

Summary

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

	Year Ended December 31,	
	2015	2014
<i>Summary of Overall Results of Operations</i>		
Sales	\$ 78,649,329	\$ 72,065,015
Operating Income (Loss)	2,054,740	(1,515,296)
Other (Income) Expense	2,239,606	2,145,653
Net Loss	(576,881)	(3,660,949)
EBITDA (Unaudited)	\$ 2,858,386	\$ (586,234)
Adjusted EBITDA (Unaudited)	\$ 4,087,697	\$ 504,961
<i>Reconciliation of EBITDA and Adjusted EBITDA to Net Loss:</i>		
Net Loss:	\$ (576,881)	\$ (3,660,949)
Additions / (Deductions):		
Interest Expense	1,318,859	1,193,298
Interest Expense – Related Party	775,424	805,608
Interest Expense – Amortization of Discount	181,203	182,444
Tax Expense (Benefit)	517,619	220,230
Depreciation	357,995	394,309
Amortization of Other Intangible Assets	284,167	278,826
EBITDA	\$ 2,858,386	\$ (586,234)
Additions / (Deductions):		
Share Based Compensation (1)	1,229,311	1,091,195
Adjusted EBITDA	\$ 4,087,697	\$ 504,961

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

Sales

The following is a summary of sales for the years ending December 31:

	2015	2014	% Change
Foam	\$ 66,029,544	\$ 62,477,449	5.7%
Coatings	12,619,785	9,587,566	31.6%
Total Sales	\$ 78,649,329	\$ 72,065,015	9.1%

For the year ended December 31, 2015, our total sales increased by \$ 6,584,314 , from \$ 72,065,015 to \$ 78,649,329 , or an increase of 9.1% from the same period in 2014. Foam sales increased \$ 3,552,095 primarily due to higher demand for our foams attributed to cost conscious residential and commercial building owners transitioning from traditional fiberglass insulation to energy efficient spray polyurethane foam. Coatings sales increased \$ 3,032,219 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 years ending December 31:

	2015	2014	% Change
Cost of Sales	\$ 60,264,197	\$ 58,460,940	3.1%
Gross Profit	\$ 18,385,132	\$ 13,604,075	35.1%
Gross Margin Percentage:			
Foam	22.2%	17.8%	24.7%
Coatings	29.7%	25.6%	16.0%
Total	23.4%	18.9%	23.8%

For the year ended December 31, 2015, our gross profit increased by \$ 4,781,057, from \$13,604,075 to \$18,385,132, or an increase of 35.1% from the same period in 2014. The increase in gross profit was driven by operational and manufacturing efficiencies, including a decrease of \$3,400,000 in purchased feedstock, freight, and other manufacturing costs. The Company's increase in sales contributed an additional \$1,200,000 of gross profit year over year. The remaining increase in gross profit is attributable to minor decreases in manufacturing depreciation and absorption.

Operating Expenses

Selling, general and administrative expenses increased \$ 672,721 or 5.1%, to \$ 13,932,641 in 2015, compared to \$ 13,259,920 in 2014, primarily due to increases of \$587,111 in corporate administration expenses, \$114,787 in costs related to marketing and promotions, \$121,814 in share based compensation, and an increase of \$336,505 in sales commissions. These increases were offset by decreases of \$286,852 in bad debt expense and \$214,092 in travel related services and a combination of other minimal fluctuations.

Professional fees increased \$ 242,989 or 26.5%, to \$ 1,158,358 in 2015, compared to \$ 915,369 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 2014.

Depreciation expense decreased \$ 20,500 or 12.3%, to \$ 145,793 in 2015, compared to \$ 166,293 in 2014, due to reductions in depreciable assets.

Amortization of other intangible assets expense remained relatively flat, increasing \$ 5,341 or 1.9%, to \$ 284,167 in 2015, compared to \$ 278,826 in 2014.

Consulting fees increased \$ 310,470 or 62.2% to \$ 809,433 in 2015, compared to \$ 498,963 in 2014, primarily due to an increase for recruiting services for our sales force and research and development department, and consulting services for our sales and equipment departments.

Other (Income) Expense

Interest expense increased \$ 125,561 or 10.5%, to \$ 1,318,859 in 2015, compared to \$ 1,193,298 in 2014, primarily due to a higher amount outstanding on the Enhanced Note.

Interest expense – related party decreased \$ 30,184 or 3.7%, to \$ 775,424 in 2015, compared to \$ 805,608 in 2014, due to a decrease in accrued interest for the promissory notes held by our chairman and principal stockholder.

Interest expense – amortization of discount remained flat, decreasing \$ 1,241 or 0.7%, to \$ 181,203 in 2015, compared to \$ 182,444 in 2014.

Other income, net remained flat, decreasing \$ 183 or 0.5%, to \$ 35,880 in 2015, compared to \$ 35,697 in 2014.

Outlook for 2016

The Company's outlook remains aggressive and positive, as we expect sales to grow globally in 2016. Our optimism is based on our belief that there is a growing global consumer awareness about energy efficient foams and coatings and reductions in energy costs. The markets for our products are highly competitive; however, we believe that our competitive advantages are rooted in our management, product formulations, credentials, approvals, performance, pricing, and technical customer service. In addition, we offer the flexibility, quality of products and responsiveness that a smaller more dynamic company can offer. This outlook is based on a number of assumptions relating to our business and operations which are subject to change, some of which are outside our control. Any variation in our assumptions may result in a change in this outlook.

Liquidity and Capital Resources

We do not maintain any cash on hand by design. Instead, we maintain a \$12 Million asset based revolver loan as part of our Loan Agreement with Bank of America (“Revolver Loan”) that includes an automatic cash sweep feature that identifies any cash available in our bank accounts at the end of a banking business day and then applies that cash to reduce our outstanding Revolver Loan balance for that day to fund our continuing operations. The reduction serves to decrease our daily interest expense to the extent cash is available and swept over to reduce the Revolver Loan. Disbursements are paid daily from cash being made available under our Revolver Loan based on a borrowing base calculation prepared daily for funding.

The following is a summary of operating, investing, and financing activities as reflected in the statement of cash flows for the years ending December 31:

	2015	2014	% Change
Cash provided by (used in):			
Operating activities	\$ (825,073)	\$ (997,146)	(17.3)%
Investing activities	(76,189)	(144,096)	(47.1)%
Financing activities	901,262	1,141,242	(21.0)%
Net increase (decrease) in cash	\$ —	\$ —	

Net cash used in operating activities decreased by \$172,073 in 2015, compared to 2014, primarily due to an improvement in operating results offset by an increase in working capital.

Net Working Capital	2015	2014	% Change
Current assets	\$ 19,395,961	\$ 15,316,079	26.6%
Current liabilities	9,207,709	8,744,033	5.3%
Net working capital	10,188,252	6,572,046	55.0%
Current ratio	2.11:1	1.75:1	

Net working capital increased in 2015, compared to 2014, primarily due to an increase in accounts receivables and inventories, and a reduction in accounts payable, which was offset by an increase in accrued expenses and other current liabilities.

Net cash used in investing activities was \$ 76,189 in 2015 and \$ 144,096 in 2014. We invested \$ 76,189 in property, plant and equipment in 2015, of which \$ 4,202 was for vehicles, \$ 13,932 was for machinery and equipment, \$ 4,090 was for office furniture and equipment, \$ 53,965 was for computers and software. We invested \$207,191 in property, plant and equipment in 2014, of which \$118,047 was for vehicles, \$43,473 was for upgrades to our IT systems, \$39,214 was for machinery and equipment related to our manufacturing facilities, and \$6,457 was for computers and software. We disposed of certain assets for net proceeds of \$63,095, all of which were vehicles.

Net cash provided by financing activities was \$ 901,262 in 2015 and \$1,141,242 in 2014. In 2015, we borrowed a cumulative aggregate of \$ 83,858,278 and made principal repayments for a cumulative aggregate of \$ 82,557,016 under our Revolver Loan. The Company borrowed \$250,000 from the chairman of the board in January 2015 which the company paid in December 2015 including an additional \$250,000 owed from November 2014. The chairman of the board paid \$150,000 to the Enhanced Note on behalf of the Company. In 2014, we borrowed a cumulative aggregate of \$75,459,796 and made principal repayments for a cumulative aggregate of \$74,563,955 under our Revolver Loan, \$250,000 from our chairman of the board, and \$4,599 on our long term debt primarily related to financed vehicles. We had a net working capital of \$ 10,188,252 in 2015 and \$6,572,046 in 2014. Our current assets were approximately 2.1 times our current liabilities in 2015 and 1.8 times our current liabilities in 2014. Cash available under our Revolver Loan based on the borrowing base calculation at December 31, 2015 and 2014 was \$2,028,241 and \$2,754,601, respectively.

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 Enhanced Note to prepay the amount raised up to the amount outstanding under the Enhanced Note as of the date of the closing of the transaction out of the net proceeds of the capital raised.

Credit Agreements and Other Debt

On September 1, 2010, we entered into our Loan Agreement with Bank of America, N.A., which, as amended from time to time, provides for our \$12,000,000 Revolver Loan. At December 31, 2015 and 2014, the balance outstanding on the Revolver Loan was \$ 6,736,267 and \$5,435,005, respectively. The Company has three material debt covenants to comply with on 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 up to \$6,000,000, or if the Company elects to have an inventory appraisal performed, plus the lesser of 65% of eligible inventory or 85% of the net orderly liquidation value percentage of eligible inventory, up to \$6,000,000; and (iii) Maintain an FCCR, 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. The Company is required to submit its borrowing base calculation to Bank of America weekly. 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 December 31, 2015, we were in compliance with our Loan Agreement and debt covenants.

On December 10, 2013, we entered into our Enhanced Note with Enhanced Jobs for Texas Fund, LLC and Enhanced Credit Supported Loan Fund, LP, which, as amended from time to time, provided us with an aggregate of \$7.2 Million in cash to refinance a balance of \$3,346,762 outstanding on December 10, 2013 from a prior Enhanced financing arrangement and increase our working capital for the difference. Repayment of the Enhanced Note by the Company is required on the maturity date of December 10, 2017. The aggregate interest rate of 11.5% per annum is payable monthly and will increase to 12.5% per annum if the Enhanced Note has a balance greater than \$4,000,000 after April 30, 2016. The Company has the right to prepay the Enhanced Note without penalty at this time and the Chairman has committed to ensure funding is in place at least ninety (90) days prior to the maturity date of the Enhanced Note so the maturity date of our Loan Agreement with Bank of America is not accelerated. In addition, pursuant to the chairman's guaranty, as amended from time to time, of the Enhanced Note, a payment of \$2,000,000 is required from him by April 30, 2016 if the Company elects not to repay that amount to Enhanced. The Company also entered into a security agreement with the Enhanced Note providing for a second lien on all assets of the Company after Bank of America, which has a first lien on all asset of the Company. The Company has four material debt covenants to comply with on the Enhanced Note: (i) Capital expenditures are limited to \$625,000 on an annual basis, (ii) A minimum Adjusted EBITDA which cannot, for the three (3) months ending on the last day of each month set forth in a schedule, be less than the corresponding amount set forth in the schedule for such period, (iii) Maintain an FCCR, tested monthly as of the last day of each calendar month, in each case for the most recently completed twelve calendar months, equal to at least 1.25 to 1.0, and (iv) Maintain minimum liquidity equal of \$500,000. At December 31, 2015, we were in compliance with our Enhanced Note and debt covenants.

We also borrowed an aggregate of \$500,000 from our chairman of the board and majority stockholder, of which \$250,000 was received on November 12, 2014 and \$250,000 was received on January 21, 2015, and repaid the principal balance to the chairman on December 21, 2015.

Future Minimum Principal Payments on Long-Term Debt

At December 31, 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	\$ —	\$ 6,736,267	\$ —	\$ —	\$ 6,736,267
Enhanced Note	—	7,519,026	—	—	7,519,026
Total	\$ —	\$ 14,255,293	\$ —	\$ —	\$ 14,255,293

Off Balance Sheet Arrangements

As of December 31, 2015, we had no off-balance sheet arrangements.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with GAAP requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of our financial statements and the reported amounts of revenues and expenses during the reporting period. The accounting policies that we believe require more significant estimates and assumptions include: the valuation of goodwill, other intangible assets, and allowances for doubtful accounts. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable. We evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ significantly from these estimates under different assumptions or conditions.

We believe that of our significant accounting policies, which are described below in this Item 7, and in Note 1 to our audited financial statements included in this Annual Report on Form 10-K, the following accounting policies involve a greater degree of judgment and complexity. Accordingly, these are the policies we believe are the most critical to aid in fully understanding and evaluating our financial condition and results of operations.

Goodwill

Goodwill represents the excess of the aggregate purchase price over the fair value of net tangible and identifiable intangible asset of an acquired business. Goodwill was \$4,234,828 at December 31, 2015 and 2014. The Company operates two reporting units, Foam and Coatings. Disclosures related to goodwill are included in Note 9 to our audited financial statements. The Company evaluates goodwill for impairment on an annual basis, or more frequently if management believes indicators of impairment exist, by comparing the carrying value of each of reportable unit, including assigned goodwill, to their estimated fair values. The annual evaluation is performed as of the last day of a calendar year or December 31, and the most recent evaluation of goodwill impairment was performed on December 31, 2015. Management uses the income and market approaches to estimate the fair value of reporting units based on expected future economic benefits. The income approach serves to estimate the value of the specific income stream with consideration given to the risk inherent in that income stream. Lapolla used the discounted cash flow method under the income approach in its analysis. In applying the discounted cash flow method, Lapolla identified the level of cash flow estimated for five years. The annual estimated cash flows and terminal value were then discounted to present value, at an appropriate discount rate, to arrive at an indication of fair market value for each reporting unit. The discount rate utilized reflected the estimate of investor-required rates of return for investments that are seen as similar to an investment in similarly situated companies like Lapolla. The assumptions were consistent with those utilized in the Company's operating plan and long term financial planning process and considered historical experience and current and future expected market and industry conditions. Lapolla used revenue and EBITDA market multiples under the market approach in its analysis. These multiples were obtained from comparable companies and applied to current and projected measures. Management judgment is required in the determination of each assumption used in the valuation model, and actual results could differ from the estimates. Upon completion of the 2015 and 2014 annual impairment assessments, the Company determined no impairment was indicated as the estimated fair value of each of the reporting units substantially exceeded its respective carrying value.

Other Intangible Assets

The Company had other intangible assets consisting of product formulations, and trade names that were acquired as part of business combinations, and trademarks and approvals and certifications obtained as part of entering into new markets. Other intangible assets are tested for impairment as part of the long-lived asset grouping impairment tests. Impairment testing of the assets occurs whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Such circumstances would include a significant decrease in the market value of an asset, a significant adverse change in the manner in which the asset is being used or in its physical condition, a history of operating or cash flow losses associated with the use of the asset, or changes in the expected useful life of the asset. If such circumstances are determined to exist, an estimate of undiscounted future cash flows produced by that asset is compared to the carrying value to determine whether impairment exists. If an asset is determined to be impaired, the loss is measured based on the difference between the asset's fair value and its carrying value. An estimate of the asset's fair value is based on various valuation methodologies. Assets to be disposed of by sale are reported at the lower of carrying amount or fair value less cost to sell. The assumptions underlying cash flow projections represent our best estimates at the time of the impairment review. The assumptions used during 2015 and 2014 were consistent with those utilized in the Company's operating plan and long term financial planning process and considered historical experience and current and future expected market and industry conditions. Management judgment is required in the determination of each assumption used in the valuation model, and actual results could differ from the estimates. There were no long-lived asset impairment charges recorded during the years ended December 31, 2015 or 2014.

Allowance for Doubtful Accounts

The Company presents trade receivables, net of allowances for doubtful accounts, to ensure trade receivables are not overstated due to uncollectible accounts. Allowances, when required, are calculated based on a detailed review of certain individual customer accounts, including credit insurance and other security when applicable, and an estimation of the overall economic conditions affecting our customer base. The Company reviews a customer's credit history before extending credit. The allowance for doubtful accounts was approximately \$ 545,000 and \$ 617,000 at December 31, 2015 and 2014, respectively. If the financial condition of customers were to deteriorate based on worsening overall economic conditions, resulting in an impairment of their ability to make payments to the Company, then additional allowances may be required in future periods.

See also generally Note 1 – Summary of Organization, Basis of Presentation, and Critical Accounting Policies, Estimates, and Assumptions in our financial statements listed under Item 15 of Part IV of this report.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

Not applicable.

Item 8. Financial Statements and Supplementary Data

The information required by this Item is incorporated herein by reference to the financial statements set forth in Item 15 of Part IV of this report, "Exhibits and Financial Statement Schedules."

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

We conducted an evaluation of the effectiveness of our “disclosure controls and procedures,” as defined by Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended, as of December 31, 2015, the end of the period covered by this Annual Report on Form 10-K. The disclosure controls and procedures evaluation was done under the supervision and with the participation of management, including our chief executive officer and chief financial officer. 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 December 31, 2015.

(b) Management’s Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external reporting purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness of internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate over time.

Management, including our chief executive officer and our chief financial officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2015. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control—Integrated Framework 2013. Based on its assessment and those criteria, management has concluded that we maintained effective internal control over financial reporting as of December 31, 2015.

(c) Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Directors and Executive Officers

Set forth below is the biographical information and the qualifications and skills for each director and named executive officer, their ages, and their principal occupations for at least the past five years and their public-company directorships. All directors hold office for one-year terms or until the election and qualification of their successors. Officers are elected by the board of directors and serve at the discretion of the board.

Richard J. Kurtz

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Chairman of the Board

Mr. Kurtz was appointed to our board of directors on November 23, 1998 and chairman of the board on February 8, 1999. He has been chief executive officer of the Kamson Corporation, a privately held corporation, in business for the past 37 years. The Kamson Corporation owns and operates 81 investment properties in the Northeastern U.S. Mr. Kurtz is a graduate of the University of Miami and a member of its President's Club. Most notably, the Chamber of Commerce in Englewood Cliffs and the Boy Scouts of America chose him Man of the Year. Mr. Kurtz is currently vice president and a member of the board of directors for the Jewish Community Center on the Palisades in Tenafly, New Jersey. He is also an elected member of the Board of Trustees and Foundation Board for the Englewood Hospital and Medical Center of New Jersey and the Board of Governors for the Jewish Home and Rehabilitation Center. We believe that Mr. Kurtz' leadership, drive and determination, as well as his background in the real estate and property management industries, make him a valuable resource on our board of directors.

Jay C. Nadel

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Vice Chairman of the Board

Mr. Nadel was appointed to our board of directors on January 16, 2007 and, in connection with an advisory agreement, became vice chairman of the board on February 22, 2011. He has been chairman of the board of Englewood Hospital and Medical Center Foundation since October 1, 2013 and was chairman of Englewood Hospital and Medical Center and Englewood Healthcare System. In addition to being an independent consultant since 2004, Mr. Nadel has been an employee of R.F. Lafferty & Co. since May 2012. As a senior financial services executive, Mr. Nadel has extensive business management and operations experience. From 2002 to 2004, he was executive vice president of Bank of New York's Clearing Services, where he oversaw strategic planning. From 1986 to 2001, he was a partner in the investment firm of Weiss, Peck & Greer/Robeco, where he was chairman of the operations committee and managing director of the firm's Clearing Services Division. From 1980 to 1986, he worked at KPMG Peat Marwick, New York, where he provided audit services attaining the position of manager. Mr. Nadel has been a Certified Public Accountant since 1980 and has a Bachelor of Science degree from the University of Maryland. We believe that Mr. Nadel's leadership and management experiences, as well as his financial background and qualifications, makes him a valuable resource on our board of directors.

Lt. Gen. Arthur J. Gregg (US Army) (Ret.)

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Director

Lt. Gen. Gregg was appointed to our board of directors on February 21, 2000 and is the chairperson of the compensation committee. He enlisted in the United States Army in January 1946, and was commissioned through Officer's Candidate School in May 1950. He served for more than 35 years and retired in August 1981 in the grade of Lieutenant General. His most significant assignments included Commander, Army and Air Force Exchange System, Europe; Deputy Chief of Staff for Logistics, United States Army, Europe; Director for Logistics in the Organization of the Joint Chiefs of Staff; and the Army's Deputy Chief of Staff for Logistics. Following retirement in 1981, Lt. Gen. Gregg held several corporate assignments at the vice president, president, and chief executive officer levels. He retired from active management in 1998, but continues to serve on several corporate boards. He chairs three of these boards. A graduate of Saint Benedict College, Atchison, Kansas, with a Bachelor of Science degree in Business Administration [summa cum laude], the Army War College and the Command and General Staff College. Lt. Gen. Gregg also attended the Executive Program in National Security at the Harvard University's John F. Kennedy School of Government. We believe that Lt. Gen. Gregg's extensive business experience, as well as his executive leadership experience, make him a valuable resource on our board of directors.

Augustus J. Larson

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Director

Mr. Larson was appointed to our board of directors on January 16, 2007 and is the chairperson of the audit committee. He is a principal of Larson Capital, LLC, a commercial real estate finance and investment company in Far Hills, New Jersey. He founded Larson Capital, LLC in 2004. From 1985 to 2001, Mr. Larson was a principal of Larson Financial Resources, a New Jersey based commercial mortgage banking firm. In 2001, Larson Financial Resources was sold to PW Funding; and Mr. Larson served as a managing director of PW Funding and directed its commercial and multi-family real estate loan production in the metro New Jersey and New York markets until 2004. Mr. Larson is a former councilman in the Borough of Far Hills, New Jersey. He has a Bachelor of Arts degree from Colgate University. He is also a Certified Mortgage Banker and an active member in numerous professional and charitable organizations. We believe that Mr. Larson's extensive background in finance makes him a valuable member of our board of directors.

Douglas J. Kramer

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Director, CEO and President

Mr. Kramer joined the Company in February 2005 as president and chief operating officer and was named chief executive officer and president on July 12, 2006. He was appointed to the board of directors on January 16, 2007. Mr. Kramer has 26 years' experience in the spray polyurethane foam and acrylic coatings business. Prior to joining Lapolla, he was vice president of the Construction Products Division for Foam Enterprises, LLC, a wholly-owned subsidiary of the BASF Corporation, where he was employed from 1997 to 2004. Mr. Kramer has a background in Liberal Arts from Penn State University and the University of Texas. We believe that Mr. Kramer's extensive background in the building and construction products industries, as well as his familiarity with our day-to-day operations, make him a valuable member of our board of directors.

Michael T. Adams**50****Director, CGO, EVP and Secretary**

Mr. Adams is one of the founders of the Company starting on January 1, 1997. He was appointed to the board of directors on December 20, 2004 and is chairperson of the corporate governance committee. Mr. Adams was appointed chief governance officer on July 12, 2006, and has been executive vice president and secretary since March 1, 1999. During his term with Lapolla, Mr. Adams also served as president and interim chief executive officer, treasurer and interim chief financial officer (including from December 18, 2014 until December 31, 2014), to facilitate management successions, and held various officer positions in the Company's former subsidiaries starting on January 1, 1997. Mr. Adams earned his Bachelor of Science and Master of Science in business administration, and Juris Doctor degrees from Nova Southeastern University, Fort Lauderdale, Florida. We believe that Mr. Adams' extensive background in business administration, as well as corporate governance, and his long experience with our Company make him a valuable member of our board of directors.

Jomarc C. Marukot**38****CFO and Treasurer**

Mr. Marukot joined Lapolla on January 1, 2015 as chief financial officer and treasurer. Mr. Marukot was previously the Company's controller, from January 2012 to October 2014, and senior accountant, from May 2009 to December 2011. Prior to rejoining the Company, he worked for K LX Energy Services, a division of K LX, Inc., as assistant controller from November 2014 to December 2014. From May 2008 to April 2009, Mr. Marukot served as senior analyst for payroll accounting and compliance at Key Energy Services, Inc. From December 2004 to April 2008, Mr. Marukot worked at Continental Airlines, Inc., with his last position as supervisor for payroll accounting. Mr. Marukot earned his Bachelor of Science degree in Business Administration with a specialization in Accounting from the University of Houston, Texas.

Harvey L. Schnitzer**57****COO**

Mr. Schnitzer joined Lapolla on April 5, 2012 as chief operating officer. Before joining Lapolla, he held positions as chief operating officer, chief financial officer, and executive vice president at Energy Maintenance Services Group I, LLC (EMS), a private equity-backed oil and gas services company, from 2003 to 2011, where he was responsible for raising over \$210 million in equity and debt and completed 25 acquisitions. Mr. Schnitzer earned his Bachelor of Science degree in Accounting from Fairleigh Dickenson University in Madison, New Jersey, and Executive MBA from Loyola College in Baltimore, Maryland. He has completed MIT Executive Education in Negotiation and Managing Change in a Complex Organization. Mr. Schnitzer is a certified public accountant.

The board of directors regards all of the individuals above as competent professionals with many years of experience in the business community. The board of directors believes that the overall experience and knowledge of the members of the board of directors will contribute to the overall success of our business.

Family Relationships

There are no family relationships among any of the directors or executive officers of the Company.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors and officers, and persons who own more than ten percent of our common stock, to file with the SEC initial reports of ownership and reports of changes in ownership of our common stock. Directors, officers and persons who own more than ten percent of our common stock are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file. To our knowledge, based solely on review of the copies of such reports furnished to us, during the fiscal year ended December 31, 2015, each of our directors, officers and greater than ten percent stockholders complied with all Section 16(a) filing requirements applicable to our directors, officers and greater than ten percent stockholders, except for one late Form 4 filed by Michael T. Adams, chief governance officer, executive vice president, and secretary, on March 19, 2015 with respect to one transaction that occurred during the year ended December 31, 2015.

Code of Business Ethics and Conduct

We have adopted a Code of Business Ethics and Conduct, which contains general guidelines for conducting our business and is designed to help directors, employees and independent consultants resolve ethical issues in an increasingly complex business environment. The Code of Business Ethics and Conduct applies to all directors, consultants and employees, including our principal executive officer and our principal financial officer and any other employee with any responsibility for the preparation and filing of documents with the SEC. The Code of Business Ethics and Conduct covers topics including, but not limited to, conflicts of interest, confidentiality of information and compliance with laws and regulations. A copy of the Code of Business Ethics and Conduct is available in the Corporate Governance section of our website at <http://www.lapolla.com/investor-relations/corporate-governance/>. The information on our website is not incorporated by reference in this Annual Report. We intend to disclose future amendments to certain provisions of the code of ethics, or waivers of such provisions, granted to certain executive officers, on this website within four business days following the date of such amendment or waiver.

Board Committees

Our board of directors has established an audit committee, a corporate governance committee, and a compensation committee, each of which has the composition described below.

Audit Committee

Our audit committee is currently comprised of Augustus J. Larson and Lt. Gen. Arthur J. Gregg, US Army (Ret), each of whom our board has determined to be financially literate and qualify as an independent director. Mr. Larson is the chairperson of our audit committee. In addition, Mr. Larson qualifies as our financial expert, as defined in Item 407(d)(5)(ii) of Regulation S-K. Our audit committee charter is available on our website at <http://www.lapolla.com/investor-relations/corporate-governance/>.

Corporate Governance Committee

Our corporate governance committee is currently comprised of Michael T. Adams, Arthur J. Gregg, and Augustus J. Larson. Our board has determined that Mr. Gregg and Mr. Larson qualify as independent directors. Mr. Adams is the chairperson of our corporate governance committee. Our director selection process criterion and corporate governance committee charter are available on our website at <http://www.lapolla.com/investor-relations/corporate-governance/>.

Compensation Committee

Our compensation committee is currently comprised of Arthur J. Gregg and Augustus J. Larson, each of whom our board has determined to qualify as an independent director, an “outside director” for purposes of Section 162(m) of the Internal Revenue Code, and a “non-employee director” for purposes of Section 16b-3 under the Securities Exchange Act of 1934, as amended, and does not have a relationship to us which is material to his ability to be independent from management in connection with the duties of a compensation committee member. Mr. Gregg is the chairperson of our compensation committee. Our compensation committee charter is available on our website at <http://www.lapolla.com/investor-relations/corporate-governance/>.

Item 11. Executive Compensation

Overview

The compensation committee administers the compensation policies and programs for our named executive officers, as well as the cash- and equity-based incentive compensation plans in which those persons may participate. The compensation committee has not retained the services of any compensation consultants in connection with the compensation of our executive officers.

Compensation Objectives

The compensation committee’s philosophy is to provide a compensation package that attracts, motivates and retains executive talent, and delivers rewards for superior performance as well as consequences for underperformance. The objectives of the Compensation Committee’s compensation practices are to:

- provide a total compensation program that is competitive in the industry in which we compete for executive talent;
- place a significant portion of executive compensation at risk by linking such compensation to the achievement of corporate financial performance objectives and individual objectives;
- provide long-term incentive compensation that focuses executives’ efforts on building stockholder value by aligning their interests with our stockholders; and
- provide incentives that promote executive retention. In designing and administering our executive compensation programs, we attempt to strike an appropriate balance among these elements, as discussed below.

The major compensation elements for our named executive officers are base salary, annual and other bonuses, equity awards, insurance benefits, and company provided vehicle or vehicle allowances. Each of these elements is an integral part of and supports our overall compensation objectives. Base salaries (other than increases), insurance benefits and perquisites form stable parts of our named executive officers’ compensation packages that are not necessarily dependent on our performance during a particular year. We set these compensation elements at competitive levels so that we are able to attract, motivate and retain highly qualified executive officers. Consistent with our performance-based philosophy, we reserve the largest potential compensation for performance- and incentive-based awards. These awards include annual bonuses and long-term awards that are primarily based on our financial performance and consisting of compensation in the form of cash, stock bonuses, and stock options to provide incentives that are tied to both our short-term and long-term performance. Our performance-based annual bonuses reward short-term and long-term performance, while our stock options reward long-term performance and align the interests of management with our stockholders. We additionally provide for retention of certain named executive officers through bonuses in the case of a change in control.

2015 and 2014 Summary Compensation Table

The table below sets forth, for the fiscal years ended December 31, 2015 and 2014, the compensation paid to our named executive officers: (i) Douglas J. Kramer, our chief executive officer and president and a member of our board; (ii) Michael T. Adams our chief governance officer, executive vice president and corporate secretary and a member of our board, who also served as our interim chief financial officer and treasurer from December 18, 2014 through December 31, 2014; (iii) Charles A. Zajackowski, who served as our former chief financial officer and treasurer from May 10, 2010 to December 18, 2014; (iv) Jomarc C. Marukot, our current chief financial officer and treasurer and former corporate controller from January 1, 2014 to October 24, 2014; and (v) Harvey L. Schnitzer, our chief operating officer.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$) ⁽¹⁾	Options Awards (\$) ⁽¹⁾	All Other Compensation (\$)	Total (\$)
Douglas J. Kramer	2015	350,000	200,000 ⁽²⁾	—	224,784	46,451 ⁽³⁾	821,235
CEO and President	2014	350,000	3,254	—	351,795	43,319	748,368
Michael T. Adams	2015	180,000	68,000 ⁽⁴⁾	—	49,663	16,930 ⁽⁵⁾	314,593
CGO, EVP and Secretary	2014	180,000	5,000	—	43,704	16,383	245,087
Charles A. Zajackowski ⁽⁶⁾	2015	—	—	—	—	—	—
Former CFO and Treasurer	2014	165,860	—	—	—	21,854 ⁽⁷⁾	187,714
Jomarc C. Marukot	2015	184,154	66,500 ⁽⁸⁾	—	—	22,214 ⁽⁹⁾	272,868
CFO and Treasurer	2014	107,692	—	—	—	—	107,692
Harvey L. Schnitzer	2015	250,000	87,500 ⁽⁸⁾	16,250	72,906	24,025 ⁽¹⁰⁾	450,681
COO	2014	250,000	—	32,500	37,780	22,498	342,778

(1) The amounts reported represent the aggregate grant date fair value of the awards, calculated in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification Topic 718—Compensation—Stock Compensation (“ASC 718”), recognized by us in 2015. The actual value, if any, an executive may realize will depend for options on the excess of the market price over the option exercise price on the date the option is exercised and for stock on the excess of the market price over the cost basis of the stock. There is no assurance that the value realized by an executive will be at or near the value estimated. Assumptions used in the calculation of these amounts are included in Note 1 – Summary of Organization, Basis of Presentation, and Critical Accounting Policies, Estimates, and Assumptions—Share-Based Compensation and Note 17 – Share-Based Payment Arrangements, Equity Incentive Plan, of our Notes to Financial Statements included in this Annual Report on Form 10-K.

(2) Represents an annual performance bonus based on the Company achieving 140% of its budgeted Adjusted EBITDA for the 2015 year.

(3) Comprised of \$23,610 for personal use of a Company automobile and \$22,841 for medical, dental, vision, life, and disability insurances.

(4) Represents an annual non-discretionary bonus for \$5,000 and an annual performance bonus based on the Company achieving at least 120% of its budgeted Adjusted EBITDA for the 2015 for the remainder.

(5) Comprised of \$9,000 for a car allowance and \$7,930 for medical, dental, vision, life, and disability insurances.

(6) Mr. Zajackowski resigned as chief financial officer and treasurer on December 18, 2014.

(7) Comprised of \$8,077 for a car allowance and \$13,777 for medical, dental, vision, life, and disability insurances.

(8) Represents an annual performance bonus based on the Company achieving at least 120% of its budgeted Adjusted EBITDA for the 2015 year.

(9) Comprised of \$8,400 for a car allowance and \$13,814 for medical, dental, vision, life, and disability insurances.

(10) Comprised of \$9,000 for a car allowance and \$15,025 for medical, dental, vision, life, and disability insurances.

Agreements with Executive Officers

We are party to long-term employment and certain option and stock award agreements with the named executive officers employed by us at December 31, 2015. The information provided below is supplemented by the Summary Compensation and Grants of Plan-Based Awards tables above and Outstanding Equity Awards at Fiscal Year-End (Option and Stock Awards) and Stock Vested at Fiscal Year-End (Stock Awards) tables below.

Douglas J. Kramer

The Company entered into an executive employment agreement with its chief executive officer and president, Mr. Kramer, effective from January 1, 2014 to December 31, 2016, pursuant to which he is entitled to:

- annual base salary for the 2015 calendar year of \$350,000 (Mr. Kramer's annual base salary was increased, effective January 1, 2016, to \$400,000);
- annual performance bonus of \$120,000, \$160,000, or \$200,000 if Company achieves 100%, 120%, or 140%, respectively, of its budgeted Adjusted EBITDA for a particular fiscal year, payable in a single lump sum within thirty 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;
- sales bonus of 1% for all new and ½% for certain existing international accounts, subject to such sales meeting certain gross profit margin criteria and credit and payment terms;

Douglas J. Kramer - continued

- a transaction bonus, subject to certain limitations, upon consummation of a change in control if he is still employed at the time or in the event his employment is terminated within one year immediately preceding the consummation of a change in control, and including upon consummation of the change in control, the transfer to Mr. Kramer of ownership of the Company-provided automobile then being used by him. A transaction bonus is payable as soon as practicable after the closing of such transaction but in no event later than March 15 of the year following the year in which the closing of such transaction occurs. Any transaction bonus payable on account of the occurrence of a transaction that constitutes a change in the ownership of the Company or a change in the ownership of a substantial portion of the assets of the Company within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended, and the regulations promulgated pursuant thereto (“Section 409A”), shall be paid on the same schedule, under the same terms and conditions and in the same form of consideration (e.g., cash, stock in the acquiring company, promissory note or a combination thereof) as is the consideration received by the holders of the majority of the outstanding voting securities of the Company who participate in the transaction; provided, however, that in no event shall any portion of the transaction bonus be paid to executive on a date that is later than five years after such transaction. In the Company’s sole and absolute discretion, it may pay in cash all or any portion of the transaction bonus that would otherwise be paid in a form of consideration other than cash;
- upon termination by the Company without cause or by Mr. Kramer for good reason, which the agreement defines as: (i) a reduction in his base salary; (ii) a substantial diminution of his duties and responsibilities (the Company’s employment of another officer in a newly created position or otherwise, at a position beneath that of Mr. Kramer, shall not be deemed to constitute, or result in, a substantial diminution of his duties or responsibilities); or (iii) a relocation of his primary workplace that is not agreed to by him and is to a location that is greater than 50 miles from his primary workplace, provided, however, that any required travel related to the business of the Company, including but not limited to its planned expansion in the international market, shall not be deemed to constitute, or result in, the relocation of the his primary workplace:
 - severance equal to the lesser of 24 months base salary, or base salary for the remainder of the term, reduced by any earned income during the severance period;
 - the product of the value, as of the last day of the calendar year of termination, of any Company equity or equity-based awards, which he can show that he reasonably would have received had he remained employed through the end of the calendar year, or 4 months after the termination date, whichever is greater, multiplied by a fraction, the numerator of which is the number of days in the calendar year of termination through the termination date and the denominator of which is 365, but only to extent not previously vested, exercised and/or paid;
 - for 12 months from termination, continued participation in any plans providing medical, hospitalization and dental coverage; and
 - all bonuses and stock options previously earned, or which may be earned in the event of a consummation of a change of control within one year immediately following termination;
- upon termination by the Company for cause or by Mr. Kramer without good reason, which the agreement defines as: (i) willful malfeasance or willful misconduct by Mr. Kramer in connection with his employment, (ii) continuing refusal by him to perform his duties hereunder or follow any lawful direction of the Board, (iii) any material breach of the nonsolicitation, noncompetition, or confidentiality provisions of his agreement by him, (iv) engaging in conduct detrimental to the interest or reputation of the Company, without regard to whether such conduct was in connection with his employment, or (v) his conviction of, or plea of nolo contendere to, a felony (other than a traffic violation), which, in each event in (i), (ii) or (iii), actually has a material effect on the Company and its business:
 - any bonuses, salaries, benefits or other compensation accrued through the date of employment termination or required by law to be provided;
- upon termination on account of Mr. Kramer’s death or disability, the Company shall treat his termination as a termination without cause;
- upon termination following a change of control,
 - an amount equal to the base salary which would otherwise be payable over the remaining term of his agreement, payable in a lump sum within 30 days after the date of such termination,
 - any outstanding awards held by him or other benefits under any Company plan or program which have not vested in accordance with their terms will become fully vested and exercisable at the time of such termination; and
 - all bonuses and stock options previously earned, or which may be earned in the event of the consummation of a change of control within one year immediately following the termination of his employment.

Mr. Kramer 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.

Mr. Kramer's employment agreement also provides for a non-competition provision during employment and for a period of twenty-four months after the termination of his employment.

On January 22, 2014, the Company granted Mr. Kramer 500,000 options, each for shares of the Company’s common stock, 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 \$.72 per share, for a term of 5 years, which vests over a three-year period from the date of grant, with 1/3 vesting on each of the first, second and third anniversaries of the date of grant, subject in each case to his continued satisfactory employment through the vesting date, and are exercisable once vested. All options vest upon a change in control.

On April 28, 2014, the Company granted Mr. Kramer 350,000 options, each for shares of the Company’s common stock, 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 \$0.42 per share, for a term of five years, which vest over a three-year period from the date of grant, with 1/3 vesting on December 31, 2014, December 31, 2015, and December 31, 2016, respectively, subject in each case to his continued satisfactory employment through the vesting date, and are exercisable once vested. All options vest upon a change in control.

Douglas J. Kramer - continued

On October 14, 2014, the Company granted Mr. Kramer 1,150,000 options, each for shares of the Company's common stock, at an exercise price per share equal to the fair market value of a share of the Company's common stock on the date of grant, determined based on the per share closing price on such date, or \$.425 per share, which options were immediately vested and exercisable at the time of grant and expire on December 31, 2015. The foregoing options expired unexercised on December 31, 2015.

On January 16, 2015, the Company granted Mr. Kramer 850,000 options, each for shares of the Company's common stock, 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 and expire on December 31, 2015. The foregoing options expired unexercised on December 31, 2015.

On March 14, 2016, the Company granted an eight-year -year option to Douglas J. Kramer, ceo and president, for the right to acquire 2,000,000 shares of the Company's common stock, par value \$.01, 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 \$0.40 per share, which options vest monthly on a pro rata basis over 3 years, subject to continued satisfactory employment. The transaction was valued at \$766,217, which was estimated using the Black-Scholes option pricing model and will be expensed over the requisite vesting period.

Michael T. Adams

The Company entered into an executive employment agreement with its chief governance officer, executive vice president and corporate secretary, Mr. Adams, effective from December 31, 2014 to December 31, 2017, pursuant to which he is entitled to:

- an annual base salary of \$180,000 (Mr. Adams' annual base salary was increased, effective January 1, 2016, to \$200,000);
- annual bonus equal to 25% of his annual base salary if the Company achieves its budgeted Adjusted EBITDA per calendar year, which annual bonus may be increased to 30%, 35%, or more than 35% in the chief executive officer's discretion, of his annual base salary if the Company achieves 110%, 120%, or more than 120%, respectively, of its budgeted Adjusted EBITDA, payable in a single lump sum within thirty 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;
- annual non-discretionary bonus of \$5,000;
- a transaction bonus, subject to certain limitations, upon consummation of a change in control if he is still employed at the time or in the event his employment is terminated within one year immediately preceding the consummation of a change in control. A transaction bonus is payable as soon as practicable after the closing of such transaction but in no event later than March 15 of the year following the year in which the closing of such transaction occurs. Any transaction bonus payable on account of the occurrence of a transaction that constitutes a change in the ownership of the Company or a change in the ownership of a substantial portion of the assets of the Company within the meaning of Section 409A, shall be paid on the same schedule, under the same terms and conditions and in the same form of consideration (e.g., cash, stock in the acquiring company, promissory note or a combination thereof) as is the consideration received by the holders of the majority of the outstanding voting securities of the Company who participate in the transaction; provided, however, that in no event shall any portion of the transaction bonus be paid to executive on a date that is later than five years after such transaction. In the Company's sole and absolute discretion, it may pay in cash all or any portion of the transaction bonus that would otherwise be paid in a form of consideration other than cash;
- medical, dental, life insurance, and disability benefits;
- auto allowance of \$750.00 per month;
- twelve months of his annual base salary for termination due to death or disability;
- twelve months of his annual base salary, awards and medical and dental benefits and the transaction bonus in the event of a termination without cause by the Company or by him for good reason, which the agreements defines as: (i) a reduction in his base salary; (ii) a substantial diminution of his duties and responsibilities (the Company's employment of another officer in a newly created position or otherwise, at a position beneath that of Mr. Adams, shall not be deemed to constitute, or result in, a substantial diminution of his duties or responsibilities); or (iii) a relocation of his primary workplace that is not agreed to by him and is to a location that is greater than 50 miles from his primary workplace, provided, however, that any required travel related to the business of the Company, including but not limited to its planned expansion in the international market, shall not be deemed to constitute, or result in, the relocation of the his primary workplace; and
- upon termination by the Company for cause or by Mr. Adams without good reason, which the agreements defines as: (i) willful malfeasance or willful misconduct by Mr. Kramer in connection with his employment, (ii) continuing refusal by him to perform his duties hereunder or follow any lawful direction of the Board, (iii) any material breach of the nonsolicitation, noncompetition, or confidentiality provisions of his agreement by him, (iv) engaging in conduct detrimental to the interest or reputation of the Company, without regard to whether such conduct was in connection with his employment, or (v) his conviction of, or plea of nolo contendere to, a felony (other than a traffic violation), which, in each event in (i), (ii) or (iii), actually has a material effect on the Company and its business:
 - any bonuses, salaries, benefits or other compensation accrued through the date of employment termination or required by law to be provided;

Michael T. Adams - continued

- upon termination following a change of control:
 - an amount equal to the base salary which would otherwise be payable over the remaining term of the agreement, payable in a lump sum within 90 days after the date of such termination of employment;
 - any outstanding awards held by him or other benefits under any Company plan or program which have not vested in accordance with their terms will become fully vested and exercisable at the time of such termination; and
 - all bonuses and stock options previously earned, or which may be earned in the event of the consummation of a change of control within one year immediately following the termination of his employment.

Mr. Adams 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.

Mr. Adams' employment agreement also provides for a non-competition provision during employment and for a period of twelve months after the termination of his employment.

On April 28, 2014, the Company granted Mr. Adams 150,000 options, each for shares of the Company's common stock, 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 \$0.42 per share, for a term of five years, which vest over a three-year period from the date of grant, with 1/3 vesting December 31, 2014, December 31, 2015, and December 31, 2016, respectively, subject in each case to his continued satisfactory employment through the vesting date, and are exercisable once vested. All options vest upon a change in control.

On November 26, 2014, the Company granted Mr. Adams 80,000 options, each for shares of the Company's common stock, 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 \$.38 per share, which options were immediately vested and exercisable at the time of grant and expire July 12, 2017.

On January 16, 2015, the Company granted Mr. Adams 300,000 options, each for shares of the Company's common stock, at an exercise price per share equal to the fair market value of a share of the Company's common stock on date of grant, determined based on the per share closing price on such date, or \$0.325 per share, for a term of eight years, which vest 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.

Harvey L. Schnitzer

The Company entered into an executive employment agreement with its chief operating officer, Mr. Schnitzer, effective from December 31, 2014 to December 31, 2017, pursuant to which he is entitled to:

- an annual base salary of \$250,000, which will automatically increase by \$25,000 for the 2016 calendar year if the Company achieves its budgeted Adjusted EBITDA;
- annual bonus equal to 25% of his annual base salary if the Company achieves its budgeted Adjusted EBITDA per calendar year, which annual bonus may be increased to 30%, 35%, or more than 35% in the chief executive officer's discretion, of his annual base salary if the Company achieves 110%, 120%, or more than 120%, respectively, of its budgeted Adjusted EBITDA, payable in a single lump sum within thirty 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;
- transaction bonus, subject to certain limitations, upon consummation of a change in control if he is still employed at the time or in the event his employment is terminated within one year immediately preceding the consummation of a change in control. A transaction bonus is payable as soon as practicable after the closing of such transaction but in no event later than March 15 of the year following the year in which the closing of such transaction occurs. Notwithstanding, any transaction bonus payable on account of the occurrence of a transaction that constitutes a change in the ownership of the Company or a change in the ownership of a substantial portion of the assets of the Company within the meaning of Section 409A, shall be paid on the same schedule, under the same terms and conditions and in the same form of consideration (e.g., cash, stock in the acquiring company, promissory note or a combination thereof) as is the consideration received by the holders of the majority of the outstanding voting securities of the Company who participate in the transaction; provided, however, that in no event shall any portion of the transaction bonus be paid to executive on a date that is later than five years after such transaction. In the Company's sole and absolute discretion, it may pay in cash all or any portion of the transaction bonus that would otherwise be paid in a form of consideration other than cash;
- medical, dental, life insurance, and disability benefits;
- auto allowance of \$800 per month;
- eight months of his annual base salary for termination due to death or disability;

Harvey L. Schnitzer - continued

- eight months of his annual base salary, awards and medical and dental benefits and the transaction bonus in the event of voluntary termination by the Company or by him for good reason, which the agreement defines as: (i) a reduction in his base salary; (ii) a substantial diminution of his duties and responsibilities (the Company's employment of another officer in a newly created position or otherwise, at a position beneath that of Mr. Schnitzer, shall not be deemed to constitute, or result in, a substantial diminution of his duties or responsibilities); or (iii) a relocation of his primary workplace that is not agreed to by him and is to a location that is greater than 50 miles from his primary workplace, provided, however, that any required travel related to the business of the Company, including but not limited to its planned expansion in the international market, shall not be deemed to constitute, or result in, the relocation of his primary workplace; and
- upon termination by the Company for cause or by Mr. Schnitzer without good reason, which the agreement defines as: (i) willful malfeasance or willful misconduct by Mr. Schnitzer in connection with his employment, (ii) continuing refusal by him to perform his duties hereunder or follow any lawful direction of the Board, (iii) any material breach of the nonsolicitation, noncompetition, or confidentiality provisions of his agreement by him, (iv) engaging in conduct detrimental to the interest or reputation of the Company, without regard to whether such conduct was in connection with his employment, or (v) his conviction of, or plea of nolo contendere to, a felony (other than a traffic violation), which, in each event in (i), (ii) or (iii), actually has a material effect on the Company and its business:
 - any bonuses, salaries, benefits or other compensation accrued through the date of employment termination or required by law to be provided;
- upon termination following a change of control:
 - an amount equal to the base salary which would otherwise be payable over the remaining term of the agreement, payable in a lump sum within 90 days after the date of such termination of employment;
 - any outstanding bonus or other benefits under any Company plan or program which have been earned will be paid as provided under the terms of such Company plan or program; and
 - all bonuses and stock options previously earned, or which may be earned in the event of the consummation of a change of control within one year immediately following the termination of his employment.

Mr. Schnitzer 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.

Mr. Schnitzer's employment agreement also provides for a non-competition provision during employment and for a period of twelve months after the termination of his employment.

On February 7, 2014, the Company granted Mr. Schnitzer 100,000 options, each for shares of the Company's common stock, 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 \$.65 per share, for a term of five years, which vests over a three-year period from the date of grant, with 1/3 vesting on February 7, 2015, February 7, 2016, and February 7, 2017, respectively, subject in each case to his continued satisfactory employment through the vesting date, and are exercisable once vested. All options vest upon a change in control.

On February 7, 2014, the Company granted Mr. Schnitzer a 100,000 share common stock bonus, which vests in four equal 25,000 share increments, on February 7, 2014, December 31, 2014, December 31, 2015, and February 6, 2016, respectively, subject to continued employment with the Company. No monetary payment (other than applicable tax withholding) is required as a condition of receiving the bonus shares, as the consideration is continued satisfactory employment with the Company during the vesting period. Once vested, such bonus shares are freely transferable.

On April 28, 2014, the Company granted Mr. Schnitzer 150,000 options, each for shares of the Company's common stock, 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 \$0.42 per share, for a term of five years, which vests over a three-year period from the date of grant, with 1/3 vesting on December 31, 2014, December 31, 2015, and December 31, 2016, respectively, subject in each case to his continued satisfactory employment through the vesting date, and are exercisable once vested. All options vest upon a change in control.

On March 23, 2015, the Company granted Mr. Schnitzer 300,000 options, each for shares of the Company's common stock, at an exercise price per share equal to the fair market value of a share of the Company's common stock on date of grant, determined based on the per share closing price on such date, or \$0.41 per share, for a term of eight years, which 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.

Jomarc C. Marukot

The Company entered into an executive employment agreement with its chief financial officer and corporate treasurer, Mr. Marukot, effective from January 1, 2015 to December 31, 2016, pursuant to which he is entitled to:

- an annual base salary of \$190,000;
- annual bonus equal to 25% of his annual base salary if the Company achieves its budgeted Adjusted EBITDA per calendar year, which annual bonus may be increased to 30%, 35%, or more than 35% in the chief executive officer's discretion, of his annual base salary if the Company achieves 110%, 120%, or more than 120%, respectively, of its budgeted Adjusted EBITDA, payable in a single lump sum within thirty 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;
- 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;
- medical, dental, life insurance, and disability benefits;
- auto allowance of \$700.00 per month;
- four months of his annual base salary for termination due to death or disability;
- four months of his annual base salary, awards and medical and dental benefits and the change in control bonus in the event of a termination without cause by the Company;
- upon termination by the Company for cause as defined in the agreement as Mr. Marukot's: (i) commission of any act of fraud, embezzlement or dishonesty, (ii) unauthorized use or disclosure of any confidential information or trade secrets of the Company, (iii) any intentional misconduct or violation of the Company's Code of Business Ethics by him which has a materially adverse effect upon the Company's business or reputation, (iv) continued failure to perform the major duties, functions and responsibilities of his position after written notice from the Company identifying the deficiencies in his performance and a reasonable cure period of not less than ten (10) days, or (v) a material breach of his fiduciary duties as an officer of the Company:
 - any bonuses, salaries, benefits or other compensation accrued through the date of employment termination or required by law to be provided;
- upon termination following a change of control:
 - an amount equal to one times the annual base salary if such termination occurs within the first twelve months of his agreement, or the annual base salary which would otherwise be payable over the remaining term of the agreement if such termination occurs after the first twelve months of the agreement, payable in a lump sum within 90 days after the date of such termination of employment;
 - any outstanding awards held by him or other benefits under any Company plan or program which have not vested in accordance with their terms will become fully vested and exercisable at the time of such termination.

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.

Mr. Marukot's employment agreement also provides for a non-competition provision for the Employment Term and for a period of twelve months after the termination of his employment.

Prior to the Company entering into the employment agreement with Mr. Marukot, he was an at will employee with his last position as corporate controller with an annual base salary of \$133,000. He resigned as corporate controller on October 24, 2014 and was appointed, effective January 1, 2015 as chief financial officer and corporate treasurer.

Outstanding Equity Awards

The following table sets forth summary information for outstanding equity awards held by our named executive officers at December 31, 2015.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

Option Awards

Name	Number of Securities Underlying Unexercised Options (#)		Option Exercise Price (\$)	Option Expiration Date
	Exercisable	Unexercisable		
Douglas J. Kramer	166,666	333,334 (1)	0.72	1/21/2019
Douglas J. Kramer	233,334	116,666 (2)	0.42	4/28/2019
Michael T. Adams	100,000	50,000 (2)	0.42	4/28/2019
Michael T. Adams	80,000	—	0.38	7/12/2017
Michael T. Adams	100,000	200,000 (3)	0.325	1/16/2023
Harvey L. Schnitzer	33,333	66,667 (4)	0.38	7/12/2017
Harvey L. Schnitzer	100,000	50,000 (2)	0.65	2/7/2019
Harvey L. Schnitzer	100,000	200,000 (3)	0.42	4/28/2019

(1) Vests as to 166,666 shares on January 22, 2016 and 166,668 shares on January 22, 2017.

(2) Vests on December 31, 2016.

(3) Vests as to 100,000 shares on December 31, 2016 and 100,000 shares on December 31, 2017.

(4) Vests as to 33,333 shares on February 7, 2016 and 33,334 shares on February 7, 2017.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

Stock Awards

Name	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)
Harvey L. Schnitzer	25,000	5,875

(1) Vests as to 25,000 shares on February 7, 2016.

Potential Payments Upon Termination or Change of Control

The employment agreements with our named executive officers provide for transaction bonuses based on a percentage of a transaction value and subject to certain limitations (Mr. Kramer, Mr. Adams, and Mr. Schnitzer) or a change in control bonus based on a percentage of annual base salary (Mr. Marukot).

A transaction bonus is calculated as follows: (a) no transaction bonus shall be paid to the extent the transaction value (defined as the consideration realized, or assumed to be realized, by the Company's shareholders in connection with the transaction, minus any Company debt that remains with the Company upon the consummation of a change-in-control or any debt or personal guarantee of Company debt which a selling shareholder is relieved of in connection with a change-in-control), does not exceed the sum of \$25,940,000, (b) to the extent the transaction value does not exceed \$90,000,000, an amount equal to each respective executive's agreed to percentage of the transaction value less \$25,940,000, multiplied by the percentage of the Company sold, to the extent the transaction value exceeds \$90,000,000, an amount equal to respective executive's agreed to percentage (see above) of the transaction value multiplied by the percentage of the Company sold. Notwithstanding the foregoing, no transaction bonus shall be payable on any portion of the transaction value in excess of \$200,000,000. In the event of a transaction, which does not constitute a change-in-control as the stockholders of the Company immediately before the transaction do not relinquish 50% or more of the total combined voting power of the outstanding voting securities of the Company, but do relinquish 20% or more of the total combined voting power of the outstanding securities of the Company, the transaction bonus shall be calculated in the manner as set forth above upon a change in control. However, such amount shall then be reduced by the percentage of the sales proceeds of the transaction allocable to the Company's then majority shareholder which is not currently distributed to such shareholder as a result of the transaction. If a transaction bonus is payable to the executive upon a change in control, he shall not be entitled to any additional transaction bonus upon the occurrence of a subsequent transaction unless: (i) the subsequent transaction is related to the change in control; and (ii) the executive is still employed with the Company upon the consummation of the subsequent transaction or is no longer so employed as a result of having been terminated without cause or having resigned for good reason. In the event a series of related transactions occurs subsequent to a change-in-control, the executive shall be entitled to a transaction bonus on each transaction in the series, provided the requirements of (i) and (ii) above are satisfied with respect to each such transaction. As provided for in the employment agreements, for purposes of this provision, a subsequent transaction shall be "related" to a change in control if it was agreed upon at the time of, and is consummated within 2 years of the consummation of, the change in control.

A change in control bonus is based on an amount equal to one times the annual base salary if such termination occurs within the first twelve months of his agreement, or the annual base salary which would otherwise be payable over the remaining term of the agreement if such termination occurs after the first twelve months of the agreement, payable in a lump sum within 90 days after the date of such termination of employment.

We define change of control in all of our named executive office executive employment agreements as ownership change events or series of related ownership change events (collectively, a "Transaction") in which the stockholders of the Company immediately before the Transaction do not retain immediately after the Transaction, direct or indirect beneficial ownership of fifty percent (50%) or more of the total combined voting power of the outstanding voting securities of the Company, or the entity to which the assets of the Company were transferred. The following would be ownership change events: (i) the direct or indirect sale or exchange by the stockholders of the Company of all or substantially all of the voting stock of the Company; (ii) a merger or consolidation in which the Company is a party; (iii) the sale, exchange, or transfer of all or substantially all of the assets of the Company (other than a sale, exchange or transfer to one or more subsidiaries of the Company); or (iv) a liquidation or dissolution of the Company. Notwithstanding the foregoing, no change of control, ownership change event or Transaction shall be deemed to have occurred as a result or on account of: (i) a transfer or other disposition, by sale, gift or otherwise, of an interest in the Company by Richard J. Kurtz to his spouse, children or grandchildren, or the spouses of his children, either directly or indirectly for their benefit, in trust or otherwise; or (ii) the death or incapacity of Kurtz wherein his interest is transferred to his heirs only. Our named executive officers shall not be entitled to any payment under their respective executive employment agreements upon the occurrence of, or calculated with reference to, any such transfer or disposition.

Acceleration of Benefits Under Certain Other Plans

Our Equity Plan contains provisions for the accelerated vesting of stock options to participating named executive officers in the event of a change of control, where the surviving, continuing, successor, or purchasing entity or parent thereof, as the case may be ("Acquiror"), may, without the consent of any participant, either assume the Company's rights and obligations under outstanding options or substitute for outstanding options substantially equivalent options to purchase the Acquiror's stock. If the Acquiror elects not to assume or substitute for outstanding options, the compensation committee shall provide that any unexercised and/or unvested portions of outstanding options shall immediately vest and become exercisable in full as of the date 30 days prior to the date of the change-in-control. Vesting and/or exercise of any option shall be conditioned upon the consummation of the change of control. Any options which are not assumed by the Acquiror nor exercised by optionee terminate and cease to be outstanding effective as of the consummation of the change of control.

Equity Incentive Plan ("Equity Plan")

Our board of directors adopted the Equity Incentive Plan on July 12, 2005, which was approved by our stockholders effective August 31, 2005. The purpose of our Equity Plan is to advance the interests of the Company and its stockholders by providing an incentive to attract, retain and reward employees, directors and consultants performing services for the Company and by motivating such persons to contribute to the growth and profitability of the Company. The Equity Plan provides financial performance measures upon which specific performance goals would be based and limits on the numbers of shares or compensation that could be made. Option awards are generally granted with an exercise price equal to the market price of the Company's stock at the date of grant. Stock awards may provide for accelerated vesting if there is a change in control. In addition, our Equity Plan is expected to provide flexibility to our compensation methods in order to adapt the compensation of employees, directors, and consultants to a changing business environment, after giving due consideration to competitive conditions and the impact of federal tax laws. Our Equity Plan is administered by our compensation committee. A total of 9,925,000 shares of common stock are reserved for award under the Equity Plan, of which 4,882,500 shares were available for future awards as of December 31, 2015.

Director Compensation

Directors receive cash, option, and stock compensation. Each director who is not an employee is reimbursed for actual expenses incurred in attending annual stockholder, board and committee meetings. Non-employee outside directors receive cash compensation at the rate of \$12,500 per year, payable quarterly. The following table summarizes compensation for non-employee directors for the year ended December 31, 2015, including costs incurred during 2015 for options and stock in 2015.

DIRECTOR COMPENSATION TABLE

Name	Fees Earned or Paid in Cash (\$)		Stock Awards (\$)(3)		Option Awards (\$)(3)		All Other Compensation (\$) (3)		Total (\$)
Richard J. Kurtz	—		—		146,502	(5)(6)	775,977	(7)(8)	922,479
Arthur J. Gregg	12,500	(1)	—		69,699	(6)	—		82,199
Jay C. Nadel	192,500	(1)(2)	417,662	(4)	69,699	(6)	—		679,861
Augustus J. Larson	12,500	(1)	—		69,699	(6)	—		82,199

- (1) Represents cash payments paid for director services.
- (2) Includes cash payments paid to Mr. Nadel pursuant to his February 22, 2011 advisory agreement, pursuant to which, the Company agreed to pay him, effective July 1, 2012, \$180,000 per year in cash (changed to \$200,000 on January 1, 2016) and granted 5,000,000 shares of restricted common stock, which originally vested monthly on a pro-rata basis over a 3 year period ended February 22, 2014, with anti-dilution rights (“Nadel Shares”), in exchange for providing consulting and advisory services, including business development and planning, and assisting management on strategic initiatives (“Nadel Agreement”). Anti-dilution rights continue as long as Nadel Agreement in force.
- (3) The amounts reported represent the aggregate grant date fair value of the awards, calculated in accordance with FASB ASC 718, recognized by us in fiscal year 2015. The actual value, if any, a director may realize will depend for options on the excess of the market price over the option exercise price on the date the option is exercised and for stock on the excess of the market price over the cost basis of the stock. There is no assurance that the value realized by a director will be at or near the value estimated. Assumptions used in the calculation of these amounts are included in Note 1 - Summary of Organization, Basis of Presentation, and Critical Accounting Policies, Estimates, and Assumptions-Share-Based Compensation and Note 17 - Share-Based Payment Arrangements, Equity Incentive Plan, Advisor Plan, and Guaranty Plan of our Notes to Financial Statements included in this Annual Report on Form 10-K.
- (4) For Mr. Nadel, represents the compensation cost recognized by us related to the Nadel Agreement. For 2015, an aggregate of 1,035,743 Nadel Shares were issued and valued and recorded at \$417,662. See also Note 17 – Share-Based Payment Arrangements, Advisor Plan, of Notes to Financial Statements included in this Annual Report on Form 10-K for more discussion.
- (5) Represents the compensation cost recognized by us for an option granted under the Equity Plan as consideration for Mr. Kurtz committing to ensure the Company has funding to pay off the aggregate amount of \$7.2 million, plus any accrued and unpaid interest, outstanding with respect to the Enhanced Note during 2015:

Director	Grant Date	Exercise Price (\$)	Number of Shares of Stock Underlying Options Granted	Option Expiration Date	2015 Fiscal Year Compensation Cost (\$)
Richard J. Kurtz	11/12/2015	0.294	500,000	11/12/2023	47,121

- (6) Represents the compensation cost recognized by us for options activity under the Equity Plan for director services during 2015:

Director	Grant Date	Exercise Price (\$)	Number of Shares of Stock Underlying Options Granted	Number of Shares of Stock Underlying Options Expired	Option Expiration Date	2015 Fiscal Year Compensation Cost (\$)
Jay C. Nadel	4/28/2014	0.42	100,000	—	4/28/2019	19,273
Arthur J. Gregg	4/28/2014	0.42	100,000	—	4/28/2019	19,273
Augustus J. Larson	4/28/2014	0.42	100,000	—	4/28/2019	19,273
Richard J. Kurtz	5/14/2014	0.54	400,000	—	5/14/2019	99,381
Jay C. Nadel	12/22/2014	0.35	450,000	—	12/22/2022	50,426
Arthur J. Gregg	12/22/2014	0.35	450,000	—	12/22/2022	50,426
Augustus J. Larson	12/22/2014	0.35	450,000	—	12/22/2022	50,426
Richard J. Kurtz	12/28/2010	0.60	—	800,000	12/28/2015	—

- (7) Includes amount of interest expense – related party recognized by us of: (i) \$21,269 on \$250,000 promissory note dated November 14, 2014; and (ii) \$19,852 on \$250,000 promissory note dated January 21, 2015, both bearing interest at 8% per annum, with the chairman of the board. **Refer to** Item 13 – Certain Relationships and Related Transactions below, (j) and (a) for more information.

- (8) Includes the amount of share based compensation expense recognized and classified by us as interest expense – related party for the vested portion of the 3,681,000 Guaranty Shares granted to the chairman of the board for his personal guaranty of the obligations under the Enhanced Note. For 2015, an aggregate of 1,224,763 Guaranty Shares vested and were valued and recorded in the aggregate at \$734,856. See also Note 17 – Share-Based Payment Arrangements, Guaranty Plan, of Notes to Financial Statements included in annual report on Form 10-K for year ended December 31, 2015 for more discussion.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth information with respect to the beneficial ownership of our common stock as of March 24, 2016 by:

- each person known by us to beneficially own more than 5.0% of our common stock;
- each of our directors;
- each of the named executive officers; and
- all of our directors and executive officers as a group.

The percentages of common stock beneficially owned are reported on the basis of regulations of the SEC governing the determination of beneficial ownership of securities. Under the rules of the SEC, a person is deemed to be a beneficial owner of a security if that person has or shares voting power, which includes the power to vote or to direct the voting of the security, or investment power, which includes the power to dispose of or to direct the disposition of the security. Except as indicated in the footnotes to this table, each beneficial owner named in the table below has sole voting and sole investment power with respect to all shares beneficially owned and each person's address is c/o Lapolla Industries, Inc., 15402 Vantage Parkway East, Suite 322, Houston, Texas 77032. As of March 24, 2016, we had 120,999,016 shares of common stock outstanding.

Beneficial Owner	Total Shares of Common Stock Beneficially Owned (1)	Percent of Class
Directors:		
Richard J. Kurtz, Chairman of the Board	72,086,241 (2)	58.61%
Jay C. Nadel, Vice Chairman	9,025,849 (3)	7.34%
Lt. Gen. Arthur J. Gregg, US Army (Ret)	450,000 (4)	0.37%
Augustus J. Larson	450,000 (5)	0.37%
Douglas J. Kramer (9)	650,685 (6)	0.53%
Michael T. Adams (9)	180,000 (7)	0.15%
Executive Officers:		
Jomarc C. Marukot, CFO and Treasurer	—	—
Harvey L. Schnitzer, COO	366,667 (8)	0.30%
All Directors and Executive Officers as a Group (8 persons)	83,209,442	67.67%

- (1) Shares of common stock beneficially owned and the respective percentages of beneficial ownership of common stock assumes the exercise of all options and unvested stock granted beneficially owned by such person or entity currently exercisable or exercisable or subject to vesting within 60 days of March 24, 2016. Shares issuable pursuant to the exercise of options exercisable and unvested stock granted that is subject to vesting within 60 days are deemed outstanding and held by the holder of such options or stock for computing the percentage of outstanding common stock beneficially owned by such person, but are not deemed outstanding for computing the percentage of outstanding common stock beneficially owned by any other person.
- (2) Comprised of: (i) 70,947,947 shares of our common stock owned directly by Mr. Kurtz; (ii) 933,607 shares of our common stock issuable upon the exercise of vested and exercisable options; and (iii) 204,686 shares of our common stock upon vesting of Guaranty Shares.
- (3) Comprised of: (i) 8,675,849 shares of our common stock owned directly by Mr. Nadel; and (ii) 350,000 shares of our common stock issuable upon the exercise of vested and exercisable options.
- (4) Comprised of: (i) 100,000 shares of our common stock owned directly by Mr. Gregg; and (ii) 350,000 shares of our common stock issuable upon the exercise of vested and exercisable options.
- (5) Comprised of: (i) 100,000 shares of our common stock owned directly by Mr. Larson; and (ii) 350,000 shares of our common stock issuable upon the exercise of vested and exercisable options.
- (6) Comprised of 650,685 shares of our common stock issuable upon the exercise of vested and exercisable options.
- (7) Comprised of 180,000 shares of our common stock issuable upon the exercise of vested and exercisable options.
- (8) Comprised of: (i) 100,000 shares of our common stock owned directly by Mr. Schnitzer; and (ii) 266,667 shares of our common stock issuable upon the exercise of vested and exercisable options.
- (9) Mr. Kramer is also our CEO and President and Mr. Adams is also our CGO, EVP, and Secretary.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table summarizes information about our common stock that may be issued upon the exercise of options, warrants and rights under all equity compensation plans, as of December 31, 2015:

Plan Category	Equity Compensation Plan Information		
	Number of Securities to Be Issued Upon Exercise Of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding Securities Reflected in Column (a)) (c)
Equity Compensation Plans			
Approved by Security Holders	5,042,500	\$ 0.43	4,882,500
Equity Compensation Plans Not			
Approved by Security Holders	—	0.60	— (1)(2)
Total	5,042,500	\$ 0.46	4,822,500

- (1) We entered into a guaranty arrangement on December 10, 2013 with Mr. Kurtz, chairman of the board and majority stockholder, in his investor capacity ("Guaranty Plan"). The Guaranty Plan, which is not stockholder-approved, consists of a one time grant of 3,681,000 shares of restricted common stock, which vests monthly on a pro rata basis over a 3 year period ("Guaranty Shares"). At December 31, 2015, there were 2,523,347 Guaranty Shares vested and 1,157,653 Guaranty Shares unvested. *See also* Note 18 – Share-Based Payment Arrangements, Guaranty Plan, of our Notes to Financial Statements included in this Annual Report on Form 10-K for the year ended December 31, 2015 for more discussion.
- (2) We entered into the Nadel Agreement dated February 22, 2011 with Mr. Nadel, a director, for advisory services (the "Advisor Plan"). The Advisor Plan, which is not stockholder-approved, includes the issuance of anti-dilution shares when the anti-dilution provision in the Nadel Agreement is triggered. The anti-dilution shares issuable are incalculable until such time that the anti-dilution provision is triggered. *See also* Note 18 – Share-Based Payment Arrangements, Advisor Plan, of our Notes to Financial Statements included in this Annual Report on Form 10-K for the year ended December 31, 2015 for more discussion.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Certain Relationships and Related Transactions

(a) On November 14, 2014, the Company borrowed \$250,000 from the chairman of the board and majority stockholder as a condition precedent to entering into that certain second amendment dated as of November 14, 2014 to the Enhanced Note and that certain eleventh amendment dated November 14, 2014 to the Loan Agreement, and entered into a promissory note (the "11/14/14 Kurtz Note"). Pursuant the 11/14/14 Kurtz Note, the Company agreed to pay eight percent (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 the Enhanced Note. *See also* (g) below.

(b) On November 14, 2014, the chairman of the board and majority stockholder provided Management with a financial commitment to ensure payment of the amount outstanding under the Revolver Loan pursuant to the Loan Agreement, which matured at the time of entering into this commitment on February 15, 2015, and make available working capital of up to \$1.5 Million for the Company's ongoing operations from the date hereof and on or after the maturity date of the Loan Agreement ("Financial Substitution Commitment"). This Financial Substitution Commitment will either be satisfied from his personal funds, or, from funds caused by him to be otherwise provided by an appropriate lending or other institution, and any funds provided thereunder will have a maturity date of June 10, 2017. The Financial Substitution Commitment will be superseded in the event and to the extent that the Company is independently funded by a third party source, either privately or institutionally, at or before the time the Financial Substitution Commitment is due and the Revolver Loan is repaid and Loan Agreement obligation is fully satisfied, and working capital of \$1.5 Million for the Company's ongoing operations is obtained from the date hereof and on or after the maturity date of the Loan Agreement. Management requested that the chairman of the board fund \$250,000 under this Financial Substitution Commitment to meet a request from Bank of America which payment was made on November 14, 2014. This Financial Substitution Commitment was satisfied upon the Company entering into that certain twelfth amendment dated January 23, 2015 to the Loan Agreement, under which the Revolver Loan maturity date was changed from February 15, 2015 to March 31, 2016.

(c) On December 2, 2014, the Company issued 3,908,453 shares of its Common Stock, par value \$.01, to Richard J. Kurtz, chairman of the board and principal stockholder, in exchange for the cancellation of \$1,485,212 of debt owed by the Company to him, of which \$1,300,000 was the principal amount of the 4/16/12 Kurtz Note and \$185,212 was the accrued and unpaid interest thereon. The purchase price for each share of Common Stock was based on the closing price of the Company's Common Stock on December 1, 2014, or \$.38 per share. *See also* (b) above.

(d) 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 to the 1/21/15 Kurtz Note, the Company agreed to pay 8% per annum on the principal balance of \$250,000 and repay the principal balance on June 10, 2017. The 1/21/15 Kurtz Note is subordinated to the Loan Agreement and Enhanced Note. *See also* Item (g) below

(e) 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 (d) above for more information on the Subordinated Debt.

(f) On November 12, 2015, and effective as of October 31, 2015, the Company's chairman of the board and principal stockholder, Richard J. Kurtz, committed to provide the Company with funding to pay off the Enhanced Obligations, outstanding with respect to the subordinated secured promissory notes issued by the Company in favor of Enhanced Jobs and Enhanced Credit pursuant to the Enhanced Note, of which \$2 million will be paid on or before April 30, 2016, under the Commitment Letter. As consideration for the Commitment, the Company granted Mr. Kurtz a fully vested and exercisable stock option to purchase 500,000 shares of the Company's common stock, with an exercise price per share equal to the fair market value of a share of the Company's common stock on November 12, 2015, determined based on the per share closing price on such date, or \$0.294 per share, for a term of eight (8) years. 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. *See also* (i) below for more information.

(g) On December 21, 2015, the Company, with the consent of Bank of America and Enhanced, repaid an aggregate of \$500,000 in principal to the chairman for the Notes Payable - Related Party. *Refer to* Note 12 - Financing Instruments, Item (c)(i) and (ii) for more information. As a result of the \$500,000 principal payment to the chairman by the Company, the chairman was required by Enhanced to pay down the Enhanced Note by \$150,000. The Company offset the \$150,000 that the chairman paid on its behalf direct to Enhanced against certain arms length sales transactions made by the chairman for the Company's products.

(h) During the year ended December 31, 2015, the Company issued an aggregate of 1,035,743 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 \$417,662.

(i) On March 18, 2016, the Company and Bank of America, N.A. (“BOA”) entered into a Fourteenth Amendment to that certain Loan and Security Agreement, dated as of August 31, 2010 (as amended from time to time, the “Loan Agreement”), pursuant to which the parties amended the Loan Agreement to, among other things: (i) establish a new tiered level for the applicable margin which provides for varying interest rates based on the fixed charge coverage ratio, effective March 31, 2016; (ii) reduce the basic reserve to zero; (iii) establish a new inventory formula amount allowing, if the Company elects to have an inventory appraisal performed, the lesser of, 65% of the value of eligible inventory or 85% of the net orderly liquidation value of eligible inventory and up to \$6,000,000, (iv) reduce the amount of the revolver loan facility to provide for an aggregate amount of \$12,000,000 (to save on unused revolver loan fees), (v) adjust the revolver loan termination date to the earlier to occur of March 31, 2019 or 90 days prior to the maturity date of subordinated secured promissory notes issued to Enhanced Jobs for Texas Fund, LLC and Enhanced Capital Texas Fund, LP (the “Enhance Notes”), which mature on December 10, 2017, (vi) adjust the formula for determining the unused line fee, which provides for a new varying percentage unused line fee based on the amount by which the revolver commitment exceeds the average daily balance of the revolver loans and stated amount of letters of credit, (vii) change the borrowing base reporting frequency from daily to weekly, subject to certain availability requirements, and (viii) add a new section to allow for repayments of principal amounts by the Company on the Enhanced Notes, subject to meeting certain borrowing base limitations. *Refer to* Item (f) above for more information on repayment of Subordinated Debt.

Director Independence

Lapolla uses its own definition for determining whether its directors and members of specific committees of the board of directors, are independent. In order to be considered to be independent, a member of the board of directors or any board committee may not, other than in his or her capacity as a member of the board of directors or any board committee: (i) accept any consulting, advisory, or other compensatory fee from the Company; or (ii) be an affiliated person of the Company or any subsidiary thereof. Independent directors are not officers of the Company and are in view of the Company's board of directors, free of any relationship that would interfere with the exercise of independent judgment. Although we are a “controlled company” because more than 50% of our voting power is held by Mr. Kurtz, our chairman of the board, our board of directors has reviewed the relationships between the Company, including any affiliates, and each board member (and each such director's immediate family members) and has affirmatively determined that Lt. Gen. Gregg (Ret) and Mr. Larson are, independent directors. There was no information considered by our board of directors, other than what has been disclosed in this report, in determining that Lt. Gen. Gregg (Ret) and Mr. Larson were “independent” within the Company's independence standards.

Item 14. Principal Accountant Fees and Services

Independent Registered Public Accounting Firm Fees

Hein & Associates, LLP (“Hein”), our independent registered public accounting firm, audited our financial statements for the years ended December 31, 2015 and 2014. The audit committee of the board of directors selects the independent registered public accounting firm. The table below shows the aggregate fees billed to us by our independent registered public accounting firm for the fiscal years ended December 31,

Fee Category	2015	2014
Audit Fees	\$ 107,250 (1)	\$ 123,811 (1)
Audit-Related Fees	—	—
Tax Fees	16,675 (2)	21,368 (2)
All Other Fees	—	—
Total	\$ 123,925	\$ 145,179

(1) Represents the aggregate fees billed to us by Hein for professional services rendered for the audit of our annual financial statements, and for the reviews of our financial statements included in our Form 10-Q filings for the second, third and fourth fiscal quarters.

(2) Represents the aggregate fees billed to us by Hein for professional services rendered for the preparation of Federal income tax reports. The audit committee and board of directors determined in advance of retaining Hein that the rendering of such services does not impair the independence of Hein as an auditor of the financial statements of Lapolla.

Policy on Audit Committee Pre-Approval

As part of its required duties, the audit committee pre-approves audit and non-audit services performed by our independent registered public accounting firm to assure that the provision of such services does not impair the independent registered public accounting firm’s independence. The policy generally provides that services in the defined categories of audit services, audit-related services, tax services and all other services, are deemed pre-approved up to specified amounts, and sets requirements for specific case-by-case pre-approval of discrete projects that are not otherwise pre-approved or for services over the pre-approved amounts. Pre-approval may be given as part of the audit committee’s approval of the scope of the engagement of the independent registered public accounting firm or on an individual basis. The pre-approval of services may be delegated to one or more of the audit committee’s members, but the decision must be presented to the full audit committee at its next scheduled meeting. The policy prohibits retention of the independent registered public accounting firm to perform the prohibited non-audit functions defined in Section 201 of the Sarbanes-Oxley Act of 2002 or the rules of the SEC, and also considers whether proposed services are compatible with the independence of the independent registered public accounting firm. All services provided by our independent registered public accounting firm in 2015 were pre-approved in accordance with the audit committee’s pre-approval requirements.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) 1. Financial Statements and Supplementary Data:

The following financial statements are included herein under Item 8 of Part II of this report, "Financial Statements and Supplementary Data":

Index to Financial Statements	i
Report of Independent Registered Public Accounting Firm	F-1
Balance Sheets at December 31, 2015 and December 31, 2014	F-2
Statements of Operations for Each of the Years in the Two Year Period Ended December 31, 2015	F-3
Statements of Stockholders' Equity for Each of the Years in the Two Year Period Ended December 31, 2015	F-4
Statements of Cash Flows for Each of the Years in the Two Year Period Ended December 31, 2015	F-5
Notes to Financial Statements	F-6

2. Financial Statement Schedules:

All other schedules have been omitted for the reason that the required information is presented in the financial statements or notes thereto, the amounts involved are not significant or the schedules are not applicable.

(b) Exhibits:

See Index of Exhibits below.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 28, 2016

LAPOLLA INDUSTRIES, INC.

By: /s/ Douglas J. Kramer

Douglas J. Kramer

Chief Executive Officer and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>By: /s/ Douglas J. Kramer</u> Douglas J. Kramer	Chief Executive Officer, President and Director (Principal Executive Officer)	March 28, 2016
<u>By: /s/ Jomarc C. Marukot</u> Jomarc C. Marukot	Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	March 28, 2016
<u>By: /s/ Richard J. Kurtz</u> Richard J. Kurtz	Chairman of the Board	March 28, 2016
<u>By: /s/ Jay C. Nadel</u> Jay C. Nadel	Director	March 28, 2016
<u>By: /s/ Arthur J. Gregg</u> Arthur J. Gregg	Director	March 28, 2016
<u>By: /s/ Augustus J. Larson</u> Augustus J. Larson	Director	March 28, 2016
<u>By: /s/ Michael T. Adams</u> Michael T. Adams	Director	March 28, 2016

INDEX OF EXHIBITS

Exhibit No.	Description
3.1	Proforma 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).
4.1	Certificate of Designation of Preferences of Series B Convertible Preferred Stock dated September 30, 2001 filed with the State of Delaware November 2, 2001 (incorporated by reference to Exhibit 3.1 to Form 8-K dated September 30, 2001, filed October 25, 2001).
4.2	Amendment to Certificate of Designation of Preferences of Series B Convertible Preferred Stock dated December 31, 2001 (incorporated by reference to Exhibit 3.1.1 to Form 8-K dated December 31, 2001, filed January 31, 2002).
4.3	Certificate of Designation of Preferences of Series C Convertible Preferred Stock dated January 8, 2002 filed with the State of Delaware on February 28, 2002 (incorporated by reference to Exhibit 3.2 to Form 8-K dated January 8, 2002, filed January 31, 2002).
4.4	Amendment to Certificate of Designation of Preferences of Series C Convertible Preferred Stock dated September 27, 2006 filed with the State of Delaware on November 1, 2006 (incorporated by reference to Exhibit 4.1 to Form 10-Q dated September 30, 2006, filed November 1, 2006).
4.5	Certificate of Designation of Preferences of Series D Preferred Stock dated September 28, 2006 as filed with the State of Delaware on November 1, 2006 (incorporated by reference to Exhibit 4.2 to Form 10-Q dated September 30, 2006, filed November 1, 2006).
10.1	Equity Incentive Plan, as amended, and currently in effect (incorporated by reference to Exhibit 10.2 to Form 10-Q dated June 30, 2008, filed August 20, 2008).
10.2+	Option Agreement dated July 12, 2005 between Douglas J. Kramer and the Company (incorporated by reference to Exhibit 10.3 to Form 8-K dated July 12, 2005, filed July 18, 2005).
10.3+	Amendment to Option Agreement dated July 28, 2005 between Douglas J. Kramer and the Company (incorporated by reference to Exhibit 10.2 to Form 8-K dated July 25, 2005, filed July 29, 2005).
10.4+	Option Agreement dated May 5, 2008 between Douglas J. Kramer and the Company (incorporated by reference to Appendix C to DEF 14C dated and filed on May 19, 2008).
10.5+	Option Agreement dated July 12, 2005 between Michael T. Adams and the Company (incorporated by reference to Exhibit 10.2 to Form 8-K dated July 12, 2005, filed July 18, 2005).
10.6+	Amendment to Option Agreement dated July 28, 2005 between Michael T. Adams and the Company (incorporated by reference to Exhibit 10.1 to Form 8-K dated July 25, 2005, filed July 29, 2005).
10.7+	Executive Employment Agreement dated July 25, 2005 between Douglas J. Kramer and the Company (incorporated by to reference Exhibit 10.8 to Form 8-K dated July 25, 2005, filed July 29, 2005).
10.8+	Executive Employment Agreement dated May 5, 2008 between Douglas J. Kramer and the Company (incorporated by to reference Exhibit 10.8 to Form 8-K dated July 25, 2005, filed July 29, 2005).
10.9+	Executive Employment Agreement dated July 25, 2005 between Michael T. Adams and the Company (incorporated by to reference Exhibit 10.7 to Form 8-K dated July 25, 2005, filed July 29, 2005).
10.10	Revolving Credit and Term Loan Agreement between Lapolla and ComVest dated February 21, 2007 (incorporated by reference to Exhibit 10.1 to Form 8-K dated and filed February 23, 2007, filed February 2, 2007).
10.11	Revolving Credit Note between Lapolla and ComVest dated February 21, 2007 (incorporated by reference to Exhibit 10.3 to Form 8-K dated and filed February 23, 2007, filed February 2, 2007).
10.12	Warrant No. CV-1 To Purchase Shares of Common Stock to ComVest dated February 21, 2007 (incorporated by reference to Exhibit 10.4 to Form 8-K dated and filed February 23, 2007, filed February 2, 2007).
10.13	Warrant No. CV-2 To Purchase Shares of Common Stock to ComVest dated February 21, 2007 (incorporated by reference to Exhibit 10.5 to Form 8-K dated and filed February 23, 2007, filed February 2, 2007).
10.14	Warrant No. CV-3 To Purchase Shares of Common Stock to ComVest dated February 21, 2007 (incorporated by reference to Exhibit 10.6 to Form 8-K dated and filed February 23, 2007, filed February 2, 2007).
10.15	Warrant No. CV-4 To Purchase Shares of Common Stock to ComVest dated June 12, 2007 (incorporated by reference to Exhibit 10.10 to Form 8-K dated June 12, 2007, filed June 14, 2007).
10.16	Warrant No. CV-5 To Purchase Shares of Common Stock to ComVest dated June 30, 2008 (incorporated by reference to Exhibit 10.9 to Form 8-K dated June 30, 2008, filed July 7, 2008).
10.17	Warrants Amendment Letter for Warrants CV-1 through CV-3 To Purchase Shares of Common Stock between ComVest and the Company dated June 30, 2008 (incorporated by reference to Exhibit 10.10 to Form 8-K dated June 30, 2008, filed July 7, 2008).
10.18+	Employment Agreement dated May 18, 2009 between Michael T. Adams and the Company (incorporated by reference to Exhibit 10.1 to Form 8-K dated May 18, 2009, filed May 20, 2009).
10.19+	Option Agreement dated May 18, 2009 between Michael T. Adams and the Company (incorporated by reference to Exhibit 10.2 to Form 8-K dated May 18, 2009, filed May 20, 2009).
10.20+	First Amendment, effective January 1, 2010, to Employment Agreement dated May 5, 2008 between Douglas J. Kramer and the Company (incorporated by reference to Exhibit 10.1 to Form 8-K dated May 5, 2010, filed May 11, 2010).
10.21+	Employment Agreement, effective May 10, 2010, between Charles A. Zajaczkowski and the Company (incorporated by reference to Exhibit 10.2 to Form 8-K dated May 5, 2010, filed May 11, 2010).
10.22+	First Amendment, effective January 1, 2010, to Employment Agreement dated May 18, 2008 between Michael T. Adams and the Company (incorporated by reference to Exhibit 10.1 to Form 8-K dated June 11, 2010, filed June 16, 2010).
10.23	Bank of American Loan and Security Agreement dated August 31, 2010 and effective September 1, 2010 (incorporated by reference to Exhibit 10.1 to Form 8-K dated September 1, 2010, filed September 7, 2011).
10.24	Guarantee Agreement between Richard J. Kurtz as Guarantor of Term Loan and Bank of America (incorporated by reference to Exhibit 10.2 to Form 8-K dated September 1, 2010, filed September 7, 2011).

10.25 First Amendment dated November 10, 2010 and effective August 31, 2010, to Bank of America Loan Agreement dated August 31, 2010 (incorporated by reference to Exhibit 10.1 to Form 8-K dated November 10, 2010, filed November 18, 2010).

10.26+ Agreement dated February 22, 2011 between Jay C. Nadel and the Company (incorporated by reference to Exhibit 10.1 to Form 8-K dated February 22, 2011, filed February 28, 2011).

10.27 Third Amendment dated May 11, 2011 to that certain Loan and Security Agreement between Lapolla and Bank of America dated August 31, 2010 (incorporated by reference to Exhibit 10.2 to Form 10-Q for the quarterly period ended March 31, 2011, filed May 16, 2011).

10.28+ Second Amendment, effective January 1, 2011, to Employment Agreement dated May 5, 2008, between Douglas J. Kramer and the Company (incorporated by reference to Exhibit 10.2 to Form 10-Q dated June 30, 2011, filed August 19, 2011).

10.29+ Second Amendment, effective January 1, 2011, to Employment Agreement dated May 18, 2009, between Michael T. Adams and the Company (incorporated by reference to Exhibit 10.3 to Form 10-Q dated June 30, 2011, filed August 19, 2011).

10.30+ First Amendment, effective January 1, 2011, to Employment Agreement, effective May 10, 2010, between Charles A. Zajackowski and the Company (incorporated by reference to Exhibit 10.4 to Form 10-Q dated June 30, 2011, filed August 19, 2011).

10.31 Fourth Amendment dated August 17, 2011 to that certain Loan and Security Agreement between Lapolla and Bank of America dated August 31, 2010 (incorporated by reference to Exhibit 10.5 to Form 10-Q dated June 30, 2011, filed August 19, 2011).

10.32+ Third Amendment, effective December 31, 2011, to Employment Agreement dated May 18, 2009, between Michael T. Adams and the Company (incorporated by reference to Exhibit 10.49 to Form 10-K for the year ended December 31, 2011, filed April 16, 2012).

10.33+ Executive Employment Agreement dated April 9, 2012 and effective April 5, 2012 between Harvey L. Schnitzer and the Company (incorporated by reference to Exhibit 10.47 to Form 10-K for the year ended December 31, 2011, filed April 16, 2012).

10.34 Sixth Amendment dated April 16, 2012 to that certain Loan and Security Agreement between Lapolla and Bank of America dated August 31, 2010 (incorporated by reference to Exhibit 10.48 to Form 10-K for the year ended December 31, 2011, filed April 16, 2012).

10.35 Note Purchase Agreement between Lapolla and Enhanced Jobs for Texas Funds, LLC and Enhanced Capital Texas Fund, LP dated June 29, 2012 (incorporated by reference to Exhibit 10.1 to Form 8-K dated June 29, 2012, filed July 6, 2012).

10.36 Promissory Note between Lapolla and Enhanced Jobs for Texas Fund, LLC dated June 29, 2012 (incorporated by reference to Exhibit 10.2 to Form 8-K dated June 29, 2012, filed July 6, 2012).

10.37 Promissory Note between Lapolla and Enhanced Capital Texas Fund, LP dated June 29, 2012 (incorporated by reference to Exhibit 10.3 to Form 8-K dated June 29, 2012, filed July 6, 2012).

10.38 Security Agreement between Lapolla and Enhanced Capital Texas Fund, LP, dated June 29, 2012 (incorporated by reference to Exhibit 10.4 to Form 8-K dated June 29, 2012, filed July 6, 2012).

10.39 Guaranty Agreement between Richard J. Kurtz and Enhanced Capital Texas Fund, LP dated June 29, 2012 (incorporated by reference to Exhibit 10.5 to Form 8-K dated June 29, 2012, filed July 6, 2012).

10.40 Seventh Amendment dated June 29, 2012 to that certain Loan and Security Agreement dated August 31, 2010 between Lapolla and Bank of America, N.A. (incorporated by reference to Exhibit 10.6 to Form 8-K dated June 29, 2012, filed July 6, 2012).

10.41+ Third Amendment, effective July 1, 2012, to Employment Agreement dated May 5, 2008, between Douglas J. Kramer and the Company (incorporated by reference to Exhibit 10.7 to Form 10-Q dated June 30, 2012, filed August 20, 2012).

10.42+ Fourth Amendment, effective July 1, 2012, to Employment Agreement dated May 18, 2009, between Michael T. Adams and the Company (incorporated by reference to Exhibit 10.8 to Form 10-Q dated June 30, 2012, filed August 20, 2012).

10.43+ Second Amendment, effective July 1, 2012, to Employment Agreement, effective May 10, 2010, between Charles A. Zajackowski and the Company (incorporated by reference to Exhibit 10.9 to Form 10-Q dated June 30, 2012, filed August 20, 2012).

10.44+ First Amendment, effective July 1, 2012, to Advisory/Consultant Agreement, effective February 22, 2011, between Jay C. Nadel and the Company (incorporated by reference to Exhibit 10.10 to Form 10-Q dated June 30, 2012, filed August 20, 2012).

10.45 Eighth Amendment dated November 15, 2012 to that certain Loan and Security Agreement dated August 31, 2010 between Lapolla and Bank of America, N.A. (incorporated by reference to Exhibit 10.1 to Form 10-Q dated September 30, 2012, filed November 19, 2012).

10.46 First Amendment dated November 15, 2012 to that certain Note Purchase Agreement dated June 29, 2012 between Lapolla and Enhanced Jobs for Texas Fund, LLC and Enhanced Capital Texas Fund, LP (incorporated by reference to Exhibit 10.2 to Form 10-Q dated September 30, 2012, filed November 19, 2012).

10.47+ Third Amendment, effective December 31, 2012, to Employment Agreement effective May 10, 2010, between Charles A. Zajackowski and the Company (incorporated by reference to Exhibit 10.62 to Form 10-K dated December 31, 2012, filed March 29, 2013).

10.48 Ninth Amendment dated May 3, 2013 to that certain Loan and Security Agreement dated August 31, 2010 between Lapolla and Bank of America, N.A. (incorporated by reference to Exhibit 10.1 to Form 10-Q dated March 31, 2013, filed May 13, 2013).

10.49 Financial Commitment from Richard J. Kurtz dated July 26, 2013 (incorporated by reference to Exhibit 10.1 to Form 10-Q dated June 30, 2013, filed August 12, 2013).

10.50 Note Purchase Agreement between Lapolla and Enhanced dated December 10, 2013 (incorporated by reference to Exhibit 10.1 to Form 8-K dated December 10, 2013, filed December 16, 2013).

10.51 Promissory Note between Lapolla and Enhanced Jobs for Texas Fund, LLC dated December 10, 2013 (incorporated by reference to Exhibit 10.2 to Form 8-K dated December 10, 2013, filed December 16, 2013).

10.52 Promissory Note between Lapolla and Enhanced Capital Texas Fund, LP dated December 10, 2013 (incorporated by reference to Exhibit 10.3 to Form 8-K dated December 10, 2013, filed December 16, 2013).

10.53 Security Agreement between Lapolla and Enhanced Capital Texas Fund, LP dated December 10, 2013 (incorporated by reference to Exhibit 10.4 to Form 8-K dated December 10, 2013, filed December 16, 2013).

10.54 Guaranty Agreement b/w Richard J. Kurtz and Enhanced Capital Texas Fund, LP dated December 10, 2013 (incorporated by reference to Exhibit 10.5 to Form 8-K dated December 10, 2013, filed December 16, 2013).

10.55 Tenth Amendment dated December 10, 2013 to that certain Loan and Security Agreement dated August 31, 2010 between Lapolla and Bank of America, N.A. (incorporated by reference to Exhibit 10.6 to Form 8-K dated December 10, 2013, filed December 16, 2013).

10.56+ Fourth Amendment, effective December 31, 2013, to Employment Agreement effective May 10, 2010, between Charles A. Zajackowski and the Company (incorporated by reference to Exhibit 10.1 to Form 8-K dated January 7, 2014, filed January 13, 2014).

10.57+ Executive Employment Agreement, effective January 1, 2014, between Douglas J. Kramer and the Company (incorporated by reference to Exhibit 10.1 to Form 8-K dated January 22, 2013, filed January 28, 2013).

10.58+ Option Agreement dated January 22, 2014, between Douglas J. Kramer and the Company (incorporated by reference to Exhibit 10.2 to Form 8-K dated January 22, 2013, filed January 28, 2013).

10.59+ Option Agreement dated February 7, 2014, between Harvey L. Schnitzer and the Company (incorporated by reference to Exhibit 10.72 to Form 10-K dated December 31, 2013, filed April 10, 2014).

10.60+ Stock Bonus Agreement dated February 7, 2014, between Harvey L. Schnitzer and the Company (incorporated by reference to Exhibit 10.73 to Form 10-K dated December 31, 2013, filed April 10, 2014).

10.61 First Amendment dated April 8, 2014 to that certain Note Purchase Agreement between Lapolla and Enhanced dated December 10, 2013 (incorporated by reference to Exhibit 10.74 to Form 10-K dated December 31, 2013, filed April 10, 2014).

10.62+ Option Agreement dated April 28, 2014, between Jay C. Nadel and the Company (incorporated by reference to Exhibit 10.62 to Form 10-K dated December 31, 2014, filed March 31, 2015).

10.63+ Option Agreement dated April 28, 2014, between Arthur J. Gregg and the Company (incorporated by reference to Exhibit 10.63 to Form 10-K dated December 31, 2014, filed March 31, 2015).

10.64+ Option Agreement dated April 28, 2014, between Augustus J. Larson and the Company (incorporated by reference to Exhibit 10.64 to Form 10-K dated December 31, 2014, filed March 31, 2015).

10.65+ Option Agreement dated April 28, 2014, between Douglas J. Kramer and the Company (incorporated by reference to Exhibit 10.65 to Form 10-K dated December 31, 2014, filed March 31, 2015).

10.66+ Option Agreement dated April 28, 2014, between Michael T. Adams and the Company (incorporated by reference to Exhibit 10.66 to Form 10-K dated December 31, 2014, filed March 31, 2015).

10.67+ Option Agreement dated April 28, 2014, between Harvey L. Schnitzer and the Company (incorporated by reference to Exhibit 10.67 to Form 10-K dated December 31, 2014, filed March 31, 2015).

10.68+ Option Agreement dated May 14, 2014, between Richard J. Kurtz and the Company (incorporated by reference to Exhibit 10.68 to Form 10-K dated December 31, 2014, filed March 31, 2015).

10.69+ Option Agreement dated October 14, 2014, between Douglas J. Kramer and the Company (incorporated by reference to Exhibit 10.69 to Form 10-K dated December 31, 2014, filed March 31, 2015).

10.70+ Option Agreement dated November 26, 2014, between Michael T. Adams and the Company (incorporated by reference to Exhibit 10.70 to Form 10-K dated December 31, 2014, filed March 31, 2015).

10.71+ Option Agreement dated December 22, 2014, between Jay C. Nadel and the Company (incorporated by reference to Exhibit 10.71 to Form 10-K dated December 31, 2014, filed March 31, 2015).

10.72+ Option Agreement dated December 22, 2014, between Arthur J. Gregg and the Company (incorporated by reference to Exhibit 10.72 to Form 10-K dated December 31, 2014, filed March 31, 2015).

10.73+ Option Agreement dated December 22, 2014, between Augustus J. Larson and the Company (incorporated by reference to Exhibit 10.73 to Form 10-K dated December 31, 2014, filed March 31, 2015).

10.74 Eleventh Amendment dated November 14, 2014 to that certain Loan and Security Agreement dated August 31, 2010 between Lapolla and Bank of America, N.A. (incorporated by reference to Exhibit 10.1 to Form 10-Q dated September 30, 2014, filed November 17, 2014).

10.75 Financial Commitment from Richard J. Kurtz dated November 14, 2014 (incorporated by reference to Exhibit 10.2 to Form 10-Q dated September 30, 2014, filed November 17, 2014).

10.76 Second Amendment dated November 14, 2014 to that certain Note Purchase Agreement between Lapolla and Enhanced dated December 10, 2013 (incorporated by reference to Exhibit 10.3 to Form 10-Q dated September 30, 2014, filed November 17, 2014).

10.77+ Executive Employment Agreement effective December 31, 2014, between Michael T. Adams and the Company (incorporated by reference to Exhibit 10.1 to Form 8-K dated January 16, 2015, filed January 23, 2015).

10.78+ Executive Employment Agreement effective December 31, 2014, between Harvey L. Schnitzer and the Company (incorporated by reference to Exhibit 10.1 to Form 8-K dated February 23, 2015, filed February 27, 2015).

10.79+ Executive Employment Agreement dated and effective January 1, 2015, between Jomarc C. Marukot and the Company (incorporated by reference to Exhibit 10.1 to Form 8-K dated January 1, 2015, filed January 6, 2015).

10.80+ Option Agreement dated January 16, 2015, between Douglas J. Kramer and the Company (incorporated by reference to Exhibit 10.3 to Form 8-K dated January 16, 2013, filed January 23, 2015).

10.81+ Option Agreement dated January 16, 2015, between Michael T. Adams and the Company (incorporated by reference to Exhibit 10.2 to Form 8-K dated January 16, 2013, filed January 23, 2015).

10.82 Promissory Note between Lapolla and Richard J. Kurtz dated January 21, 2015 (incorporated by reference to Exhibit 10.15 to Form 8-K dated January 21, 2015, filed January 27, 2015).

10.83 Twelfth Amendment dated January 23, 2015 to that certain Loan and Security Agreement dated August 31, 2010 between Lapolla and Bank of America, N.A. (incorporated by reference to Exhibit 10.11 to Form 8-K dated January 21, 2015, filed January 27, 2015).

10.84+ Executive Employment Agreement effective January 1, 2015, between Jomarc C. Marukot and the Company (incorporated by reference to Exhibit 10.1 to Form 8-K dated January 1, 2015, filed January 6, 2015).

10.85+ Option Agreement dated March 23, 2015, between Harvey L. Schnitzer and the Company (incorporated by reference to Exhibit 10.63 to Form 10-K dated December 31, 2014, filed March 31, 2015).

10.86 Thirteenth Amendment dated May 29, 2015 to that certain Loan and Security Agreement dated August 31, 2010 between Lapolla and Bank of America, N.A. (incorporated by reference to Exhibit 10.12 to Form 8-K dated May 29, 2015, filed June 10, 2015).

10.87 Subordination Agreement dated April 16, 2012 by and among Lapolla Industries, Inc., Richard J. Kurtz, and Bank of America (incorporated by reference to Exhibit 10.18 to Form 8-K dated May 29, 2015, filed June 10, 2015).

10.88 First Amendment dated November 13, 2014 to that certain Subordination Agreement dated April 16, 2012 by and among Lapolla Industries, Inc., Richard J. Kurtz, and Bank of America (incorporated by reference to Exhibit 10.19 to Form 8-K dated May 29, 2015, filed June 10, 2015).

10.89 Promissory Note dated November 14, 2014 between Lapolla Industries, Inc. and Richard J. Kurtz (incorporated by reference to Exhibit 10.20 to Form 8-K dated May 29, 2015, filed June 10, 2015).

10.90 Promissory Note dated January 21, 2015 between Lapolla Industries, Inc. and Richard J. Kurtz (incorporated by reference to Exhibit 10.15 to Form 8-K dated January 21, 2015, filed January 27, 2015).

10.91	Second Amendment dated May 29, 2015 to that certain Subordination Agreement dated April 16, 2012 by and among Lapolla Industries, Inc., Richard J. Kurtz, and Bank of America (incorporated by reference to Exhibit 10.22 to Form 8-K dated May 29, 2015, filed June 10, 2015).
10.92+	First Amendment, effective January 1, 2014, to Employment Agreement dated January 1, 2014, between Douglas J. Kramer and the Company (incorporated by reference to Exhibit 10.1 to Form 10-Q dated September 30, 2015, filed November 12, 2015).
10.93	Third Amendment dated December 15, 2015 to that certain Note Purchase Agreement between Lapolla and Enhanced dated December 10, 2013 (incorporated by reference to Exhibit 10.6 to Form 8-K dated December 15, 2015, filed December 18, 2015).
10.94	Amended and Restated Guaranty Agreement dated December 15, 2015 by and among Richard J. Kurtz and Enhanced Credit Supported Loan Fund, LP, as Agent for Enhanced Jobs for Texas Fund, LLC, and Enhanced Capital Texas Fund, LP (incorporated by reference to Exhibit 10.7 to Form 8-K dated December 15, 2015, filed December 18, 2015).
10.95	Fourteenth Amendment dated March 18, 2016 to that certain Loan and Security Agreement dated August 31, 2010 between Lapolla and Bank of America, N.A. (incorporated by reference to Exhibit 10.13 to Form 8-K dated March 18, 2016, filed March 24, 2016).
10.96	Commitment Letter dated November 12, 2015 from Richard J. Kurtz (incorporated by reference to Exhibit 10.2 to Form 10-Q dated September 30, 2015, filed November 12, 2015).
10.97*+	Option Agreement dated November 12, 2015, between Richard J. Kurtz and and the Company.
10.98*+	Option Agreement dated March 14, 2016, between Richard J. Kurtz and and the Company.
10.99*+	Option Agreement dated March 14, 2016, between Douglas J. Kramer and and the Company.
23.1*	Consent of Hein & Associates LLP incorporated by reference in Registration Statement (Form S-3 No. 333-143922) of March 28, 2016 report.
31.1*	Certification of Principal Executive Officer Required Under Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2*	Certification of Principal Financial Officer Required Under Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32*	Certification of Principal Executive Officer and Principal Financial Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350.
101*	The following materials from the Company's Annual Report on Form 10-K for the year ended December 31, 2015, formatted in XBRL (eXtensible Business Reporting Language), (i) Balance Sheets, (ii) Statements of Operations, (iii) Statements of Stockholders' Equity, (iv) Statements of Cash Flows, and (v) Notes to Financial Statements

* Filed herewith

+ Management contract or compensation plan or arrangement



2015 Annual Audit

Lapolla Industries, Inc.

Intercontinental Business Park
15402 Vantage Parkway East, Suite 322
Houston, Texas 77032

www.lapolla.com

**LAPOLLA INDUSTRIES, INC.
INDEX TO FINANCIAL STATEMENTS**

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Lapolla Industries, Inc.
Houston, Texas

We have audited the accompanying balance sheets of Lapolla Industries, Inc. as of December 31, 2015 and 2014 and the related statements of operations, change in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lapolla Industries, Inc. as of December 31, 2015 and 2014, and the results of its operations and its cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Hein & Associates LLP

Hein & Associates LLP
Houston, Texas
March 28, 2016

LAPOLLA INDUSTRIES, INC.
BALANCE SHEETS

	December 31,	
	2015	2014
<i>Assets</i>		
Current Assets:		
Cash	\$ —	\$ —
Trade Receivables, Net	10,006,030	8,880,364
Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts	42,120	18,411
Inventories	8,173,534	5,268,025
Prepaid Expenses and Other Current Assets	1,174,277	1,149,279
Total Current Assets	19,395,961	15,316,079
Property, Plant and Equipment	1,086,516	1,364,613
Other Assets:		
Goodwill	4,234,828	4,234,828
Other Intangible Assets, Net	1,197,033	1,183,452
Deposits and Other Non-Current Assets, Net	212,430	399,083
Total Other Assets	5,644,291	5,817,363
Total Assets	\$ 26,126,768	\$ 22,498,055
<i>Liabilities and Stockholders' Equity</i>		
Current Liabilities:		
Accounts Payable	\$ 6,383,544	\$ 6,985,373
Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts	51,353	—
Accrued Expenses and Other Current Liabilities	2,772,812	1,758,660
Total Current Liabilities	9,207,709	8,744,033
Other Liabilities:		
Non-Current Portion of Revolver Loan	6,736,267	5,435,005
Non-Current Portion of Note Payable – Enhanced Note	7,519,026	7,157,852
Non-Current Portion of Note Payable – Related Party	—	250,000
Accrued Interest – Note Payable – Related Party	3,888	3,173
Deferred Tax Liability	364,600	—
Total Other Liabilities	14,623,781	12,846,030
Total Liabilities	23,831,490	21,590,063
Commitments and Contingencies (Note 15)		
Stockholders' Equity:		
Common Stock, \$0.01 Par Value; 140,000,000 Shares Authorized; 122,125,072 and 119,839,566 Issued and Outstanding for 2015 and 2014, respectively.	1,221,251	1,198,396
Additional Paid-In Capital	91,930,422	89,989,110
Accumulated Deficit	(90,733,484)	(90,156,603)
Accumulated Other Comprehensive Loss	(122,911)	(122,911)
Total Stockholders' Equity	2,295,278	907,992
Total Liabilities and Stockholders' Equity	\$ 26,126,768	\$ 22,498,055

The Accompanying Notes are an Integral Part of the Financial Statements

**LAPOLLA INDUSTRIES, INC.
STATEMENTS OF OPERATIONS**

	Years Ended December 31,	
	2015	2014
Sales	\$ 78,649,329	\$ 72,065,015
Cost of Sales	60,264,197	58,460,940
Gross Profit	18,385,132	13,604,075
Operating Expenses:		
Selling, General and Administrative	13,932,641	13,259,920
Professional Fees	1,158,358	915,369
Depreciation	145,793	166,293
Amortization of Other Intangible Assets	284,167	278,826
Consulting Fees	809,433	498,963
Total Operating Expenses	16,330,392	15,119,371
Operating Income (Loss)	2,054,740	(1,515,296)
Other (Income) Expense:		
Interest Expense	1,318,859	1,193,298
Interest Expense – Related Party	775,424	805,608
Interest Expense – Amortization of Discount	181,203	182,444
Other, Net	(35,880)	(35,697)
Total Other (Income) Expense	2,239,606	2,145,653
Income (Loss) Before Income Taxes	\$ (184,866)	\$ (3,660,949)
Provision for Income Taxes	\$ 392,015	\$ —
Net Loss	\$ (576,881)	\$ (3,660,949)
Net Loss Per Share – Basic and Diluted	\$ —	\$ (0.03)
Weighted Average Shares Outstanding	121,283,432	115,359,714

The Accompanying Notes are an Integral Part of the Financial Statements

LAPOLLA INDUSTRIES, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-In Capital	Accumulated (Deficit)	Accumulated Other Comprehensive (Loss)	Total Stockholders' Equity
	Shares	Par \$0.01				
<i>As of December 31, 2013</i>	114,148,378	\$ 1,141,484	\$ 86,734,757	\$ (86,495,654)	\$ (122,911)	\$ 1,257,676
Net Loss	—	—	—	(3,660,949)	—	(3,660,949)
Issuance of Common Stock	5,691,188	56,912	(56,912)	—	—	—
Conversion of Note Payable - Related Party and						
Accrued Interest – Related Party to Common Stock	—	—	1,485,212	—	—	1,485,212
Share Based Compensation Expense	—	—	1,091,195	—	—	1,091,195
Interest Expense – Related Party	—	—	734,858	—	—	734,858
<i>As of December 31, 2014</i>	119,839,566	\$ 1,198,396	\$ 89,989,110	\$ (90,156,603)	\$ (122,911)	\$ 907,992
Net Loss	—	—	—	(576,881)	—	(576,881)
Issuance of Common Stock	2,285,505	22,855	(22,855)	—	—	—
Share Based Compensation Expense	—	—	1,229,311	—	—	1,229,311
Interest Expense – Related Party	—	—	734,856	—	—	734,856
<i>As of December 31, 2015</i>	122,125,071	\$ 1,221,251	\$ 91,930,422	\$ (90,733,484)	\$ (122,911)	\$ 2,295,278

The Accompanying Notes are an Integral Part of the Financial Statements

**LAPOLLA INDUSTRIES, INC.
STATEMENT OF CASH FLOWS**

	Years Ended December 31,	
	2015	2014
<i>Cash Flows From Operating Activities</i>		
Net Loss	\$ (576,881)	\$ (3,660,949)
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities:		
Depreciation	357,995	394,309
Amortization of Other Intangible Assets	284,167	278,826
Provision for Losses on Accounts Receivable	296,572	583,424
Share Based Compensation Expense	1,229,311	1,091,195
Interest Expense – Enhanced Notes PIK	329,971	291,847
Interest Expense – Related Party	775,424	805,608
Interest Expense – Amortization of Discount	181,203	182,444
Deferred Income Tax Provision	364,600	—
Gain on Disposal of Assets	(3,709)	(15,679)
Loss on Foreign Currency Exchange	59,835	68,767
Changes in Assets and Liabilities:		
Trade Receivables	(1,487,356)	(1,839,626)
Inventories	(2,905,509)	153,910
Costs and Estimates Earnings in Excess of Billings on Uncompleted Contracts	(23,709)	(18,411)
Prepaid Expenses and Other Current Assets	(64,850)	101,035
Other Intangible Assets	(297,748)	(297,121)
Deposits and Other Non-Current Assets	186,653	287,575
Accounts Payable	(596,547)	293,935
Accrued Expenses and Other Current Liabilities	1,014,152	301,765
Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts	51,353	—
Net Cash Used in Operating Activities	\$ (825,073)	\$ (997,146)
<i>Cash Flows From Investing Activities</i>		
Additions to Property, Plant and Equipment	(76,189)	(207,191)
Proceeds from Disposal of Property, Plant and Equipment	—	63,095
Net Cash Used in Investing Activities	\$ (76,189)	\$ (144,096)
<i>Cash Flows From Financing Activities</i>		
Proceeds from Revolver Loan	83,858,278	75,459,796
Principal Repayments to Revolver Loan	(82,557,016)	(74,563,955)
Proceeds from Note Payable – Related Party	250,000	250,000
Principal Repayments to Note Payable - Related Party	(500,000)	—
Principal Repayments to Note Payable - Enhanced Note	(150,000)	(4,599)
Net Cash Provided by Financing Activities	901,262	1,141,242
<i>Net Effect of Exchange Rate Changes on Cash</i>		
	—	—
<i>Net Change In Cash</i>		
	—	—
<i>Cash at Beginning of Year</i>		
	—	—
<i>Cash at End of Year</i>		
	\$ —	\$ —
<i>Supplemental Disclosure of Cash Flow Information:</i>		
Cash Payments for Income Taxes	\$ —	\$ —
Cash Payments for Interest	849,911	782,424
<i>Supplemental Schedule of Non Cash Investing and Financing Activities:</i>		
Issuances of Restricted Stock for Personal Guaranty by Related Party Classified as Interest Expense	\$ 734,856	\$ 734,858
Accrued Interest – Related Party	3,888	3,173

The Accompanying Notes are an Integral Part of the Financial Statements

LAPOLLA INDUSTRIES, INC.
NOTES TO FINANCIAL STATEMENTS

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

This summary briefly describes the Company's organization, basis of presentation, and critical accounting policies, estimates, and assumptions, which are presented to assist in understanding these financial statements. The financial statements and notes are representations of management who are responsible for their integrity and objectivity. The accounting policies used conform to Generally Accepted Accounting Principles (GAAP) in the United States of America and have been consistently applied in the preparation of these financial statements. Judgments and estimates of uncertainties are required in applying our accounting policies in many areas. However, application of the critical accounting policies discussed below requires management's significant judgments, often as the result of the need to make estimates of matters that are inherently uncertain. If actual results were to differ materially from the estimates made, the reported results could be materially affected.

Organization History

The Company was incorporated in the state of Delaware on October 20, 1989. The Company acquired 100% of the capital stock of Infiniti Products, Inc. (f/k/a Infiniti Paint Co., Inc.), a Florida corporation, effective September 1, 2001, which was engaged in the business of developing, marketing, selling, and distributing primarily acrylic roof coatings and polyurethane foam systems in the Southeastern United States ("Infiniti"). During the latter part of 2004, Infiniti built and began operating an acrylic roof coatings manufacturing plant in the Southeastern United States. On February 11, 2005, the Company acquired 100% of the capital stock of Lapolla Industries, Inc., an Arizona corporation ("Lapolla AZ"), which was engaged in the business of manufacturing acrylic roof coatings and sealants, and distributing polyurethane foam systems in the Southwestern United States. On April 1, 2005, Infiniti merged with and into Lapolla AZ whereas the existence of Infiniti ceased. On October 1, 2005, Lapolla AZ merged with and into the Company, under its former name of IFT Corporation, whereas the existence of Lapolla AZ ceased. On November 8, 2005, the Company changed its name to Lapolla Industries, Inc. On July 1, 2008, the Company acquired certain assets and liabilities of Air-Tight Marketing and Distribution, Inc.

Trade Receivables and Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of trade receivables. The Company's customers consist primarily of contractors and distributors. Trade receivables consist primarily of uncollateralized customer obligations, including personal guarantees when obtainable, due under normal trade terms which usually require payment within 30 days of the invoice date. However, these payment terms are extended in select cases and many customers do not pay within stated trade terms. The Company has trade receivables from a diverse customer base. The Company has a credit insurance policy in place covering most customer account balances. The Company believes no significant concentration of credit risk exists. The Company evaluates the creditworthiness of its customers' financial position and monitors accounts on a regular basis. Provisions to the allowance for doubtful accounts are reviewed quarterly and adjustments are made periodically (as circumstances warrant) based upon management's best estimate of collectability of accounts. No customer represented more than 10% of sales for each of the years ended December 31, 2015 and 2014. No customer represented more than 10% of trade receivables at December 31, 2015 or 2014.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the cost over the fair value of net tangible and identifiable intangible assets of acquired businesses. Identifiable intangible assets acquired in business combinations are recorded based upon their fair value at the date of acquisition. According to GAAP, goodwill is required to be tested for impairment, on an annual basis and between annual tests in certain circumstances, and written down when impaired. The goodwill impairment test is performed by comparing the fair value of the associated reporting unit to its carrying value. GAAP also requires that intangible assets with estimable useful lives be amortized over their respective estimated lives to their estimated residual values, and reviewed for impairment, unless these lives are determined to be indefinite.

LAPOLLA INDUSTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Fair Value of Financial Instruments

The Company adopted authoritative GAAP guidance regarding disclosures about fair value of financial instruments, which requires the disclosure of the fair value of off-and-on balance sheet financial instruments. Unless otherwise indicated, the fair values of all reported assets and liabilities, which represent financial instruments (none of which are held for trading purposes), approximate the carrying values of such amounts. The Company adopted authoritative GAAP guidance regarding fair value measurements, which defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants at the measurement date. This guidance establishes three levels of inputs that may be used to measure fair value: (a) Level 1 - Quoted prices in active markets for identical assets or liabilities. (b) Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets with insufficient volume or infrequent transactions (less active markets), or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data for substantially the full term of the assets or liabilities; and (c) Level 3 - Unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of assets or liabilities. The Company had no Level 1, 2, or 3 assets or liabilities at December 31, 2015 and 2014, respectively. The carrying value of cash and cash equivalents, trade receivables and payables, prepaid expenses and other current assets, and other payables and accruals approximate fair value due to short period of time to maturity.

Litigation

In the normal course of business, the Company is occasionally involved in legal proceedings. The Company accrues a liability for such matters when it is probable that a liability has been incurred and the amount can be reasonably estimated. When only a range of possible loss can be established, the most probable amount in the range is accrued. If no amount within this range is a better estimate than any other amount within the range, the minimum amount in the range is accrued. The accrual for a litigation loss contingency might include, for example, estimates of potential damages, outside legal fees and other directly related costs expected to be incurred.

Cash and Cash Equivalents

The Company considers cash, checks, and credit card and ACH payments deposited with financial institutions to be cash and cash equivalents.

Fixed-Price Contracts

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

Inventories

Cost is determined on an actual and/or standard cost basis that approximates the first-in, first-out (FIFO) method using a perpetual inventory system. Inventories are valued at the lower of cost or market (replacement cost), which does not exceed net realizable value.

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 losses and tax credit carryovers. The Company's deferred tax asset was approximately \$27.4 Million and \$24.6 Million at December 31, 2015 and 2014, respectively. The Company's federal income tax returns are open to audit under the statute of limitations for the years ended December 31, 2010 through 2014. The Company recorded a valuation allowance against the deferred tax asset of \$27.8 Million and \$24.6 Million at December 31, 2015 and 2014, creating a deferred tax liability of \$364 thousand and zero, respectively. The Company has no unrecognized income tax benefits. Accordingly, the annual effective tax rate is unaffected. Should the Company incur interest and penalties relating to tax uncertainties, such amounts would be classified as a component of interest expense and operating expense, respectively. At December 31, 2015, the Company had no increase or decrease in unrecognized income tax benefits for the year. There was no accrued interest or penalties relating to tax uncertainties at December 31, 2015. Unrecognized tax benefits are not expected to increase or decrease within the next twelve months.

LAPOLLA INDUSTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Depreciable Lives of Property, Plant and Equipment

Property, plant and equipment is recorded at cost and depreciated using the straight-line method, which deducts equal amounts of the cost of each asset from earnings every year over its estimated economic useful life. Economic useful life is the duration of time an asset is expected to be productively employed by the Company, which may be less than its physical life. Assumptions on the following factors, among others, affect the determination of estimated economic useful life: wear and tear, obsolescence, technical standards, contract life, market demand, competitive position, raw material availability, and geographic location. The estimated economic useful life of an asset is monitored to determine its appropriateness, especially in light of changed business circumstances. For example, changes in technology and changes in the estimated future demand for products may result in a shorter estimated useful life than originally anticipated. In these cases, we would depreciate the remaining net book value over the new estimated remaining life, thereby increasing depreciation expense per year on a prospective basis. Net property, plant and equipment totaled \$1,086,516 and depreciation expense totaled \$357,995 as of and for the year ended December 31, 2015 . Net property, plant and equipment totaled \$1,364,613 and depreciation expense totaled \$394,309 as of and for the year ended December 31, 2014 .

Impairment of Long-Lived Assets

Property, Plant and Equipment

Property, plant, and equipment held for use is grouped for impairment testing at the lowest level for which there is an identifiable cash flow. Impairment testing of the asset group occurs whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Such circumstances would include a significant decrease in the market value of a long-lived asset grouping, a significant adverse change in the manner in which the asset grouping is being used or in its physical condition, a history of operating or cash flow losses associated with the use of the asset grouping, or changes in the expected useful life of the long-lived assets. If such circumstances are determined to exist, an estimate of undiscounted future cash flows produced by that asset group is compared to the carrying value to determine whether impairment exists. If an asset group is determined to be impaired, the loss is measured based on the difference between the asset group's fair value and its carrying value. An estimate of the asset group's fair value is based on the discounted value of its estimated cash flows. Assets to be disposed of by sale are reported at the lower of carrying amount or fair value less cost to sell. The assumptions underlying cash flow projections represent our best estimates at the time of the impairment review. Factors that we must estimate include industry and market conditions, sales volume and prices, costs to produce, etc. Changes in key assumptions or actual conditions that differ from estimates could result in an impairment charge. Management believes it uses reasonable and supportable assumptions when performing impairment reviews and cannot predict the occurrence of future events and circumstances that could result in impairment charges. There were no property, plant and equipment impairment charges recorded during the years ended December 31, 2015 or 2014 .

Goodwill

Goodwill represents the excess of the aggregate purchase price over the fair value of net tangible and identifiable intangible asset of an acquired business. Goodwill was \$4,234,828 at December 31, 2015 and 2014 . The Company operates two reporting units, Foam and Coatings. Disclosures related to goodwill are included in Note 9 to the financial statements. The Company evaluates goodwill for impairment on an annual basis, or more frequently if Management believes indicators of impairment exist, by comparing the carrying value of each of reportable unit to their estimated fair values. The annual evaluation is performed in the fourth quarter of each calendar year. The impairment test requires the Company to compare the fair value of each reporting unit to its carrying value, including assigned goodwill. In the fourth quarter of 2015 and 2014, the Company conducted the required annual test of goodwill for impairment. Management uses the income approach to estimate the fair market value of the business segments based on expected future economic benefits. This approach serves to estimate the value of the specific income stream with consideration given to the risk inherent in that income stream. The income approach is most relevant when valuing an equity interest that is based on the premise that Lapolla is considered a going concern or a viable business for the foreseeable future. Lapolla used the discounted cash flow method under the income approach in its analysis. In applying the discounted cash flow method, Lapolla identified the level of cash flow estimated for five years. The annual estimated cash flows and terminal value were then discounted to present value, at an appropriate discount rate, to arrive to the indication of fair market value for each reporting unit. The discount rate utilized reflected the estimate of investor-required rates of return for investments that are seen as similar to an investment in similarly situated companies like Lapolla. The assumptions were consistent with those utilized in the Company's operating plan and long term financial planning process and considered historical experience and current and future expected market and industry conditions. There were no goodwill impairment charges recorded during the years ended December 31, 2015 or 2014 .

LAPOLLA INDUSTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Other Intangible Assets

The Company had other intangible assets, net of \$1,197,033 and \$1,183,452 at December 31, 2015 and 2014, respectively, consisting of product formulations, and trade names that were acquired as part of business combinations, and trademarks and approvals and certifications obtained as part of entering into new markets. Amortization of other intangible assets totaled \$284,167 and \$278,826 for the years ended December 31, 2015 and 2014, respectively. Other intangible assets are tested for impairment as part of the long-lived asset grouping impairment tests. Impairment testing of the asset group occurs whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. *See* impairment discussion above under Property, Plant and Equipment for a description of how impairment losses are determined. Disclosures related to other intangible assets are included in Note 9 to the financial statements. Significant management judgment is required in the forecasts of future operating results that are used in the Company's impairment evaluations. The estimates used are consistent with the plans and estimates that Management uses to manage its business. It is possible, however, that the plans may change and estimates used may prove to be inaccurate. If the Company's actual results, or the plans and estimates used in future impairment analyses, are lower than the original estimates used to assess the recoverability of these assets, then the Company could incur future impairment charges, which would adversely affect financial performance. There were no long-lived asset impairment charges recorded during the years ended December 31, 2015 or 2014.

Revenue Recognition

Sales are recognized as risk and title to products transfers to the customer (which generally occurs at the time shipment is made), the sales price is fixed or determinable, and collectability is reasonably assured. Sales channels include direct sales, distributors, and independent representatives. Irrespective of the sales channel, returns and allowances are not a business practice in the industry. Amounts billed for shipping and handling are included in revenues (freight). Freight included in revenue was \$958,227 and \$998,803 in 2015 and 2014, respectively. Costs incurred for shipping and handling are included in cost of sales. Freight included in cost of sales was \$4,219,062 and \$4,441,402 in 2015 and 2014, respectively. Revenues are recorded net of sales tax.

Research and Development

Research and development costs related to both future and present products are charged to operations as incurred.

Share-Based Compensation

The Company accounts for the cost of employee or director services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The fair value of share based awards is estimated at the grant date using a Black-Scholes valuation model and the portion that is ultimately expected to vest is recognized as compensation cost over the requisite service period. The determination of fair value is affected by the Company's stock price as well as assumptions regarding a number of complex and subjective variables, including expected stock price volatility, risk-free interest rate, expected dividends and projected employee stock option exercise behaviors. Employee stock option exercise behavior is based on actual historical exercise activity and assumptions regarding future exercise activity of unexercised, outstanding options. The Company applies an estimated forfeiture rate to unvested awards for the purpose of calculating compensation cost. These estimates are subject to revision in future periods if actual forfeitures differ from the estimates and changes impact compensation cost in the period in which the change in estimate occurs. Disclosures related to share-based compensation are included in Note 18 to our financial statements. Share-based compensation expense was \$1,180,144 and \$1,058,327 in 2015 and 2014, respectively. If additional share based awards are granted, financial performance may be negatively affected, and if outstanding share based awards are forfeited or canceled, resulting in non-vesting of such stock awards, financial performance may be positively affected. In either instance, the Company's financial performance may change depending on share based award activities in future periods.

Allowance for Doubtful Accounts

The Company presents trade receivables, net of allowances for doubtful accounts, to ensure trade receivables are not overstated due to uncollectible accounts. Allowances, when required, are calculated based on a detailed review of certain individual customer accounts, including credit insurance and other security when applicable, and an estimation of the overall economic conditions affecting our customer base. The Company reviews a customer's credit history before extending credit. The allowance for doubtful accounts was approximately \$545,000 and \$617,000 at December 31, 2015 and 2014, respectively. If the financial condition of customers were to deteriorate based on worsening overall economic conditions, resulting in an impairment of their ability to make payments to the Company, then additional allowances may be required in future periods.

Cost of Sales and Selling, General and Administrative Costs

The Cost of Sales line item includes all the material, overhead, packaging, and freight costs associated with products shipped, including resale finished goods and raw materials, as well as payroll costs associated with manufacturing the finished goods, inbound freight, sales tax expense, product containers, labels, and other miscellaneous items that are indirectly used in the manufacturing, packaging, and shipping (outbound freight) of finished goods, including inspection, and internal transfer costs, as well as depreciation of machinery, amortization of approvals and certifications, and an allocated portion of overhead. The Selling, General and Administrative line item includes selling, advertising, marketing, customer service, and technical support, as well as the costs of providing corporate functional support for all other areas of our business.

LAPOLLA INDUSTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Advertising and Marketing Expenses

Advertising and marketing costs are generally expensed as incurred. Expenditures for certain advertising and marketing activities related to trade shows and trade magazines are deferred within the Company's fiscal year when the benefits clearly extend beyond the interim period in which the expenditure is made, generally not to exceed 90 days. There were \$116,198 and \$ 168,817 costs for advertising deferred on the Company's balance sheets as of December 31, 2015 and 2014 , respectively. Other advertising and marketing expenditures that do not meet the deferred criteria are expensed when the advertising and marketing occurs. Total advertising and marketing costs expensed were approximately \$1,068,000 and \$982,000 in 2015 and 2014 , respectively.

Debt Issuance Costs

The Company capitalizes debt issuance costs, which are included in the Company's balance sheets. These costs are amortized over the term of the financial instrument. Amortization of debt issuance costs is included in "Interest Expense" in the statements of operations.

Net Income (Loss) Per Common Share

Basic income (loss) per share is based upon the net income (loss) applicable to common shares after preferred dividend requirements and upon the weighted average number of common shares outstanding during the period. Diluted income (loss) per share reflects the effect of the assumed exercise of stock options and warrants only in periods in which such effect would have been dilutive. Disclosures related to net income (loss) per common share are included in Note 16 to our financial statements.

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.

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 adopted the provisions of the guidance in the fourth quarter of 2015. The adoption did not have a material impact on the Company's financial statements.

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 adopted the provisions of the guidance in the fourth quarter of 2015. The adoption did not have a material impact on the Company's financial statements.

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 adopted the provisions of the guidance in the fourth quarter of 2015. The adoption did not have a material impact on the Company's financial statements.

LAPOLLA INDUSTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

New Accounting Standards Not Yet Adopted

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 financial statements and related disclosures.

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

In August 2014, the FASB issued ASU No. 2014-15, "*Presentation of Financial Statements—Going Concern: Disclosures of Uncertainties about an Entity's Ability to Continue as a Going Concern*." The amendments in this ASU are intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. This ASU provides guidance to an organization's management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations in the financial statement footnotes. The pronouncement is effective for annual reporting periods ending after December 15, 2016 and interim periods within annual periods beginning after December 15, 2016. Early adoption is permitted for annual or interim reporting periods for which the financial statements have not previously been issued. The Company is currently evaluating the impact the pronouncement will have on the 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 November 2015, the FASB issued ASU 2015-17, "*Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*," which simplifies the presentation of deferred income taxes by requiring that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. This ASU is effective for financial statements issued for annual periods beginning after December 16, 2016, and interim periods within those annual periods. The Company is currently evaluating the impact the pronouncement will have on the Company's financial statements and related disclosures.

In January 2016, the FASB issued ASU 2016-01, "*Financial Instruments--Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*," which amends the guidance in U.S. GAAP on the classification and measurement of financial instruments. Changes to the current guidance primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the ASU clarifies guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The new standard is effective for fiscal years and interim periods beginning after December 15, 2017, and upon adoption, an entity should apply the amendments by means of a cumulative-effect adjustment to the balance sheet at the beginning of the first reporting period in which the guidance is effective. Early adoption is not permitted except for the provision to record fair value changes for financial liabilities under the fair value option resulting from instrument-specific credit risk in other comprehensive income. The Company is currently evaluating the impact the pronouncement will have on the Company's financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, "*Leases: Amendments to the FASB Accounting Standards Codification*," which requires companies to recognize all leases as assets and liabilities on the consolidated balance sheet. This ASU retains a distinction between finance leases and operating leases, and the classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in the current accounting literature. The result of retaining a distinction between finance leases and operating leases is that under the lessee accounting model, the effect of leases in a consolidated statement of comprehensive income and a consolidated statement of cash flows is largely unchanged from previous GAAP. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Earlier application is 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 FINANCIAL STATEMENTS
(Continued)

Note 2. Liquidity.

The Company has an accumulated deficit of \$90,733,484 , a net loss of \$576,881 , and used \$825,073 of cash in operating activities as of and for the year ended December 31, 2015 . As a result, there are concerns about the liquidity of the Company at December 31, 2015 . The Company has a working capital surplus of \$10,188,252 . Management believes that any cash generated from operations and the Revolver Loan availability, 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, through 2016.

Note 3. Dependence on Few Suppliers.

The Company is dependent on a few suppliers for certain of its raw materials and finished goods. For 2015 and 2014 , raw materials and finished goods purchased from the Company's three largest suppliers accounted for approximately 39% and 43% of purchases, respectively.

Note 4. Trade Receivables.

Trade receivables are comprised of the following as of December 31:

	2015	2014
Trade Receivables	\$ 10,551,323	\$ 9,497,247
Less: Allowance for Doubtful Accounts	(545,293)	(616,883)
Trade Receivables, Net	\$ 10,006,030	\$ 8,880,364

Note 5. Contracts.

Costs, estimated earnings and billings on uncompleted contracts are comprised of the following as of December 31:

	2015	2014
Costs Incurred on Uncompleted Contracts	\$ 1,089,036	\$ 964,121
Estimated Earnings on Uncompleted Contracts	305,581	246,471
	1,394,617	1,210,592
Less: Billings to Date	(1,403,850)	(1,192,181)
	\$ (9,233)	\$ 18,411

Included in the accompanying balance sheets under the following captions as of December 31:

	2015	2014
Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts	\$ 42,120	\$ 18,411
Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts	(51,353)	—
	\$ (9,233)	\$ 18,411

Note 6. Inventories.

The following is a summary of inventories as of December 31:

	2015	2014
Raw Materials	\$ 2,599,047	\$ 1,461,040
Finished Goods	5,574,487	3,806,985
Total	\$ 8,173,534	\$ 5,268,025

LAPOLLA INDUSTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
(Continued)

Note 7. Prepaid Expenses and Other Current Assets .

The following is a summary of prepaid expenses and other current assets as of December 31:

	2015	2014
Prepaid Insurances	\$ 636,734	\$ 568,088
Prepaid Marketing	116,198	172,919
Prepaid Consulting	57,784	60,266
Prepaid Other	363,561	348,006
Total Prepaid Expenses and Other Current Assets	<u>\$ 1,174,277</u>	<u>\$ 1,149,279</u>

Note 8. Property, Plant and Equipment.

The following is a summary of property, plant and equipment for the years ended December 31:

	2015	2014	Estimated Useful Life
Vehicles	\$ 462,258	\$ 475,357	5 Years
Leasehold Improvements	288,777	288,777	13 – 15 Years
Office Furniture and Equipment	307,349	297,737	3 – 7 Years
Computers and Software	945,543	897,102	3 – 5 Years
Machinery and Equipment	2,516,994	2,503,062	3 – 20 Years
Total Property, Plant and Equipment	<u>\$ 4,520,921</u>	<u>\$ 4,462,035</u>	
Less: Accumulated Depreciation	<u>(3,434,405)</u>	<u>(3,097,422)</u>	
Total Property, Plant and Equipment, Net	<u>\$ 1,086,516</u>	<u>\$ 1,364,613</u>	

Depreciation expense was \$357,995 and \$394,309 for the years ended 2015 and 2014 , of which \$212,202 and \$228,016 were included in cost of sales for 2015 and 2014 , respectively.

Note 9. Goodwill and Other Intangible Assets.

The following is a summary of Goodwill as of December 31:

Goodwill

	2015	2014
Foam	\$ 2,932,208	\$ 2,932,208
Coatings	1,302,620	1,302,620
	<u>\$ 4,234,828</u>	<u>\$ 4,234,828</u>

The following is a summary of Other Intangible Assets as of December 31:

Other Intangible Assets

	2015			2014			Amortization Period
	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount	
Product Formulations	\$ 138,471	(95,391)	\$ 43,080	138,471	(90,775)	47,696	15 Years
Trade Names	750,186	(369,237)	380,949	750,186	(319,224)	430,962	15 Years
Approvals and Certifications	3,201,996	(2,428,992)	773,004	1,835,013	(1,130,219)	704,794	5 Years
	<u>\$ 4,090,653</u>	<u>\$ (2,893,620)</u>	<u>\$ 1,197,033</u>	<u>\$ 2,723,670</u>	<u>\$ (1,540,218)</u>	<u>\$ 1,183,452</u>	

LAPOLLA INDUSTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
(Continued)

Note 9. Goodwill and Other Intangible Assets - continued.

Based on the other intangible assets in service as of December 31, 2015, estimated amortization expense for the years ending December 31, 2016 through December 31, 2019 and thereafter is as follows:

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Thereafter</u>
Product Formulations	\$ 9,231	\$ 9,231	\$ 9,231	\$ 9,231	\$ 6,156	\$ —
Trade Names	50,012	50,012	50,012	50,012	50,012	130,889
Approvals and Certifications	257,668	257,668	257,668	—	—	—
	<u>\$ 316,911</u>	<u>\$ 316,911</u>	<u>\$ 316,911</u>	<u>\$ 59,243</u>	<u>\$ 56,168</u>	<u>\$ 130,889</u>

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

The following is a summary of deposits and other non-current assets as of December 31:

	<u>2015</u>	<u>2014</u>
Deferred Financing Fees	\$ 118,554	\$ 195,201
Prepaid Expenses	25,291	7,104
Other Receivables	5,000	43,193
Deposits	63,585	153,585
Total Deposits and Other-Non-Current Assets	<u>\$ 212,430</u>	<u>\$ 399,083</u>

Note 11. Accrued Expenses and Other Current Liabilities.

The following is a summary of accrued expenses and other current liabilities as of December 31:

	<u>2015</u>	<u>2014</u>
Accrued Payroll	\$ (5,922)	\$ 206,364
Accrued Commissions	128,399	113,193
Accrued Inventory	438,125	108,016
Accrued Taxes and Other	1,725,220	818,544
Accrued Insurance	459,376	482,007
Deferred Finance Charge Income	27,614	30,536
Total Accrued Expenses and Other Current Liabilities	<u>\$ 2,772,812</u>	<u>\$ 1,758,660</u>

LAPOLLA INDUSTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
(Continued)

Note 12. 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 provide a \$12,000,000 (changed from \$13 million to reduce unused line fees) revolver loan (“Revolver Loan”), which matures in accordance with the following events: the earliest to occur of (a) March 31, 2019 or (b) 90 days prior to the maturity date of the Enhanced Note (as defined in Note 12 - Financing Instruments, Item (b) Note Purchase Agreement, subsection (i) below). Based on the current maturity of the Enhanced Note, the actual maturity date of the Loan Agreement is September 11, 2017. 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% (*See also* Note 20 - Subsequent Events, Item (c), for additional information on interest rate changes). The Company has three material debt covenants to comply with on 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 up to \$6,000,000 , or if the Company elects to have an inventory appraisal performed, the lesser of, 65% of eligible inventory or 85% of the net orderly liquidation value percentage of the value of eligible inventory, up to \$6,000,000); and (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. 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 December 31, 2015 and 2014 , the balance outstanding on the Revolver Loan was \$6,736,267 and \$5,435,005 , and the weighted-average interest rate was 4.6% and 4.3% , respectively. Cash available under our Revolver Loan based on the borrowing base calculation at December 31, 2015 and 2014 was \$2,237,428 and \$1,077,892 , respectively. At December 31, 2015 , the Company was in compliance with all of the Loan Agreement debt covenants.

See Note 20 – Subsequent Events, Item (c) for more information.

(b) Note Purchase Agreements .

(i) 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, 2017 (“Enhanced Note”), of which \$5.7 million was to Enhanced Credit and \$1.5 million was to Enhanced Jobs. Repayment of the Enhanced Note is required on the maturity date of December 10, 2017 . The aggregate interest rate of 11.5% per annum is payable monthly and will increase to 12.5% per annum if the Enhanced Note has a balance greater than \$4,000,000 after April 30, 2016. The Company has the right to prepay the Enhanced Note and the Chairman has committed to ensure funding is in place at least ninety (90) days prior to the maturity date of the Enhanced Note so the maturity date on our Loan Agreement with Bank of America is not accelerated. The Company also entered into a security agreement with the 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 on the 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 . Based on a prior Enhanced note being refinanced in connection with the current Enhanced Note, due to the effective interest rate on the refinanced balance of the prior Enhanced note being higher than the current Enhanced Note, a gain on extinguishment of debt resulted. The current Enhanced Note was recorded at fair value on December 10, 2013, resulting in a gain on extinguishment of debt of \$398,886 , a write off of \$45,512 for old debt issuance costs, and a purchase discount of \$542,886 which is being amortized to interest expense using the effective interest method over the three year term of the current Enhanced Note (*See also* (ii) below). At December 31, 2015 and 2014, the balance outstanding on the Enhanced Note was \$7,519,026 and \$7,157,852 , and the effective interest rate was 23.6% and 23.6% , respectively. At December 31, 2015 , the Company was in compliance with all of the Enhanced Note debt covenants. *See also* (iii) below for more information.

(ii) Guaranty Agreement . In connection with the Enhanced Note described in (b)(i) above, the chairman of the board and majority stockholder of the Company (the “Guarantor”), entered into a Guaranty Agreement with Enhanced Credit, as agent under the Enhanced Note, to secure the Company’s performance under the Enhanced Note. The Company, in exchange for Guarantor’s personal guarantee of the obligations under the Enhanced Note, granted Guarantor 3,681,000 shares of restricted common stock, par value \$.01 , which shares vest monthly on a pro rata basis over the three year term of the Enhanced Note (“Guaranty Shares”). The Guaranty Shares were valued at \$.60 per share, the closing price of the Company’s common stock as quoted on the OTC Markets on the day preceding the closing date of December 10, 2013, for an aggregate amount of \$2,208,600 . The Guaranty Shares are being recorded as interest expense – related party, thereby increasing the effective interest rate on the Enhanced Note. At December 31, 2015 , there were 2,523,347 Guaranty Shares vested, valued and recorded at \$1,514,008 .

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NOTES TO FINANCIAL STATEMENTS
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Note 12. Financing Instruments - continued.

(iii) **Chairman of the Board Commitment** . On November 12, 2015, pursuant to a commitment letter, effective as of October 31, 2015 (the "Commitment Letter"), the Company's chairman of the board and principal stockholder, Richard J. Kurtz, committed to ensure the Company had funding to pay off the aggregate amount of \$7.2 million , plus any accrued and unpaid interest (the "Obligations"), outstanding with respect to the Enhanced Note, of which \$2 million is required from him by April 30, 2016 if the Company does not repay that amount (the Commitment"). As consideration for the Commitment, the Company granted Mr. Kurtz a fully vested and exercisable stock option to purchase 500,000 shares of the Company's common stock, with an exercise price per share equal to the fair market value of a share of the Company's common stock on November 12, 2015, determined based on the per share closing price on such date, or \$0.294 per share, for a term of eight (8) years. 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. In connection with the Company's payment of \$500,000 in principal to Mr. Kurtz during the fourth quarter of 2015 for the Notes Payable - Related Party, Mr. Kurtz made a principal payment of \$150,000 towards paying down the Enhanced Note. *Refer to* (c)(i) and (ii) below for more information. *See also* Note 13 – Related Party Transactions, Item (h).

(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 Enhanced Note described in (a) and (b)(i) above. The Company, with consent of Bank of America and Enhanced, paid the \$250,000 principal amount back to the chairman during the fourth quarter of 2015, and at December 31, 2015 , there was \$0 in accrued and unpaid interest. *Refer to* Note 13 – Related Party Transactions, Item (h), for more information.

(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 Enhanced Note described in (a) and (b)(i) above. The Company, with consent of Bank of America and Enhanced, paid the \$250,000 principal amount back to the chairman during the fourth quarter of 2015, and at December 31, 2015 , there was \$3,888 in accrued and unpaid interest. *Refer to* Note 13 – Related Party Transactions, Item (h), for more information.

Note 13. 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.

LAPOLLA INDUSTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
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(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 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 Enhanced Note. *See also* Item (e) below.

(e) 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 (d) above for more information on the Subordinated Debt.

(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) On November 12, 2015, and effective as of October 31, 2015, the Company's chairman of the board and principal stockholder, Richard J. Kurtz, committed to provide the Company with funding to pay off the Enhanced Obligations, outstanding with respect to the subordinated secured promissory notes issued by the Company in favor of Enhanced Jobs and Enhanced Credit pursuant to the Enhanced Note, of which \$2 million will be paid on or before April 30, 2016, under the Commitment Letter. As consideration for the Commitment, the Company granted Mr. Kurtz a fully vested and exercisable stock option to purchase 500,000 shares of the Company's common stock, with an exercise price per share equal to the fair market value of a share of the Company's common stock on on November 12, 2015, determined based on the per share closing price on such date, or \$0.294 per share, for a term of eight (8) years. 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. *See also* (h) below for more information.

(h) On December 21, 2015, the Company, with the consent of Bank of America and Enhanced, repaid an aggregate of \$500,000 in principal to the chairman for the Notes Payable - Related Party. *Refer to* Note 12 - Financing Instruments, Item (c)(i) and (ii) for more information. As a result of the \$500,000 principal payment to the chairman by the Company, the chairman was required by Enhanced to pay down the Enhanced Note by \$150,000 . The Company offset the \$150,000 that the chairman paid on its behalf direct to Enhanced against certain arms length sales transactions made by the chairman for the Company's products.

(i) During the year ended December 31, 2015, the Company issued an aggregate of 1,035,743 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 \$417,662 .

(j) During the year ended December 31, 2015, the Company vested an aggregate of 1,224,763 shares of restricted common stock issued as Guaranty Shares, to the chairman of the board and majority stockholder in connection with his personal guaranty required with the Enhanced Note, which transactions were valued and recorded in the aggregate at \$734,858 , and classified as interest expense – related party.

***See also* Note 20 Subsequent Events, Items (a), (b) and (c), for more information.**

LAPOLLA INDUSTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
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Note 14. Income Taxes.

The components of income tax expense for the years ended at December 31:

	2015	2014
Current:		
Federal	\$ —	\$ —
State	27,415	29,304
Total Current	27,415	29,304
Deferred:		
Federal	364,600	—
State	—	—
Total Deferred	364,600	—
Total Tax Provision	\$ 392,015	\$ 29,304

The following is a reconciliation of expected tax expense to actual expense for the years ended at December 31:

	2015	2014
Federal Income Tax Expense/(Benefit)	\$ (62,456)	\$ (1,244,723)
State Income Tax	494,298	29,304
Nondeductible Expenses	39,734	36,920
Provision to Return Reconciling Items	(3,210,798)	(597,810)
Change in Valuation Allowance	3,229,596	1,805,613
Other	(98,359)	—
Total Tax Provision	\$ 392,015	\$ 29,304

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities, for financial reporting purposes, and amounts used for Federal income tax purposes. Significant components of the Company's deferred tax asset at December 31:

	Deferred Tax Assets:	
	2015	2014
Federal and State Net Operating Loss Carry-Forward	\$ 25,985,806	\$ 24,297,540
Share-Based Compensation	1,151,050	—
Other Temporary Differences	1,050,615	980,781
Total	\$ 28,187,471	\$ 25,278,321
Deferred Tax Liabilities		
Tax Goodwill	\$ (364,600)	\$ —
Depreciation	(279,991)	(318,669)
Other Temporary Differences	(130,303)	(412,071)
Total	\$ (774,894)	\$ (730,740)
Net Deferred Tax Asset	\$ 27,412,577	\$ 24,547,581
Valuation Allowance	(27,777,177)	(24,547,581)
Deferred Tax Liability	\$ (364,600)	\$ —

At December 31, 2014, the Company had available, net operating loss carry-forwards of approximately \$67.3 million for Federal income tax purposes and net operating loss carry-forwards of approximately \$5.5 million for State income tax purposes, which will begin to expire in 2018. Utilization by the Company is subject to limitations based on the Company's future income, and pursuant to Section 382 of the Internal Revenue Code, as amended. The usage of some of these net operating loss carry-forwards may be limited due to changes in ownership that have occurred or may occur in the future.

LAPOLLA INDUSTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
(Continued)

Note 15. Commitments and Contingencies.

Leases

The Company conducts operations in leased facilities located in Texas and New Jersey. The Texas lease includes lease concessions which amounts are included as part of the aggregate minimum lease payments and recognized on a straight-line basis over the minimum lease terms.

Future minimum lease payments required under the non-cancelable operating lease as and for the years ending December 31 are as follows:

2016	2017	2018
\$ 463,802	\$ 435,613	\$ 435,613

Rent expense for the years ended December 31, 2015 and 2014 was \$116,360 and \$116,887, respectively.

Legal Proceedings.

- (a) Neil and Kristine Markey, et al., Plaintiffs v. Lapolla Industries, Inc., Delfino Insulation, et al, Defendants

A complaint initially entitled *Neil and Kristine Markey, individually, and on behalf of all others similarly situated, Plaintiffs, vs. Lapolla industries, Inc.*, a Delaware corporation; Lapolla International, Inc., a Delaware corporation; and Delfino Insulation Company, Inc., a New York Corporation, Defendants, was filed in the United States District Court for the Eastern District of New York and served on or about October 10, 2012 and amended last on November 11, 2013. Plaintiffs brought this lawsuit only individually, having amended out any request for a class action. The complaint alleged, among other things, that Lapolla designed, labeled, distributed, and manufactured spray polyurethane foam insulation, which created a highly toxic compound when applied as insulation resulting in exposure to harmful gases. Plaintiffs sought: actual, compensatory, and punitive damages; injunctive relief; and attorney fees. Lapolla considered the allegations to be without merit and vigorously defended the allegations. On February 4, 2015, the Court dismissed the litigation with prejudice, per the voluntary request of Plaintiffs upon the advice of their new counsel and after their original litigation counsel withdrew citing irreconcilable differences with the Plaintiffs. The Court retained jurisdiction to address a pending motion for sanctions filed by Lapolla. The primary basis for Lapolla's motion for sanctions is the Plaintiffs' and their original attorney's filing of the lawsuit without sufficient factual basis for the claims of personal injury and for failing to comply with discovery obligations to produce numerous potentially dispositive documents that Plaintiffs knew existed and their original counsel either knew or should have known existed. Lapolla seeks to recover over \$800,000 in legal fees for the defense of the lawsuit. All motions have been filed with the Court and Lapolla is awaiting a final ruling. The final outcome of this litigation cannot be determined at this time.

- (b) Robert and Cynthia Gibson, individually, and as parents and natural guardians of Robert Harvey Lee Gibson, Plaintiffs v. Lapolla Industries, Inc. and Air Tight Insulation of Mid-Florida, LLC, Southern Foam Insulation, Inc., and Tailored Chemical Products, Inc., Defendants.

On March 5, 2014, the Plaintiffs filed a complaint in the Circuit Court of the 18th Judicial Circuit in and for Seminole County, Florida, against Lapolla, Air Tight Insulation of Mid-Florida, LLC, Southern Foam Insulation, Inc. and Tailored Chemical Products, Inc., alleging, among other things, negligence, strict liability design defect, strict liability failure to warn, breach of express and implied warranties, unjust enrichment, and violation of Florida's deceptive and unfair trade practices act, relating to the design, manufacture, distribution, and installation of Lapolla's spray polyurethane foam insulation, resulting in personal injuries and real property damage. Plaintiffs sought, among other things: actual, compensatory, statutory, and punitive damages; injunctive relief; medical monitoring, and attorney fees. Lapolla vigorously defended the allegations which proved to be without merit. As a result, Plaintiffs, by and through their counsel agreed to drop the lawsuit and dismiss same with prejudice. All parties shall bear their own fees and costs. Settlement documents and releases are currently being prepared and expected to be executed shortly.

- (c) Michael Commaroto, Kimberly S. Commaroto, and Gretchen Schlegel, Plaintiffs v. Pasquale Guzzo a/k/a Pasqualino Guzzo PDB Home Improvements, Perfect Wall, LLC, and Jozsef Finta, Defendants.

Pasquale Guzzo a/k/a Pasqualino Guzzo PDB Home Improvements filed a third-party complaint against Lapolla Industries, Inc. in the Superior Court, Judicial District of Stamford/Norwalk, in Connecticut on January 3, 2013. Guzzo is alleging Lapolla's spray polyurethane foam product is a defective product under Connecticut law and seeking indemnification and attorney's fees. On August 28, 2013, Michael Commaroto, Kimberly S. Commaroto, and Gretchen Schlegel filed an amended complaint against Lapolla also asserting the spray polyurethane foam is a defective product. Plaintiffs seek monetary damages, punitive damages, and attorney's fees, among other relief. Lapolla considers the allegations to be without merit and is vigorously defending the allegations. The outcome of this litigation cannot be determined at this time.

LAPOLLA INDUSTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
(Continued)

Note 15. Commitments and Contingencies - continued.

(d) Evanston Insurance Company, Plaintiff v. Lapolla Industries, Inc., Defendant.

On October 28, 2013, Evanston Insurance Company filed its original complaint for declaratory judgment against Lapolla industries, Inc. in the Southern District of Texas, Houston Division. Evanston seeks a declaratory judgment that it has no duty to defend or indemnify Lapolla in the Guzzo Litigation. Lapolla made an appearance in the case on February 14, 2014 after being served with a First Amended Complaint. Lapolla considers the allegations to be without merit and is seeking declaration from the court that Evanston does have a duty to defend and indemnify Lapolla. The court ruled on the summary judgment motions on February 23, 2015, finding that Evanston had no duty to defend. The Court signed a final judgment on March 18, 2015. On April 14, 2015, Lapolla filed a Notice of Appeal. Lapolla filed its Appeal with the United States Court of Appeals for the Fifth Circuit on July 13, 2015. This matter concluded on January 11, 2016 with the 5th Circuit affirming the trial court's ruling finding no duty to defend in the Commaroto case.

(e) Joseph Greco and Penny Greco, Plaintiffs v. Lapolla Industries, Inc., Jagodzinski Construction, Inc., and John Does, Defendants.

On August 27, 2014, Joseph Greco and Penny Greco filed a Complaint in New York State Court, County of Monroe, against Lapolla, Jagodzinski Construction, Inc., and John Does. The complaint alleged, among other things, negligence, strict liability failure to warn, breach of express and implied warranties, unjust enrichment, violations of the NY deceptive trade practices act, and a NY false advertising statute, relating to the design, manufacture, distribution, and installation of Lapolla's spray polyurethane foam insulation, allegedly resulting in personal injuries and real property damage. The Grecos sought, among other things: general, compensatory, and punitive damages; restitution, and attorney fees, costs, and disbursements. Lapolla vigorously defended the allegations which proved to be without merit. As a result, Plaintiffs, by and through their counsel agreed to drop all claims against Lapolla and dismiss same with prejudice. Plaintiffs and Lapolla shall bear their own fees and costs. Settlement documents and releases are currently being prepared and expected to be executed shortly. Notwithstanding, Jagodzinski Construction, Inc. continues to seek contribution rights as to Lapolla for any of Plaintiffs' alleged damages. Lapolla is vigorously defending same claim, and asserts that it is of no merit. The outcome of the Jagodzinski contribution aspect is undetermined at this time.

(f) Various Lawsuits and Claims Arising in the Ordinary Course of Business

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

Note 16. Net Income (Loss) Per Common Share – Basic and Diluted.

Basic net income (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted net income (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of shares of common stock and common stock equivalents outstanding during the period. Common stock equivalents were not considered in calculating diluted net loss per common share for the years ended December 31, 2015 and 2014 as their effect would be anti-dilutive. The computation of the Company's basic and diluted earnings per share for the years ended:

	2015	2014
Net loss available to common shareholders (A)	\$ (576,881)	\$ (3,660,949)
Weighted average common shares outstanding (B)	121,283,432	115,359,714
Dilutive effect of employee equity incentive plans	—	880,000
Weighted average common shares outstanding, assuming dilution (C)	121,283,432	116,239,714
Basic earnings per common share (A)/(B)	\$ (0.00)	\$ (0.03)
Diluted earnings per common share (A)/(C)	\$ (0.00)	\$ (0.03)

For 2015, a total of 5,017,500 shares of common stock were excluded from the calculation of diluted earnings per common share, of which all 5,017,500 shares were for outstanding, vested and exercisable stock options that had an exercise price greater than the market value of the common share as of the period then ended ("out-of-the-money"). For 2014, a total of 4,140,000 shares of common stock were excluded from the calculation of diluted earnings per common share, of which: (a) 3,260,000 shares were for outstanding, vested and exercisable stock options that were out-of-the-money, and (b) 880,000 shares were for outstanding, vested and exercisable stock options that had an exercise price equal to or lesser than the market value of the common share as of the period then ended ("in-the-money"). Outstanding, vested and exercisable out-of-the-money stock 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 the exercise price, and outstanding, vested and exercisable in-the-money stock options could be included in the calculation in the future if the Company reports a profit.

LAPOLLA INDUSTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
(Continued)

Note 17. Securities Transactions.

(a) During 2015, the Company issued an aggregate of 1,035,743 shares of restricted common stock, par value \$.01, valued and recorded in the aggregate at \$417,662 for advisory and consulting services.

(b) During 2015, the Company issued an aggregate of 1,224,763 shares of restricted common stock, par value \$.01, valued and recorded in the aggregate at \$734,858 and classified as interest expense – related party pursuant to a guaranty made in connection with a financing.

(c) During 2015, the Company issued 25,000 shares of common stock, par value \$.01 per share, for a stock bonus to an executive officer, employee, which transaction was valued and recorded at \$16,250.

Note 18. Share-Based Payment Arrangements.

The Company reports share-based compensation arrangements using a straight-line fair valuation model for stock awards and Black-Scholes fair valuation model for option awards to calculate compensation expense over the requisite service period of grants. At December 31, 2015, the Company had three share based compensation plans, including the Equity Incentive Plan (“Equity Plan”), Advisory and Consulting Agreement Plan (“Advisor Plan”), and Guaranty Agreement Plan (“Guaranty Plan”) in effect. Compensation cost charged against income for all compensation and incentive plans for 2015 and 2014 was \$1,964,167 and \$1,826,051, respectively.

Equity Incentive Plan

The Company’s Equity Plan, which is shareholder-approved, permits the grant of stock awards to eligible participants for up to 10,000,000 shares of common stock. The purpose of the Equity Plan is to advance the interests of the Company and its stockholders by providing an incentive to attract, retain and reward employees, directors and consultants performing services for the Company and by motivating such persons to contribute to the growth and profitability of the Company. The Equity Plan provides financial performance measures upon which specific performance goals would be based and limits on the numbers of shares or compensation that could be made. Option awards are generally granted with an exercise price equal to the market price of the Company’s stock at the date of grant. Stock awards may provide for accelerated vesting if there is a change in control. The fair value of each stock option is estimated on the date of grant using the Black-Scholes valuation model and spread over the requisite service period.

For 2015, there was an aggregate of 2,125,000 awards granted and/or vested to directors, officers, and key employees, of which 2,100,000 were for options granted and 25,000 were for stock awards vested. For 2014, there was an aggregate of 5,417,500 awards granted to directors, officers, and key employees, of which 5,317,500 were for options and 100,000 were for stock awards. As of December 31, 2015, total compensation cost related to non-vested stock options was \$1,415,168, which is expected to be recognized over 2.0 years after December 31, 2015 (24 months on a weighted-average basis). As of December 31, 2014, total compensation cost related to non-vested stock options was \$2,605,910. There were 4,882,500 shares issuable and available for grant at December 31, 2015. Stock option and bonus activity under the Company’s Equity Plan as of the years ended December 31, is summarized below:

Option Awards

Options	2015		2014	
	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
Outstanding-Beginning of Year	7,277,500	\$ 0.47	5,040,000	\$ 0.60
Granted	2,100,000	0.33	5,317,500	—
Exercised	—	—	—	—
Canceled, Expired or Forfeited	(4,360,000)	0.46	(3,080,000)	0.61
Outstanding - End of Year	5,017,500	0.48	7,277,500	0.47
Exercisable - End of Year	2,667,500	\$ 0.73	4,415,000	\$ 0.47

The weighted-average grant-date fair value of option awards granted during 2015 and 2014 was \$88,143 and \$ 196,662, respectively.

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Note 18. Share-Based Payment Arrangements - continued.

The following table summarizes options outstanding at:

Range of Exercise Prices	Outstanding			Exercisable		Outstanding			Exercisable	
	Number	Weighted Average	Weighted Average	Number	Weighted Average	Number	Weighted Average	Weighted Average	Number	Weighted Average
		Remaining					Contractual			
	Outstanding	Life (Years)	Exercise	Exercisable	Exercise	Outstanding	Life (Years)	Exercise	Exercisable	Exercise
at 12/31/15	Price	at 12/31/15	Price	at 12/31/14	Price	at 12/31/14	Price	at 12/31/14	Price	
\$.29 - \$.59	4,417,500	5.2 \$	0.39	2,467,500	\$ 0.62	4,417,500	5.20 \$	0.41	1,955,000	\$ 0.41
\$.60 - \$.64	—	0	—	—	—	2,260,000	0.46 \$	0.53	1,960,000	\$ 0.56
\$.65 - \$.80	600,000	3.1 \$	0.71	200,000	0.71	600,000	4.08 \$	0.71	—	\$ —

Stock Awards

Nonvested Awards	2015		2014	
	Number of Shares	Weighted-Average Grant-Date Fair Value	Number of Shares	Weighted-Average Grant-Date Fair Value
Nonvested - Beginning of Year	50,000	\$ 32,500	—	\$ —
Granted	—	—	100,000	65,000
Vested	(25,000)	(16,250)	(50,000)	(32,500)
Canceled, Expired or Forfeited	—	—	—	—
Nonvested - End of Year	25,000	\$ 16,250	50,000	\$ 32,500

Advisor Plan

The Company entered into an advisory and consultant agreement on February 22, 2011 with a non-employee director, Jay C. Nadel, wherein the Company granted 5,000,000 shares of restricted common stock, par value \$.01, which vested monthly over 3 years, and includes certain anti-dilution provisions (the "Nadel Agreement"). The grant-date fair value for the 5,000,000 shares was calculated by taking the closing price of the Company's common stock of \$.57 per share on the date of grant and multiplying it by the number of shares granted, equaling \$2,850,000, all of which has been recorded. The anti-dilution aspects continue so long as the Nadel Agreement is in force. For 2015, anti-dilution transactions occurred, which required the Company to grant and vest an additional 1,035,743 shares of restricted common stock. The grant-date fair value for the anti-dilution shares was calculated by taking the closing price of the Company's common stock on the anti-dilution dates for a weighted-average of approximately \$0.40 per share and multiplying it by the number of shares granted, equaling \$417,662. For 2014, anti-dilution transactions occurred, which required the Company to grant and vest an additional 110,733 shares of restricted common stock. The grant-date fair value for the anti-dilution shares was calculated by taking the closing price of the Company's common stock on the anti-dilution dates for a weighted-average of approximately \$0.58 per share and multiplying it by the number of shares granted, equaling \$63,893. A summary of awards activity under the Advisor Plan at December 31, 2015 and 2014, and changes during the years then ended, are as follows:

Nonvested Awards	2015		2014	
	Number of Shares	Weighted-Average Grant-Date Fair Value	Number of Shares	Weighted-Average Grant-Date Fair Value
Nonvested - Beginning of Year	—	\$ —	237,238	\$ 135,219
Granted	1,035,743	417,662	110,733	63,893
Vested	(1,035,743)	(417,662)	(347,971)	(199,112)
Canceled, Expired or Forfeited	—	—	—	—
Nonvested - End of Year	—	\$ —	—	\$ —

LAPOLLA INDUSTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
(Continued)

Note 18. Share-Based Payment Arrangements - continued.

Guaranty Plan

The Company made a grant of restricted common stock in connection with a personal guarantee provided by the chairman of the board and majority stockholder to secure working capital on favorable terms and the Company's performance under a financing instrument. *Refer to* Note 12 – Financing Instruments, Items (b)(i) – Enhanced Note for more information on the financial instrument.

The Company granted 3,681,000 shares of restricted common stock, par value \$0.01, which shares vest monthly on a pro rata basis over the three year term of the Enhanced Note ("Guaranty Shares"). The Guaranty Shares were valued at \$.60 per share, the closing price of the Company's common stock as quoted on the OTC Markets on the day preceding the closing date of December 10, 2013, for an aggregate amount of \$2,208,600. The Guaranty Shares are being recorded as interest expense – related party, thereby increasing the effective interest rate on the Enhanced Note.

The following table summarizes grant activity under the Guaranty Plan at December 31, 2015 and 2014, and changes during the years then ended:

Nonvested Awards	2015		2014	
	Number of Shares	Weighted-Average Grant-Date Fair Value	Number of Shares	Weighted-Average Grant-Date Fair Value
Nonvested - Beginning of Year	2,382,416	\$ 1,429,449	3,607,179	\$ 2,164,307
Granted	—	—	—	—
Vested	(1,224,763)	(734,856)	(1,224,763)	(734,858)
Canceled, Expired or Forfeited	—	—	—	—
Nonvested - End of Year	1,157,653	\$ 694,593	2,382,416	\$ 1,429,449

As of December 31, 2015, there is \$1,367,037 of total unrecognized compensation cost related to nonvested interest expense – related party arrangement granted under the Guaranty Plan. The cost is expected to be recognized over a weighted-average period of 0.95 years.

Note 19. Business Segments and Geographic Area Information.

Business Segments

The Company is a leading United States based manufacturer and global supplier operating two segments: Foam and Coatings. The Company's segments are organized based on manufacturing competencies.

Foam. The *Foam* segment primarily supplies both roofing and building envelope insulation applications. Roofing applications consist of foam and coatings systems in new and retrofit commercial and industrial applications. Insulation is used in commercial and industrial, as well as residential, applications. We manufacture our own roofing and wall insulation foams. Additionally, this segment also supplies polyurethane as an adhesive for board stock insulation to roofing substrates for commercial and industrial applications, sundry items, and application equipment. Spray Rigs are an integral part of our business insofar that they are required for the application of our foam and used for large scale coating jobs. We began making and selling our own spray rigs during 2008. This is a basic assembly operation and we undertake this task to provide turnkey service to our customers. We allocate sales amounts for Spray Rigs to either our foam or coatings segments, as applicable.

Coatings. The *Coatings* segment primarily supplies a variety of protective coatings for roofing systems for new and retrofit commercial and industrial applications, as well as residential, applications. Additionally, this segment also supplies caulking for general application in the construction industry, and sundry items. We manufacture our own roof coatings. The AirTight Division involves application of interior insulation foams that we produce and installation of other energy reducing products in multi-family properties by subcontractors hired by the Company on a limited basis. We allocate sales amounts for The AirTight Division to our foam segment.

The Company maintains centralized manufacturing and spray rig building operations in Houston, Texas. Each of the businesses in which the Company is engaged is highly competitive. However, diversification of products within these segments and national, including limited international, markets served tends to minimize the impact on the Company's total sales and earnings of changes in demand for a particular product. The accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 1. The Company allocates resources to segments and evaluates the performance of segments based upon reported segment income before income taxes. A substantial amount of administrative expenses are allocated to the segments. The portion not allocated to the segments represents the unallocated cost of certain corporate expenses and are included in *Unallocated Amounts*. There are no intersegment sales or transfers. The following are selected results of reportable segments:

LAPOLLA INDUSTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
(Continued)

Note 19. Business Segments and Geographic Area Information – continued.

Segments

2015	Foam	Coatings	Totals
Sales	\$ 66,029,544	\$ 12,619,785	\$ 78,649,329
Depreciation	110,159	21,054	131,213
Amortization of Other Intangible Assets	214,714	41,037	255,751
Interest Expense	955,185	182,558	1,137,743
Segment Profit	4,514,488	1,814,525	6,329,013
Segment Assets ⁽¹⁾	19,340,580	4,371,971	23,712,551
Expenditures for Segment Assets	\$ 47,921	\$ 9,038	\$ 56,959

2014	Foam	Coatings	Totals
Sales	\$ 62,477,449	\$ 9,587,566	\$ 72,065,015
Depreciation	129,752	19,911	149,663
Amortization of Other Intangible Assets	217,558	33,386	250,944
Interest Expense	945,571	145,104	1,090,675
Segment Profit	1,265,026	941,743	2,206,769
Segment Assets ⁽¹⁾	18,477,410	3,665,095	22,142,505
Expenditures for Segment Assets	\$ 179,626	\$ 27,565	\$ 207,191

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

Segments Profit

	2015	2014
Total Profit for Reportable Segments	\$ 6,329,013	\$ 2,206,769
Unallocated Amounts:		
Corporate Expenses	(6,905,894)	(5,867,718)
Loss Before Income Taxes	\$ (576,881)	\$ (3,660,949)

Assets

	2015	2014
Total Assets for Reportable Segments (1)	\$ 23,712,551	\$ 22,142,505
Other Unallocated Amounts (2)	2,414,217	355,550
Total	\$ 26,126,768	\$ 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 prepaid expenses.

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.

Geographic Area

2015	United States	Europe	Middle East	Rest of World	Total
Sales	\$ 76,589,379	\$ 687,483	\$ —	\$ 1,372,467	\$ 78,649,329
Long-Lived Assets	\$ 23,712,551	\$ —	\$ —	\$ —	\$ 23,712,551

2014	United States	Europe	Middle East	Rest of World	Total
Sales	\$ 69,746,725	\$ 665,365	\$ 3,505	\$ 1,649,420	\$ 72,065,015
Long-Lived Assets	\$ 22,142,505	\$ —	\$ —	\$ —	\$ 22,142,505

LAPOLLA INDUSTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
(Continued)

Note 20. Subsequent Events.

(a) On March 14, 2016, the Company granted an eight -year option to Richard J. Kurtz, chairman of the board and principal stockholder, for the right to acquire 800,000 shares of the Company's common stock, par value \$.01 , 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 \$0.40 per share, which options vest monthly on a pro rata basis over 3 years , subject to continued satisfactory board services. The transaction was valued at \$306,487 , which was estimated using the Black-Scholes option pricing model and will be expensed over the requisite vesting period.

(b) On March 14, 2016, the Company granted an eight -year option to Douglas J. Kramer, ceo and president, for the right to acquire 2,000,000 shares of the Company's common stock, par value \$.01 , 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 \$0.40 per share, which options vest monthly on a pro rata basis over 3 years , subject to continued satisfactory employment. The transaction was valued at \$766,217 , which was estimated using the Black-Scholes option pricing model and will be expensed over the requisite vesting period.

(c) On March 18, 2016, the Company and Bank of America, N.A. entered into a Fourteenth Amendment (the "Fourteenth Amendment") to the Loan Agreement. Pursuant to the Fourteenth Amendment, among other things: (i) to reduce cost of debt, a new tiered level applicable margin section was created which provides for varying interest rates based on varying fixed charge coverage ratios, interest, effective March 31, 2016; (ii) the basic reserve was reduced to zero ; (iii) a new inventory formula amount was created allowing, if the Company elects to have an inventory appraisal performed, the lesser of, 65% of eligible inventory or 85% of the net orderly liquidation value percentage of the value of eligible inventory, up to \$6,000,000 , (iv) the revolver commitment was reduced to \$12 million (to save on unused revolver loan fees), (v) the revolver termination date was changed to be the earlier of March 31, 2019 or 90 days prior to the maturity date of the Enhanced Note, (vi) to reduce the unused line fee, a new varying percentage unused line fee was created based on the amount by which the revolver commitment exceeds the average daily balance of the revolver loans and stated amount of letters of credit, (vii) the borrowing base reporting frequency was changed from daily to weekly, subject to meeting an availability requirement, and (viii) a new section was added allowing the repayment of principal amounts by the Company on the Enhanced Note, subject to meeting certain borrowing base limitations.

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

OPTION AGREEMENT

THE BOARD OF DIRECTORS of Lapolla Industries, Inc. (the "Company") authorized and approved the Equity Incentive Plan ("Plan"). The Plan provides for the grant of Options to employees of the Company. Unless otherwise provided herein all defined terms shall have the respective meanings ascribed to them under the Plan.

1. Grant of Option. Pursuant to authority granted to it under the Plan, the Administrator responsible for administering the Plan hereby grants to RICHARD J. KURTZ, a director of the Company ("Optionee") and as of November 12, 2015 ("Grant Date"), the following stock options: 500,000 stock options ("Options"). Each Option permits you to purchase one share of the Company's common stock, \$.01 par value, at the Exercise Price ("Shares").
 2. Character of Options. Options granted herein are Non-Qualified Stock Options.
 3. Exercise Price. The exercise price ("Exercise Price") for each Non-Qualified Stock Option granted herein is 29.4¢ (\$ 0.294) per Share.
 4. Vesting and Exercisability. The Options shall be immediately vested on the Grant Date and exercisable in accordance with the terms and conditions of the Plan and this Agreement.
 5. Term of Options. The term of each Option granted herein shall be for a term of up to eight (8) years from Grant Date.
 6. Payment of Exercise Price. Options represented hereby may be exercised in whole or in part by delivering to the Company your payment of the Exercise Price for the number of Options so exercised (i) in cash, by check or cash equivalent, (ii) by tender to the Company of shares of Stock owned by the Participant having a Fair Market Value not less than the exercise price for the number of Options exercised; (iii) by tender to the Company of a written consent to accept a reduction in the number of shares of Stock issuable upon exercise (" *Reduced Number of Shares* "), which Reduced Number of Shares, when ascribed a value, shall have a value equal to the Exercise Price for the number of Options exercised; (iv) by delivery of a properly executed notice of exercise together with irrevocable instructions to a broker providing for the assignment to the Company of the proceeds of a sale or loan with respect to some or all of the shares being acquired upon the exercise of the Option or portion thereof exercised (including, without limitation, through an exercise complying with the provisions of Regulation T as promulgated from time to time by the Board of Governors of the Federal Reserve System) (a "*Cashless Exercise*"), (v) by such other consideration as may be approved by the Committee from time to time to the extent permitted by applicable law, or (vi) by any combination thereof. The Company reserves, at any and all times, the right, in the Company's sole and absolute discretion, to establish, decline to approve or terminate any program or procedures for the exercise of Options by means of a Cashless Exercise.
 7. Limits on Transfer of Options. The Option granted herein shall not be transferable by you otherwise than by will or by the laws of descent and distribution, except for gifts to family members subject to any specific limitation concerning such gift by the Administrator in its discretion; provided, however, that you may designate a beneficiary or beneficiaries to exercise your rights and receive any Shares purchased with respect to any Option upon your death. Each Option shall be exercisable during your lifetime only by you or, if permissible under applicable law, by your legal representative. No Option herein granted or Shares underlying any Option shall be pledged, alienated, attached or otherwise encumbered, and any purported pledge, alienation, attachment or encumbrance thereof shall be void and unenforceable against the Company. Notwithstanding the foregoing, to the extent permitted by the Administrator, in its discretion, an Option shall be assignable or transferable subject to the applicable limitations, if any, described in the General Instructions to Form S-8 Registration Statement under the Securities Act of 1933, as amended.
 8. Termination of Services. If your service is terminated with the Company, the Option and any unexercised portion shall be subject to the provisions below:
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(a) Upon the termination of your services with the Company, to the extent not theretofore exercised, your Option shall continue to be valid; provided, however, that: (i) If the Participant's service is terminated by dismissal by the Company other than for cause (as defined below), disability (as described in Section 22(e) of the Code) or death while in the employ of the Company and at a time when such Participant was entitled to exercise an Option as herein provided, any unvested Options shall automatically vest and become exercisable as of the date of termination, and the Participant or their legal representative of such Participant, as the case may be, or such Person who acquired such Option by bequest or inheritance or by reason of the death of the Participant, may, not later than fifteen (15) months from the date of death, exercise such Option, to the extent not theretofore exercised, in respect of any or all of such number of Shares specified by the Administrator in such Option; and (ii) If the services of any Participant to whom such Option shall have been granted shall terminate by reason of the Participant's retirement (at such age upon such conditions as shall be specified by the Board of Directors), and while such Participant is entitled to exercise such Option as herein provided, any unvested Options shall automatically vest and become exercisable as of the date of retirement, such Participant shall have the right to exercise such Option so granted, to the extent not theretofore exercised, in respect of any or all of such number of Shares as specified by the Administrator in such Option, at any time up to one (1) year from the date of termination of the Optionee's services by reason of retirement.

(b) If you voluntarily terminate your services, Participant shall have the right to exercise such Option that has vested, to the extent not theretofore exercised, at any time up to ninety (90) days from the date of termination of the Optionee's services, or if you are discharged for cause, any Options granted hereunder shall forthwith terminate with respect to any unexercised portion thereof.

(c) If any Options granted hereunder shall be exercised by your legal representative if you should die or become disabled, or by any person who acquired any Options granted hereunder by bequest or inheritance or by reason of death of any such person written notice of such exercise shall be accompanied by a certified copy of letters testamentary or equivalent proof of the right of such legal representative or other person to exercise such Options.

(d) For all purposes of the Plan, the term "for cause" shall mean "cause" as defined in the Plan.

9. Restriction: Securities Exchange Listing. All certificates for shares delivered upon the exercise of Options granted herein shall be subject to such stop transfer orders and other restrictions as the Administrator may deem advisable under the Plan or the rules, regulations and other requirements of the Securities and Exchange Commission and any applicable federal or state securities laws, and the Administrator may cause a legend or legends to be placed on such certificates to make appropriate reference to such restrictions. If the Shares or other securities are traded on a national securities exchange, the Company shall not be required to deliver any Shares covered by an Option unless and until such Shares have been admitted for trading on such securities exchange.

10. Adjustments. If there is any change in the capitalization of the Company affecting in any manner the number or kind of outstanding shares of Common Stock of the Company, whether by stock dividend, stock split, reclassification or recapitalization of such stock, or because the Company has merged or consolidated with one or more other corporations (and provided the Option does not thereby terminate pursuant to Section 5 hereof), then the number and kind of shares then subject to the Option and the price to be paid therefor shall be appropriately adjusted by the Board of Directors; provided, however, that in no event shall any such adjustment result in the Company's being required to sell or issue any fractional shares. Any such adjustment shall be made without change in the aggregate purchase price applicable to the unexercised portion of the option, but with an appropriate adjustment to the price of each Share or other unit of security covered by this Option.

11. Change in Control. In the event of a Change in Control (as defined in the Plan), the surviving, continuing, successor, or purchasing entity or parent thereof, as the case may be (the "*Acquiror*"), may, without the consent of any Participant, either assume the Company's rights and obligations under outstanding Options or substitute for outstanding Options substantially equivalent options for the Acquiror's stock. In the event the Acquiror elects not to assume or substitute for outstanding Options in connection with a Change in Control, the Committee shall provide that any unexercised and/or unvested portions of outstanding Options shall be immediately exercisable and vested in full as of the date thirty (30) days prior to the date of the Change in Control. The exercise and/or vesting of any Option that was permissible solely by reason of this Section 11 shall be conditioned upon the consummation of the Change in Control. Any Options which are not assumed by the Acquiror in connection with the Change in Control nor exercised as of the time of consummation of the Change in Control shall terminate and cease to be outstanding effective as of the time of consummation of the Change in Control.

12. Amendment to Options Herein Granted. The Options granted herein may not be amended without your consent.

13. Withholding Taxes. As provided in the Plan, the Company may withhold from sums due or to become due to Optionee from the Company an amount necessary to satisfy its obligation to withhold taxes incurred by reason of the disposition of the Shares acquired by exercise of the Options in a disqualifying disposition (within the meaning of Section 421(b) of the Code), or may require you to reimburse the Company in such amount.

LAPOLLA INDUSTRIES, INC.

/s/ Michael T. Adams, Secretary
Corporate Secretary

OPTIONEE

/s/ Richard J. Kurtz
Richard J. Kurtz

OPTION AGREEMENT

THE BOARD OF DIRECTORS of Lapolla Industries, Inc. (the "Company") authorized and approved the Equity Incentive Plan ("Plan"). The Plan provides for the grant of Options to employees of the Company. Unless otherwise provided herein all defined terms shall have the respective meanings ascribed to them under the Plan.

1. Grant of Option. Pursuant to authority granted to it under the Plan, the Administrator responsible for administering the Plan hereby grants to RICHARD J. KURTZ, a director of the Company ("Optionee") and as of March 14, 2016 ("Grant Date"), the following stock options: 800,000 stock options ("Options"). Each Option permits you to purchase one share of the Company's common stock, \$.01 par value, at the Exercise Price ("Shares").
 2. Character of Options. Options granted herein are Non-Qualified Stock Options.
 3. Exercise Price. The exercise price ("Exercise Price") for each Non-Qualified Stock Option granted herein is 40¢ (\$ 0.40) per Share.
 4. Vesting and Exercisability. The Options shall vest monthly on a pro rata basis over a three year period commencing on the Grant Date based on continuing satisfactory service to the Board of Directors of the Company by the Optionee, and once vested, are immediately exercisable in accordance with the terms and conditions of the Plan and this Agreement.
 5. Term of Options. The term of each Option granted herein shall be for a term of up to eight (8) years from Grant Date.
 6. Payment of Exercise Price. Options represented hereby may be exercised in whole or in part by delivering to the Company your payment of the Exercise Price for the number of Options so exercised (i) in cash, by check or cash equivalent, (ii) by tender to the Company of shares of Stock owned by the Participant having a Fair Market Value not less than the exercise price for the number of Options exercised; (iii) by tender to the Company of a written consent to accept a reduction in the number of shares of Stock issuable upon exercise (" *Reduced Number of Shares* "), which Reduced Number of Shares, when ascribed a value, shall have a value equal to the Exercise Price for the number of Options exercised; (iv) by delivery of a properly executed notice of exercise together with irrevocable instructions to a broker providing for the assignment to the Company of the proceeds of a sale or loan with respect to some or all of the shares being acquired upon the exercise of the Option or portion thereof exercised (including, without limitation, through an exercise complying with the provisions of Regulation T as promulgated from time to time by the Board of Governors of the Federal Reserve System) (a "*Cashless Exercise*"), (v) by such other consideration as may be approved by the Committee from time to time to the extent permitted by applicable law, or (vi) by any combination thereof. The Company reserves, at any and all times, the right, in the Company's sole and absolute discretion, to establish, decline to approve or terminate any program or procedures for the exercise of Options by means of a Cashless Exercise.
 7. Limits on Transfer of Options. The Option granted herein shall not be transferable by you otherwise than by will or by the laws of descent and distribution, except for gifts to family members subject to any specific limitation concerning such gift by the Administrator in its discretion; provided, however, that you may designate a beneficiary or beneficiaries to exercise your rights and receive any Shares purchased with respect to any Option upon your death. Each Option shall be exercisable during your lifetime only by you or, if permissible under applicable law, by your legal representative. No Option herein granted or Shares underlying any Option shall be pledged, alienated, attached or otherwise encumbered, and any purported pledge, alienation, attachment or encumbrance thereof shall be void and unenforceable against the Company. Notwithstanding the foregoing, to the extent permitted by the Administrator, in its discretion, an Option shall be assignable or transferable subject to the applicable limitations, if any, described in the General Instructions to Form S-8 Registration Statement under the Securities Act of 1933, as amended.
 8. Termination of Services. If your service is terminated with the Company, the Option and any unexercised portion shall be subject to the provisions below:
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(a) Upon the termination of your services with the Company, to the extent not theretofore exercised, your Option shall continue to be valid; provided, however, that: (i) If the Participant's service is terminated by dismissal by the Company other than for cause (as defined below), disability (as described in Section 22(e) of the Code) or death while in the employ of the Company and at a time when such Participant was entitled to exercise an Option as herein provided, any unvested Options shall automatically vest and become exercisable as of the date of termination, and the Participant or their legal representative of such Participant, as the case may be, or such Person who acquired such Option by bequest or inheritance or by reason of the death of the Participant, may, not later than fifteen (15) months from the date of death, exercise such Option, to the extent not theretofore exercised, in respect of any or all of such number of Shares specified by the Administrator in such Option; and (ii) If the services of any Participant to whom such Option shall have been granted shall terminate by reason of the Participant's retirement (at such age upon such conditions as shall be specified by the Board of Directors), and while such Participant is entitled to exercise such Option as herein provided, any unvested Options shall automatically vest and become exercisable as of the date of retirement, such Participant shall have the right to exercise such Option so granted, to the extent not theretofore exercised, in respect of any or all of such number of Shares as specified by the Administrator in such Option, at any time up to one (1) year from the date of termination of the Optionee's services by reason of retirement.

(b) If you voluntarily terminate your services, Participant shall have the right to exercise such Option that has vested, to the extent not theretofore exercised, at any time up to ninety (90) days from the date of termination of the Optionee's services, or if you are discharged for cause, any Options granted hereunder shall forthwith terminate with respect to any unexercised portion thereof.

(c) If any Options granted hereunder shall be exercised by your legal representative if you should die or become disabled, or by any person who acquired any Options granted hereunder by bequest or inheritance or by reason of death of any such person written notice of such exercise shall be accompanied by a certified copy of letters testamentary or equivalent proof of the right of such legal representative or other person to exercise such Options.

(d) For all purposes of the Plan, the term "for cause" shall mean "cause" as defined in the Plan.

9. Restriction: Securities Exchange Listing. All certificates for shares delivered upon the exercise of Options granted herein shall be subject to such stop transfer orders and other restrictions as the Administrator may deem advisable under the Plan or the rules, regulations and other requirements of the Securities and Exchange Commission and any applicable federal or state securities laws, and the Administrator may cause a legend or legends to be placed on such certificates to make appropriate reference to such restrictions. If the Shares or other securities are traded on a national securities exchange, the Company shall not be required to deliver any Shares covered by an Option unless and until such Shares have been admitted for trading on such securities exchange.

10. Adjustments. If there is any change in the capitalization of the Company affecting in any manner the number or kind of outstanding shares of Common Stock of the Company, whether by stock dividend, stock split, reclassification or recapitalization of such stock, or because the Company has merged or consolidated with one or more other corporations (and provided the Option does not thereby terminate pursuant to Section 5 hereof), then the number and kind of shares then subject to the Option and the price to be paid therefor shall be appropriately adjusted by the Board of Directors; provided, however, that in no event shall any such adjustment result in the Company's being required to sell or issue any fractional shares. Any such adjustment shall be made without change in the aggregate purchase price applicable to the unexercised portion of the option, but with an appropriate adjustment to the price of each Share or other unit of security covered by this Option.

11. Change in Control. In the event of a Change in Control (as defined in the Plan), the surviving, continuing, successor, or purchasing entity or parent thereof, as the case may be (the "*Acquiror*"), may, without the consent of any Participant, either assume the Company's rights and obligations under outstanding Options or substitute for outstanding Options substantially equivalent options for the Acquiror's stock. In the event the Acquiror elects not to assume or substitute for outstanding Options in connection with a Change in Control, the Committee shall provide that any unexercised and/or unvested portions of outstanding Options shall be immediately exercisable and vested in full as of the date thirty (30) days prior to the date of the Change in Control. The exercise and/or vesting of any Option that was permissible solely by reason of this Section 11 shall be conditioned upon the consummation of the Change in Control. Any Options which are not assumed by the Acquiror in connection with the Change in Control nor exercised as of the time of consummation of the Change in Control shall terminate and cease to be outstanding effective as of the time of consummation of the Change in Control.

12. Amendment to Options Herein Granted. The Options granted herein may not be amended without your consent.

13. Withholding Taxes. As provided in the Plan, the Company may withhold from sums due or to become due to Optionee from the Company an amount necessary to satisfy its obligation to withhold taxes incurred by reason of the disposition of the Shares acquired by exercise of the Options in a disqualifying disposition (within the meaning of Section 421(b) of the Code), or may require you to reimburse the Company in such amount.

LAPOLLA INDUSTRIES, INC.

/s/ Michael T. Adams, Secretary
Corporate Secretary

OPTIONEE

/s/ Richard J. Kurtz
Richard J. Kurtz

OPTION AGREEMENT

THE BOARD OF DIRECTORS of Lapolla Industries, Inc. (the "Company") authorized and approved the Equity Incentive Plan ("Plan"). The Plan provides for the grant of Options to employees of the Company. Unless otherwise provided herein all defined terms shall have the respective meanings ascribed to them under the Plan.

1. Grant of Option. Pursuant to authority granted to it under the Plan, effective as of March 14, 2016 (the "Grant Date"), the Company hereby grants to Douglas J. Kramer, an employee of the Company (the "Optionee"), the following stock options: 2,000,000 stock options (the "Options"). Each Option permits the Optionee to purchase one share of the Company's common stock, par value \$.01 per share ("Shares"), at the Exercise Price (defined below) per Share.

2. Character of Options. Options granted herein are Non-Qualified Stock Options.

3. Exercise Price. The exercise price ("Exercise Price") for each Non-Qualified Stock Option granted herein is 40¢ (\$ 0.40) per Share.

4. Vesting and Exercisability. The Options shall vest monthly on a pro rata basis over a three year period commencing on the Grant Date based on continuing satisfactory service to the Board of Directors of the Company by the Optionee, and once vested, are immediately exercisable in accordance with the terms and conditions of the Plan and this Agreement.

5. Term of Options. The term of each Option granted herein shall be for a term of up to eight (8) years from Grant Date.

6. Payment of Exercise Price. Options represented hereby may be exercised in whole or in part by delivering to the Company the payment of the Exercise Price for the number of Options so exercised (i) in cash, by check or cash equivalent, (ii) by tender to the Company of Shares owned by the Optionee having a Fair Market Value not less than the Exercise Price for the number of Options exercised; (iii) by tender to the Company of a written consent to accept a reduction in the number of Shares issuable upon exercise ("Reduced Number of Shares"), which Reduced Number of Shares, when ascribed a value, shall have a value equal to the Exercise Price for the number of Options exercised; (iv) by delivery of a properly executed notice of exercise together with irrevocable instructions to a broker providing for the assignment to the Company of the proceeds of a sale or loan with respect to some or all of the Shares being acquired upon the exercise of the Option or portion thereof exercised (including, without limitation, through an exercise complying with the provisions of Regulation T as promulgated from time to time by the Board of Governors of the Federal Reserve System) (a "Cashless Exercise"), (v) by such other consideration as may be approved by the Committee from time to time to the extent permitted by applicable law, or (vi) by any combination thereof. The Company reserves, at any and all times, the right, in the Company's sole and absolute discretion, to establish, decline to approve or terminate any program or procedures for the exercise of Options by means of a Cashless Exercise.

7. Limits on Transfer of Options. The Option granted herein shall not be transferable by the Optionee otherwise than by will or by the laws of descent and distribution, except for gifts to family members subject to any specific limitation concerning such gift by the Committee in its discretion; provided, however, that the Optionee may designate a beneficiary or beneficiaries to exercise his rights and receive any Shares purchased with respect to any Option upon his death. Each Option shall be exercisable during the Optionee's lifetime only by him or, if permissible under applicable law, by his legal representative. No Option herein granted or Shares underlying any Option shall be pledged, alienated, attached or otherwise encumbered, and any purported pledge, alienation, attachment or encumbrance thereof shall be void and unenforceable against the Company. Notwithstanding the foregoing, to the extent permitted by the Committee, in its discretion, an Option shall be assignable or transferable subject to the applicable limitations, if any, described in the General Instructions to Form S-8 Registration Statement under the Securities Act of 1933, as amended.

8. Termination of Employment. If the Optionee's employment is terminated with the Company, the Option and any unexercised portion shall be subject to the provisions below:

(a) Upon the termination of the Optionee's employment with the Company, to the extent not theretofore exercised, the Option shall continue to be valid; provided, however, that: (i) if the Optionee's employment is terminated by dismissal by the Company other than for Cause (as defined below), disability (as described in Section 22(e) of the Code) or death while in the employ of the Company and at a time when the Optionee was entitled to exercise an Option as herein provided, any unvested Options shall automatically vest and become exercisable as of the date of termination, and the Optionee or his legal representative, as the case may be, or such Person who acquired such Option by bequest or inheritance or by reason of the death of the Optionee, may, not later than fifteen (15) months from the date of death, exercise such Option, to the extent not theretofore exercised, in respect of all Shares subject to the vested Options; and (ii) if the employment of the Optionee shall terminate by reason of the Optionee's retirement (at such age upon such conditions as shall be specified by the Board of Directors), and while the Optionee is entitled to exercise such Option as herein provided, any unvested Options shall automatically vest and become exercisable as of the date of retirement, the Optionee shall have the right to exercise such Option so granted, to the extent not theretofore exercised, in respect of all Shares subject to the vested Options, at any time up to one (1) year from the date of termination of the Optionee's employment by reason of retirement.

(b) If the Optionee voluntarily terminates his employment, the Optionee shall have the right to exercise such Options that have vested, to the extent not theretofore exercised, at any time up to ninety (90) days from the date of termination of the Optionee's employment, or if the Optionee is discharged for Cause, any Options granted hereunder shall forthwith terminate with respect to any unexercised portion thereof.

(c) If any Options granted hereunder shall be exercised by the Optionee's legal representative if the Optionee should die or become disabled, or by any person who acquired any Options granted hereunder by bequest or inheritance or by reason of death of any such person, written notice of such exercise shall be accompanied by a certified copy of letters testamentary or equivalent proof of the right of such legal representative or other person to exercise such Options.

(d) For all purposes of this Agreement, the term "Cause" shall have the meaning set forth in the Optionee's employment agreement with the Company, or if no such agreement exists or is then in effect, then the meaning as defined in the Plan.

9. Restriction: Securities Exchange Listing. All certificates for Shares delivered upon the exercise of Options granted herein shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations and other requirements of the Securities and Exchange Commission and any applicable federal or state securities laws, and the Committee may cause a legend or legends to be placed on such certificates to make appropriate reference to such restrictions. If the Shares or other securities are traded on a national securities exchange, the Company shall not be required to deliver any Shares covered by an Option unless and until such Shares have been admitted for trading on such securities exchange.

10. Adjustments. If there is any change in the capitalization of the Company affecting in any manner the number or kind of outstanding Shares of the Company, whether by stock dividend, stock split, reclassification or recapitalization of such stock, or because the Company has merged or consolidated with one or more other corporations (and provided the Option does not thereby terminate pursuant to Section 5 hereof), then the number and kind of shares then subject to the Option and the price to be paid therefor shall be appropriately adjusted by the Board of Directors; provided, however, that in no event shall any such adjustment result in the Company's being required to sell or issue any fractional shares. Any such adjustment shall be made without change in the aggregate purchase price applicable to the unexercised portion of the option, but with an appropriate adjustment to the price of each Share or other unit of security covered by this Option.

11. Change in Control. In the event of a Change in Control (as defined in the Plan), the surviving, continuing, successor, or purchasing entity or parent thereof, as the case may be (the "Acquiror"), may, without the consent of the Optionee, either assume the Company's rights and obligations under outstanding Options or substitute for outstanding Options substantially equivalent options for the Acquiror's stock. In the event the Acquiror elects not to assume or substitute for outstanding Options in connection with a Change in Control, the Committee shall provide that any unexercised and/or unvested portions of outstanding Options shall be immediately exercisable and vested in full as of the date thirty (30) days prior to the date of the Change in Control. The exercise and/or vesting of any Option that was permissible solely by reason of this Section 11 shall be conditioned upon the consummation of the Change in Control. Any Options which are not assumed by the Acquiror in connection with the Change in Control nor exercised as of the time of consummation of the Change in Control shall terminate and cease to be outstanding effective as of the time of consummation of the Change in Control.

12. Amendment to Options Herein Granted. The Options granted herein may not be amended without the Optionee's consent.

13. Withholding Taxes. As provided in the Plan, the Company may withhold from sums due or to become due to Optionee from the Company an amount necessary to satisfy its obligation to withhold taxes incurred by reason of the disposition of the Shares acquired by exercise of the Options in a disqualifying disposition (within the meaning of Section 421(b) of the Code), or may require the Optionee to reimburse the Company in such amount.

LAPOLLA INDUSTRIES, INC.

/s/ Michael T. Adams, Secretary
Corporate Secretary

OPTIONEE

/s/ Douglas J. Kramer
Douglas J. Kramer

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement (No. 333-174272) on Form S-8 of Lapolla Industries, Inc. of our report dated March 28, 2016, relating to our audit of the financial statements, which appear in the Annual Report on Form 10-K of Lapolla Industries, Inc. for the year ended December 31, 2015.

/s/ Hein & Associates LLP

Hein & Associates LLP
Houston, Texas

March 28, 2016

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Douglas J. Kramer, Certify That:

1. I have reviewed this annual report on Form 10-K 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: March 28, 2016

LAPOLLA INDUSTRIES, INC.

By: /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 annual report on Form 10-K 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: March 28, 2016

LAPOLLA INDUSTRIES, INC.

By: /s/ Jomarc C. Marukot, PFO/PAO
Jomarc C. Marukot
Principal Financial Officer and
Principal Accounting Officer

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

Each of the undersigned hereby certifies, for the purposes of Section 1350 of Chapter 63 of Title 18 of the United States Code, in his capacity as an officer of Lapolla Industries, Inc., a Delaware corporation, (the "Company") that, to his knowledge, the accompanying Annual Report on Form 10-K of the Company for the period ended December 31, 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 that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 28, 2016

LAPOLLA INDUSTRIES, INC.

By: /s/ Douglas J. Kramer, PEO
Douglas J. Kramer
Principal Executive Officer

By: /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 the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.