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

FORM 10-K/A

(Amendment No. 1)

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

For The Fiscal Year Ended December 31, 2014

Commission File No. **001-31354**

Lapolla Industries, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware *(State of Incorporation)*	**13-3545304** *(I.R.S. Employer Identification No.)*
Intercontinental Business Park **15402 Vantage Parkway East, Suite 322** **Houston, Texas** *(Address of Principal Executive Offices)*	**77032** *(Zip Code)*

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

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 Each 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, 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, or a non-accelerated filer. *See* the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

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

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

As of June 30, 2014, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately $11,190,004 based on the closing sales price as quoted on the OTCQB. 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 16, 2015 — 120,999,016 shares.

DOCUMENTS INCORPORATED BY REFERENCE

None.

EXPLANATORY NOTE

Lapolla Industries, Inc. (the "Company," "we," "us," or "our") is filing this Amendment No. 1 on Form 10-K/A (this "Amendment") to its annual report on Form 10-K for the year ended December 31, 2014, which was originally filed on March 31, 2015 (the "Original Form 10-K Filing"), to amend: (i) Item 7 in Part II, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates—Goodwill" to disclose that the date of our most recent goodwill impairment test was December 31, 2014 and that we did not have any reporting units that had a fair value that was not substantially in excess of carrying value as of such date; (ii) Item 15 in Part IV, "Exhibits and Financial Statement Schedules—Financial Statements and Supplementary Data—Note 1. Summary of Organization, Basis of Presentation, and Critical Accounting Policies, Estimates, and Assumptions—Impairment of Long-Lived Assets—Goodwill" to disclose that the date of our most recent goodwill impairment test was December 31, 2014 and that we did not have any reporting units that had a fair value that was not substantially in excess of carrying value as of such date; and (iii) Item 15 in Part IV, "Exhibits and Financial Statement Schedules— Financial Statements and Supplementary Data—Note 11. Financing Instruments", to disclose the amount of credit availability on our revolver loan (subject to borrowing base limitations) as of December 31, 2014 and 2013 as $2,754,601 and $1,761,427, respectively.

In accordance with Rule 12b-15 under the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), we have set forth the complete text of Items 7 and 15, which shall respectively amend and restate Items 7 and 15 in the Original Form 10-K Filing in their entirety. Except as described above, no other changes have been made to the Original Form 10-K Filing. This Form 10-K/A speaks as of the filing date of the Original Form 10-K Filing and has not been updated to reflect events occurring subsequent to the date of the Original Form 10-K Filing. Accordingly, this Form 10-K/A should be read in conjunction with the Original Form 10-K Filing and our other filings with the SEC subsequent to the filing of the Original Form 10-K Filing. As required by Rule 12b-15 promulgated under the Exchange Act, new certifications by the Company's principal executive officer and principal financial officer are filed as exhibits to this Amendment.

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

Management's Discussion and Analysis
of Financial Condition and Results of Operations for the Two-Year Period Ended December 31, 2014

Overview

This financial review presents our operating results for each of the two years in the period ended December 31, 2014, and our financial condition at December 31, 2014. 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. 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, "*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.

Refer to *Note 18 – Business Segments and Geographical Area information* in our financial statements listed under Item 15 of Part IV of this report for further information regarding our business segment structure.

Non-GAAP Financial Measures

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.

See also to Part I, *Item 1 – Business* for more information on our Non-GAAP financial measures.

Overall Results of Operations

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,	
	2014	**2013**
Summary of Overall Results of Operations		
Sales	$ 72,065,015	$ 71,176,971
Operating Income (Loss)	(1,515,296)	(616,170)
Other (Income) Expense	2,145,653	1,354,875
Net Loss	(3,660,949)	(1,971,045)
EBITDA (Unaudited)	$ (586,234)	$ 921,13
Adjusted EBITDA (Unaudited)	$ 504,961	$ 2,240,865
Reconciliation of EBITDA and Adjusted EBITDA to Net Loss:		
Net Loss:	$ (3,660,949)	$ (1,971,045)
Additions / (Deductions):		
Interest Expense	1,193,298	1,093,184
Interest Expense – Related Party	805,608	749,291
Interest Expense – Amortization of Discount	182,444	10,697
Tax Expense (Benefit)	220,230	160,755
Depreciation	394,309	453,827
Amortization of Other Intangible Assets	278,826	424,426
EBITDA	$ (586,234)	$ 921,135
Additions / (Deductions):		
Share Based Compensation [1]	1,091,195	1,319,730
Adjusted EBITDA	$ 504,961	$ 2,240,865

[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:

		2014		2013	% Change
Foam	$	62,477,449	$	61,080,736	2.3%
Coatings		9,587,566		10,096,235	-5.0%
Total Sales	$	72,065,015	$	71,176,971	1.2%

For the year ended December 31, 2014, our total sales increased by $888,044, from $71,176,971 to $72,065,015, or an increase of 1.2% from the same period in 2013. Foam sales increased $1,396,713 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, offset by a $508,669 decrease in coatings sales due to lower demand attributed to general market conditions.

Gross Profit

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

		2014		2013	% Change
Cost of Sales	$	58,460,940	$	56,152,602	4.1%
Gross Profit	$	13,604,075	$	15,024,369	-9.5%
Gross Margin Percentage:					
Foam		17.8%		19.6%	-1.8%
Coatings		25.6%		30.3%	-4.7%
Total		18.9%		21.1%	-2.2%

For the year ended December 31, 2014, our gross profit decreased by $1,420,294, from $15,024,369 to $13,604,075, or a decrease of 9.5% from the same period in 2013. The decrease in gross profit was due to lower gross profit in coatings as a result of lower coatings sales and an increase in raw material costs resulting in a decline of $460,995, additional freight expense of $334,306 related to an increase in domestic sales versus international sales in 2014 compared to 2013, higher freight rates resulting in additional expense of $613,538, and a net increase in manufacturing absorption of $297,556, partially offset by an increase in gross profit from foam of $286,101 as a result of increased sales.

Selling, general and administrative expenses decreased $229,537 or 1.7%, to $13,259,920 in 2014, compared to $13,489,457 in 2013, primarily due to a $261,402 decrease in share-based compensation related to fully vested shares in connection with an advisory and consultant agreement, augmented by decreases in payroll and related employee benefits, distribution, and rents.

Professional fees decreased $160,784 or 14.9%, to $915,369 in 2014, compared to $1,076,153 in 2013, primarily due to the recovery of legal fees from our insurance companies and various settlements relating to litigation.

Depreciation expense decreased $7,963 or 4.6%, to $166,293 in 2014, compared to $174,256 in 2013, due to reductions in depreciable assets.

Amortization of other intangible assets expense decreased $145,600 or 34.3%, to $278,826 in 2014, compared to $424,426 in 2013, due to a decrease in amortizable assets including customer lists and trade names.

Consulting fees increased $22,716 or 4.8%, to $498,963 in 2014, compared to $476,247 in 2013, primarily due to an increase in the need for business consulting services for The AirTight Division.

Interest expense increased $100,114 or 9.2%, to $1,193,298 in 2014, compared to $1,093,184 in 2013, primarily due to a higher amount outstanding on the New Enhanced Note.

Interest expense – related party increased $56,317 or 7.5%, to $805,608 in 2014, compared to $749,291 in 2013, due to an increase in share based compensation classified as interest expense relating to restricted shares of common stock being issued to the Chairman of the Board in connection with his personal guarantees required on the New Enhanced Note

Interest expense – amortization of discount increased $171,747 or 1,605.6%, to $182,444 in 2014, compared to $10,697 in 2013, due to a full year amortization of the New Enhanced Note discount.

Other income, net increased $1,942 or 5.8%, to $35,697 in 2014, compared to $33,755 in 2013, due primarily to a favorable settlement relating to litigation, and gain on disposals of vehicles for more than book value.

Outlook for 2015

The Company’s outlook remains aggressive and positive, as we expect sales to grow globally to record levels in 2015 and beyond. Our optimism is based on 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 $13 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.

Net cash used in operating activities was $997,146 in 2014 and $2,132,440 in 2013. The cash used in operations for 2014 as compared to 2013 was attributable to the net loss of $3,660,949 for the year, including the effect of adjustments to reconcile net loss to cash used in or provided by operating activities and adjusting for non-cash items, decreases of $59,518 in depreciation due to a decrease in depreciable assets, $145,600 in amortization of other intangible assets due to a decrease in amortizable assets including customer lists and non-competes from previous acquisitions, and $261,403 in share-based compensation expense due to completion of vesting of shares originally granted by the Company pursuant to an advisory and consultant agreement, offset by increases of $91,697 in provision for losses due to an increase in customer insolvencies, $56,317 in interest expense due to the issuance of New Guaranty Shares being classified as interest expense, and $171,747 in interest expense due to the purchase discount being amortized over the life of the New Enhanced Note, which matures in December 2016. The foregoing was augmented by decreases of $153,910 in inventories, $101,035 in prepaid expenses and other current assets, and $287,575 in deposits and other non-current assets, and increases of $1,839,626 in trade receivables, $297,121 in other intangible assets, $18,411 in costs and estimated earnings in excess of billings, and $293,935 in accounts payable, and $301,765 in accrued expenses and other current liabilities.

Net cash used in investing activities was $144,096 in 2014 and $69,825 in 2013. 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. We invested $118,611 in property, plant and equipment in 2013, of which $64,633 was for vehicles, $3,090 was for office equipment, $30,050 was for computers and software upgrades, $16,022 was for machinery and equipment for our plant, and $4,816 was for leasehold improvements. We disposed of certain assets for net proceeds of $48,786, all of which were vehicles.

Net cash provided by financing activities was $1,141,242 in 2014 and $2,204,470 in 2013. In 2014, we borrowed a cumulative aggregate of $74,459,796 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. In 2013, we borrowed a cumulative aggregate of $81,608,230 under our Revolver Loan, and an aggregate of $7,200,000 under our New Enhanced Note, of which $3,214,003 was refinanced from the Note Purchase Agreement with Enhanced Jobs for Texas Fund, LLC and Enhanced Capital Texas Fund LP dated June 29, 2012 ("Prior Enhanced Note"), and made principal repayments for a cumulative aggregate of $82,101,515 under our Revolver Loan, an aggregate of $4,337,334 under our Prior Enhanced Note, and $20,911 on our long term debt primarily related to financed vehicles. We had a net working capital of $6,572,046 in 2014 and $6,210,711 in 2013. Our current assets were approximately 1.8 times our current liabilities in 2014 and 2013. Cash available under our Revolver Loan based on the borrowing base calculation at December 31, 2014 and 2013 was $2,754,601 and $1,761,427, 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 New Enhanced Note to prepay, including any prepayment penalty, the amount raised up to the amount outstanding under the New Enhanced Note as of the date of the closing of the transaction out of the net proceeds of the capital raised.

Credit 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 $13,000,000 Revolver Loan. At December 31, 2014 and 2013, the balance outstanding on the Revolver Loan was $5,435,005 and $4,539,163 respectively. The Company has four material debt covenants to comply with relating to its Loan Agreement: (i) Capital expenditures are limited to $625,000 on an annual basis, (ii) The amount outstanding under the Revolver Loan may not exceed the borrowing base (calculation defined as an amount determined by a detailed calculation and includes an amount equal to 85% of eligible accounts receivable, plus 55% of eligible inventory); (iii) Maintain 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, and (iv) Maintain minimum liquidity of $500,000. The Company is required to submit its borrowing base calculation to Bank of America daily. If, at any time, the Company's borrowing base calculation is less than the amount outstanding under the Revolver Loan, and that amount remains unpaid or future borrowing base calculations do not increase to an amount equal to the balance outstanding under the Revolver Loan, Bank of America, in its sole discretion, may accelerate any and all amounts outstanding under the Revolver Loan. At December 31, 2014, we were in compliance with our Loan Agreement and debt covenants.

On December 10, 2013, we entered into our New 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 the remaining $3,346,762 balance outstanding on December 10, 2013 on our prior Note Purchase Agreement dated as of June 29, 2012 entered into with Enhanced Jobs For Texas Fund, LLC and Enhanced Capital Texas Fund LP ("Prior Enhanced Note")(under the Prior Enhanced Note, we borrowed an aggregate of $4.4 Million under subordinated secured variable rate notes due June 29, 2014, of which $2.2 Million was with Enhanced Jobs For Texas Fund, LLC and $2.2 Million was from Enhanced Capital Texas Fund LP Enhanced Texas), and increase our working capital for the remaining difference. Repayment of the $7.2 Million is required on the maturity date of December 10, 2016. Interest is payable monthly and broken down into current pay interest at the rate of 7.25% per annum, and PIK Interest at the rate of 4.25% (increased from 3.75% to 4.25% by amendment on November 14, 2014)(which is added to the principal balance of the outstanding notes) to create the aggregate interest rate of 11.5%. The Company has the right to prepay the New Enhanced Note, subject to a prepayment premium equal to 3% for the first year or 2% for the second year. The Company also entered into a security agreement with the New Enhanced Note providing for a second lien on all assets of the Company after Bank of America, which has a first lien on all asset of the Company. The Company has four material debt covenants to comply with relating to its New Enhanced Note: (i) Capital expenditures are limited to $625,000 on an annual basis, (ii) A minimum Adjusted EBITDA which cannot, for the three (3) months ending on the last day of each month set forth in a schedule, be less than the corresponding amount set forth in the schedule for such period, (iii) Maintain 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 1.0 to 1.0, and (iv) Maintain minimum liquidity equal of $500,000. At December 31, 2014, we were in compliance with our New 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.

Future Minimum Principal Payments on Long-Term Debt

At December 31, 2014, future minimum principal payments of long-term debt are as follows:

	Payments Due By Period				
	Less Than 1 Year	**1 to 3 Years**	**4 to 5 Years**	**More Than 5 Years**	**Total**
Revolver Loan	$ —	$ 5,435,005	$ —	$ —	$ 5,435,005
New Enhanced Note	—	7,157,852	—	—	7,157,852
Note Payable – Related Party	—	250,000	—	—	250,000
Long Term Debt Obligations	—	—	—	—	—
Total	$ —	$ 12,842,857	$ —	$ —	$ 12,842,857

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. There have been no material changes to these estimates for the periods presented in this Annual Report.

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, of this Annual Report, 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, 2014 and 2013. The Company operates two reporting units, Foam and Coatings. Disclosures related to goodwill are included in Note 8 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 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, 2014. 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 2014 and 2013, 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~~reporting units 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. 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 goodwill~~Upon completion of the 2014 and 2013 annual impairment ~~charges recorded during the years ended December 31, 2014 or 2013~~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 asset group occurs whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. 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 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. The assumptions used during 2013 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, 2014 or 2013.

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 $617,000 and $317,000 at December 31, 2014 and 2013, respectively. If the financial condition of customers were to deteriorate based on worsening overall economic conditions, resulting in an impairment of their ability to make payments to the Company, then additional allowances may be required in future periods.

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.

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":

2. *Financial Statement Schedules:*

The following additional information should be read with the financial statements under Item 15(a)1 of Part IV of this report:

Schedule for the Years Ended December 31, 2014 and 2013:

Schedule Number	
Valuation and Qualifying Accounts	~~37~~8

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 30~~September 18, 2015

LAPOLLA INDUSTRIES, INC.

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

Date: ~~March 30~~September 18, 2015

LAPOLLA INDUSTRIES, INC.

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

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.

Date: ~~March 30~~September 18, 2015

LAPOLLA INDUSTRIES, INC.

By: /s/ Richard J. Kurtz, Director
Richard J. Kurtz
Chairman of the Board

Date: ~~March 30~~September 18, 2015

LAPOLLA INDUSTRIES, INC.

By: /s/ Jay C. Nadel, Director
Jay C. Nadel
Vice Chairman of the Board

Date: ~~March 30~~September 18, 2015

LAPOLLA INDUSTRIES, INC.

By: /s/ Arthur J. Gregg, Director
Arthur J. Gregg
Director

Date: ~~March 30~~September 18, 2015

LAPOLLA INDUSTRIES, INC.

By: /s/ Augustus J. Larson, Director
Augustus J. Larson
Director

Date: ~~March 30~~September 18, 2015

LAPOLLA INDUSTRIES, INC.

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

Date: ~~March 30~~September 18, 2015

LAPOLLA INDUSTRIES, INC.

By: /s/ Michael T. Adams, Director
Michael T. Adams
Director, CGO, EVP, and Secretary

Date: September 18, 2015

LAPOLLA INDUSTRIES, INC.

By: /s/ Jomarc C. Marukot, CFO and PAO

Jomarc C. Marukot
CFO, Treasurer, and Principal Accounting Officer

SCHEDULE II

LAPOLLA INDUSTRIES, INC.

SCHEDULE II–VALUATION AND QUALIFYING ACCOUNTS

For the Years Ended December 31, 2014 and 2013

Classification	Balance at Beginning of Period	Additions: Charged to Costs and Expenses	Additions: Charged to Other Accounts	Deductions	Balance at End of Period
Year Ended December 31, 2014					
Allowance for Doubtful Accounts [(1)] [(2)]	$ 552,587	$ 583,424	$ —	$ (519,128)	$ 616,883
Deferred Tax Assets Valuation Allowance	22,741,968	—	1,805,613	—	24,547,581
Year Ended December 31, 2013					
Allowance for Doubtful Accounts [(1)]	$ 996,378	$ 490,990	$ —	$ (934,781)	$ 552,587
Deferred Tax Assets Valuation Allowance	22,126,731	—	615,237	—	22,741,968

Notes:
[(1)] Write-offs of uncollectible accounts are included in Deductions column.
[(2)] Allowances for trade receivables and reserves for note receivables are included in Additions, Charged to Costs and Expenses column.

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. Zajaczkowski 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. Zajaczkowski 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. Zajaczkowski 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. Zajaczkowski 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.
10.63*+	Option Agreement dated April 28, 2014, between Arthur J. Gregg and the Company.
10.64*+	Option Agreement dated April 28, 2014, between Augustus J. Larson and the Company.
10.65*+	Option Agreement dated April 28, 2014, between Douglas J. Kramer and the Company.

10.66*+	Option Agreement dated April 28, 2014, between Michael T. Adams and the Company.
10.67*+	Option Agreement dated April 28, 2014, between Harvey L. Schnitzer and the Company.
10.68*+	Option Agreement dated May 14, 2014, between Richard J. Kurtz and the Company.
10.69*+	Option Agreement dated October 14, 2014, between Douglas J. Kramer and the Company.
10.70*+	Option Agreement dated November 26, 2014, between Michael T. Adams and the Company.
10.71*+	Option Agreement dated December 22, 2014, between Jay C. Nadel and the Company.
10.72*+	Option Agreement dated December 22, 2014, between Arthur J. Gregg and the Company.
10.73*+	Option Agreement dated December 22, 2014, between Augustus J. Larson and the Company.
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.
23.1*	Consent of Hein & Associates LLP incorporated by reference in Registration Statement (Form S-3 No. 333-143922) of March 30, 2015 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, 2014, formatted in XBRL (eXtensible Business Reporting Language), (i) Balance Sheets, (ii) Statements of Operations and Comprehensive Loss, (iii) Statements of Stockholders' Equity, (iv) Statements of Cash Flows, and (v) Notes to Financial Statements

* * Previously filed with Lapolla Industries, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2014 (filed on March 31, 2015)

**Filed herewith

+ Management contract or compensation plan or arrangement

2014 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

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, 2014 and 2013, and the related statements of operations and comprehensive loss, stockholders' equity, and cash flows for the years then ended. Our audits also included the financial statement schedule of Lapolla Industries, Inc. listed in Item 15(a). These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule 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, 2014 and 2013, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Hein & Associates LLP

Hein & Associates LLP
Houston, Texas
March 30, 2015

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LAPOLLA INDUSTRIES, INC.
BALANCE SHEETS

	December 31, 2014	December 31, 2013
Assets		
Current Assets:		
Cash	$ —	$ —
Trade Receivables, Net	8,880,364	7,694,589
Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts	18,411	—
Inventories	5,268,025	5,421,935
Prepaid Expenses and Other Current Assets	1,149,279	1,250,314
Total Current Assets	15,316,079	14,366,838
Property, Plant and Equipment	1,364,613	1,600,679
Other Assets:		
Goodwill	4,234,828	4,234,828
Other Intangible Assets, Net	1,183,452	1,165,157
Deposits and Other Non-Current Assets, Net	399,083	686,658
Total Other Assets	5,817,363	6,086,643
Total Assets	$ 22,498,055	$ 22,054,160
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts Payable	$ 6,985,373	$ 6,694,633
Accrued Expenses and Other Current Liabilities	1,758,660	1,456,895
Current Portion of Long-Term Debt	—	4,599
Total Current Liabilities	8,744,033	8,156,127
Other Liabilities:		
Non-Current Portion of Revolver Loan	5,435,005	4,539,163
Non-Current Portion of Note Payable – New Enhanced Note	7,157,852	6,683,561
Non-Current Portion of Note Payable – Related Party	250,000	1,300,000
Accrued Interest – Note Payable – Related Party	3,173	117,633
Total Other Liabilities	12,846,030	12,640,357
Total Liabilities	21,590,063	20,796,484
Commitments and Contingencies (Note 14)		
Stockholders' Equity:		
Common Stock, $.01 Par Value; 140,000,000 Shares Authorized; 119,839,566 and 114,148,378 Issued and Outstanding for 2014 and 2013, respectively.	1,198,396	1,141,484
Additional Paid-In Capital	89,989,110	86,734,757
Accumulated Deficit	(90,156,603)	(86,495,654)
Accumulated Other Comprehensive Loss	(122,911)	(122,911)
Total Stockholders' Equity	907,992	1,257,676
Total Liabilities and Stockholders' Equity	$ 22,498,055	$ 22,054,160

The Accompanying Notes are an Integral Part of the Financial Statements

LAPOLLA INDUSTRIES, INC.
STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	Years Ended December 31, 2014	2013
Sales	$ 72,065,015	$ 71,176,971
Cost of Sales	58,460,940	56,152,602
Gross Profit	13,604,075	15,024,369
Operating Expenses:		
Selling, General and Administrative	13,259,920	13,489,457
Professional Fees	915,369	1,076,153
Depreciation	166,293	174,256
Amortization of Other Intangible Assets	278,826	424,426
Consulting Fees	498,963	476,247
Total Operating Expenses	15,119,371	15,640,539
Operating Loss	(1,515,296)	(616,170)
Other (Income) Expense:		
Interest Expense	1,193,298	1,093,184
Interest Expense – Related Party	805,608	749,291
Interest Expense – Amortization of Discount	182,444	10,697
Gain on Derivative Liability	—	(65,656)
Gain on Extinguishment of Debt	—	(398,886)
Other, Net	(35,697)	(33,755)
Total Other (Income) Expense	2,145,653	1,354,875
Net Loss	$ (3,660,949)	$ (1,971,045)
Net Loss Per Share – Basic and Diluted	$ (0.03)	$ (0.02)
Weighted Average Shares Outstanding	115,359,714	111,449,320
Other Comprehensive Loss:		
Foreign Currency Translation Adjustment Loss	—	(2,205)
Total Other Comprehensive Loss	$ —	$ (2,205)
Comprehensive Loss	$ (3,660,949)	$ (1,973,250)

The Accompanying Notes are an Integral Part of the Financial Statements

LAPOLLA INDUSTRIES, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional		Accumulated Other	Total
	Shares	Par $0.01	Paid-In Capital	Accumulated (Deficit)	Comprehensive (Loss)	Stockholders' Equity
As of December 31, 2012	109,372,266	$1,093,723	$84,745,704	$(84,524,609)	$ (120,706)	$ 1,194,112
Comprehensive Loss, Net of Tax:						
Net Loss	—	—	—	(1,971,045)	—	(1,971,045)
Currency Translation Loss	—	—	—	—	(2,205)	(2,205)
Issuance of Common Stock	4,776,112	47,761	(47,761)	—	—	—
Financial Consultant Fees	—	—	38,387	—	—	38,387
Share Based Compensation Expense	—	—	1,319,730	—	—	1,319,730
Interest Expense – Related Party	—	—	678,697	—	—	678,697
As of December 31, 2013	114,148,378	$1,141,484	$86,734,757	$(86,495,654)	$ (122,911)	$ 1,257,676
Comprehensive Loss, Net of Tax:						
Net Loss	—	—	—	(3,660,949)	—	(3,660,949)
Currency Translation Loss	—	—	—	—	—	—
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
As of December 31, 2014	119,839,566	$1,198,396	$89,989,110	$(90,156,603)	$ (122,911)	$ 907,992

The Accompanying Notes are an Integral Part of the Financial Statements

LAPOLLA INDUSTRIES, INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2014	Years Ended December 31, 2013
Cash Flows From Operating Activities		
Net Loss	$ (3,660,949)	$ (1,971,045)
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities:		
Depreciation	394,309	453,827
Amortization of Other Intangible Assets	278,826	424,426
Provision for Losses on Accounts Receivable	583,424	491,727
Share Based Compensation Expense	1,091,195	1,358,117
Interest Expense – Enhanced Notes PIK	291,847	15,750
Interest Expense – Related Party	805,608	749,291
Interest Expense – Amortization of Discount	182,444	10,697
Interest Expense – Write-Off of Old Debt Issuance Costs	—	45,512
Gain on Derivative Liability	—	(65,656)
Gain on Extinguishment of Debt	—	(398,886)
Gain on Disposal of Assets	(15,679)	(14,681)
Loss on Foreign Currency Exchange	68,767	22,131
Changes in Assets and Liabilities:		
Trade Receivables	(1,839,626)	(668,360)
Inventories	153,910	(589,587)
Costs and Estimates Earnings in Excess of Billings on Uncompleted Contracts	(18,411)	—
Prepaid Expenses and Other Current Assets	101,035	(569,089)
Other Intangible Assets	(297,121)	(126,944)
Deposits and Other Non-Current Assets	287,575	(467,842)
Accounts Payable	293,935	(943,709)
Accrued Expenses and Other Current Liabilities	301,765	111,881
Net Cash Used in Operating Activities	(997,146)	(2,132,440)
Cash Flows From Investing Activities		
Additions to Property, Plant and Equipment	(207,191)	(118,611)
Proceeds from Disposal of Property, Plant and Equipment	63,095	48,786
Net Cash Used in Investing Activities	$ (144,096)	$ (69,825)
Cash Flows From Financing Activities		
Proceeds from Revolver Loan	75,459,796	81,608,230
Principal Repayments to Revolver Loan	(74,563,955)	(82,101,515)
Proceeds from Note Payable – New Enhanced Note	—	7,056,000
Principal Repayments to Note Payable – Prior Enhanced Note	—	(4,337,334)
Proceeds from Note Payable – Related Party	250,000	—
Principal Repayments on Long-Term Debt	(4,599)	(20,911)
Net Cash Provided by Financing Activities	1,141,242	2,204,470
Net Effect of Exchange Rate Changes on Cash	—	(2,205)
Net Change In Cash	—	—
Cash at Beginning of Year	—	—
Cash at End of Year	$ —	$ —
Supplemental Disclosure of Cash Flow Information:		
Cash Payments for Income Taxes	$ —	$ —
Cash Payments for Interest	782,424	825,356
Supplemental Schedule of Non Cash Investing and Financing Activities:		
Issuances of Restricted Common Stock for Personal Guarantees by Related Party Classified as Interest Expense	$ 734,858	$ 678,697
Issuance of Restricted Common Stock in Exchange for Conversion of Note Payable – Related Party and Accrued Interest – Related Party	1,485,212	—

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.

Reclassifications

Certain reclassifications of prior year amounts have been made to conform to the current year presentation. The reclassifications did not affect net loss.

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, 2014 and 2013. No customer represented more than 10% of trade receivables at December 31, 2014 or 2013.

Note Receivable

The Company presents note receivables, net of reserves for losses, to ensure note receivables are not overstated due to uncollectible amounts. Reserves, when required, are calculated based on a detailed review of the specific note, including other security when applicable, and an estimation of the credit worthiness of the debtor. Total note receivables were approximately $-0- and $473,000 at December 31, 2014 and 2013, respectively. The reserve for losses was approximately $-0- and $237,000 at December 31, 2014 and 2013, respectively.

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.

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, 2014 and 2013, 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.

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 loss and tax credit carryovers. The Company's deferred tax asset was approximately $24.6 Million and $22.7 Million at December 31, 2014 and 2013, 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 2013. The Company recorded a valuation allowance against the deferred tax asset of $24.6 Million and $22.7 Million at December 31, 2014 and 2013, respectively, reducing its net carrying value to zero. 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, 2014, 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, 2014. Unrecognized tax benefits are not expected to increase or decrease within the next twelve months.

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 $1,364,613 and depreciation expense totaled $394,309 as of and for the year ended December 31, 2014. Net property, plant and equipment totaled $1,600,679 and depreciation expense totaled $453,827 as of and for the year ended December 31, 2013.

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

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, 2014 or 2013.

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, 2014 and 2013. The Company operates two reporting units, Foam and Coatings. Disclosures related to goodwill are included in Note 8 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~~as of the ~~fourth quarter~~last day of ~~each~~a calendar year~~.~~ or December 31, and the most recent evaluation of goodwill impairment was performed on December 31, 2014. 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 2014 and 2013, 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~~reporting units 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~~ 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 2014 and 2013 annual impairment ~~charges recorded during the years ended December 31, 2014 or 2013~~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, net of $1,183,452 and $1,165,157 at December 31, 2014 and 2013, 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 $278,826 and $424,426 for the years ended December 31, 2014 and 2013, 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 8 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, 2014 or 2013.

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

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 $998,803 and $1,106,250 in 2014 and 2013, respectively. Costs incurred for shipping and handling are included in cost of sales. Freight included in cost of sales was $4,441,402 and $3,493,579 in 2014 and 2013, 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 17 to our financial statements. Share-based compensation expense was $1,058,327 and $1,319,730 in 2014 and 2013, 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 $617,000 and $317,000 at December 31, 2014 and 2013, respectively. If the financial condition of customers were to deteriorate based on worsening overall economic conditions, resulting in an impairment of their ability to make payments to the Company, then additional allowances may be required in future periods.

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.

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 $168,817 and $-0- costs for advertising deferred on the Company’s balance sheets as of December 31, 2014 and 2013, 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 $982,000 and $965,000 in 2014 and 2013, 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.

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

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 13 to our financial statements.

Recently Adopted Accounting Standards

In March 2013, the FASB issued an accounting standards update that provides guidance on the accounting for the cumulative translation adjustment (CTA) upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. Under this guidance, an entity should recognize the CTA in earnings based on meeting certain criteria, including when it ceases to have a controlling financial interest in a subsidiary or group of assets within a consolidated foreign entity or upon a sale or transfer that results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets resides. This guidance will be effective for fiscal years beginning on or after December 15, 2013, which will be the Company's fiscal year 2014, with early adoption permitted. The Company adopted the provisions of the guidance in the first quarter of 2014. The adoption did not have a material impact on the Company’s financial statements.

In July 2013, the FASB issued an accounting standards update that requires the netting of unrecognized tax benefits against a deferred tax asset for a loss or other carry-forward that would apply in settlement of the uncertain tax positions. This guidance will be effective for fiscal years beginning after December 15, 2013, which will be the Company's fiscal year 2014, with early adoption permitted. The Company adopted the provisions of the guidance in the first quarter of 2014. The adoption did not have a material impact on the Company’s financial statements.

New Accounting Standards Not Yet Adopted

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

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 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 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.

Note 2. Liquidity.

The Company has an accumulated deficit of $90,156,603, a net loss of $3,660,949, and used $997,146 of cash in operating activities as of and for the year ended December 31, 2014. As a result, there are concerns about the liquidity of the Company at December 31, 2014. The Company has a working capital surplus of $6,572,046. 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 2015.

Note 3. Dependence on Few Suppliers.

The Company is dependent on a few suppliers for certain of its raw materials and finished goods. For 2014 and 2013, raw materials and finished goods purchased from the Company's three largest suppliers accounted for approximately 43% and 41% of purchases, respectively.

Note 4. Trade Receivables.

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

	2014	2013
Trade Receivables	$ 9,497,247	$ 8,011,176
Less: Allowance for Doubtful Accounts	(616,883)	(316,587)
Trade Receivables, Net	$ 8,880,364	$ 7,694,589

Note 5. Inventories.

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

	2014	2013
Raw Materials	$ 1,461,040	$ 1,804,959
Finished Goods	3,806,985	3,616,976
Total	$ 5,268,025	$ 5,421,935

Note 6. Prepaid Expenses and Other Current Assets.

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

	2014	2013
Prepaid Insurances	$ 568,088	$ 582,654
Prepaid Marketing	172,919	152,667
Prepaid Consulting	60,266	66,208
Prepaid Other	348,006	357,839
Note Receivable, Net	—	90,946
Total Prepaid Expenses and Other Current Assets	$ 1,149,279	$ 1,250,314

Note 7. Property, Plant and Equipment.

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

	2014	2013	Estimated Useful Life
Vehicles	$ 475,357	$ 649,487	5 Years
Leasehold Improvements	288,777	288,777	13 – 15 Years
Office Furniture and Equipment	297,737	327,329	3 – 7 Years
Computers and Software	897,102	1,185,333	3 – 5 Years
Machinery and Equipment	2,503,062	2,466,007	3 – 20 Years

Total Property, Plant and Equipment	$	4,462,035	$	4,916,933
Less: Accumulated Depreciation		(3,097,422)		(3,316,254)
Total Property, Plant and Equipment, Net	$	1,364,613	$	1,600,679

Depreciation expense was $394,309 and $453,827 for the years ended 2014 and 2013, of which $228,016 and $279,571 were included in cost of sales for 2014 and 2013, respectively.

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

Note 8. Goodwill and Other Intangible Assets.

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

Goodwill

	2014	2013
Foam	$ 2,932,208	$ 2,932,208
Coatings	1,302,620	1,302,620
	$ 4,234,828	$ 4,234,828

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

Other Intangible Assets

	2014			2013			
	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount	Amortization Period
Product Formulations	$ 138,471	$ (90,775)	$ 47,696	$ 138,471	$ (81,544)	$ 56,927	15 Years
Trade Names	750,186	(319,224)	430,962	740,325	(269,212)	471,113	15 Years
Approvals and Certifications	1,835,013	(1,130,219)	704,794	1,547,754	(910,637)	637,117	5 Years
	$2,723,670	$ (1,540,218)	$1,183,452	$2,426,550	$ (1,261,393)	$1,165,157	

Based on the other intangible assets in service as of December 31, 2014, estimated amortization expense for the years ending December 31, 2015 through December 31, 2018 and thereafter is as follows:

	2015	2016	2017	2018	Thereafter
Product Formulations	$ 9,231	$ 9,231	$ 9,231	$ 9,231	$ 10,772
Trade Names	50,012	50,012	50,012	50,012	230,914
Approvals and Certifications	206,346	206,346	206,346	85,756	—
	$ 265,589	$ 265,589	$ 265,589	$ 144,999	$ 241,686

Note 9. Deposits and Other Non-Current Assets, Net.

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

	2014	2013
Deferred Financing Fees	$ 195,201	$ 285,246
Prepaid Expenses	7,104	46,744
Other Receivables	43,193	55,293
Deposits	153,585	153,584
Note Receivable, Net	—	145,791
Total Deposits and Other-Non-Current Assets	$ 399,083	$ 686,658

Note 10. Accrued Expenses and Other Current Liabilities.

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

	2014	2013
Accrued Payroll	$ 206,364	$ 169,785
Accrued Commissions	113,193	61,000
Accrued Inventory	108,016	178,616
Accrued Taxes and Other	818,544	606,275
Accrued Insurance	482,007	427,395

Deferred Finance Charge Income	30,536	13,824
Total Accrued Expenses and Other Current Liabilities	$ 1,758,660	$ 1,456,895

Note 11. Financing Instruments.

(a) Loan and Security Agreement. The Company entered into a Loan and Security Agreement with Bank of America, N.A., effective September 1, 2010 ("Loan Agreement"), as amended from time to time, under which Bank of America agreed to a $13,000,000 revolver loan, which matures on March 31, 2016 ("Revolver Loan"). The Company granted Bank of America a continuing security interest in and lien upon all Company assets. The Base Rate is equal to the greater of (a) the Prime Rate; (b) the Federal Funds Rate, plus 0.50%; or (c) LIBOR for a 30 day interest period, plus 1.50%. The Company has four material debt covenants to comply with relating to its Loan Agreement: (i) Capital expenditures are limited to $625,000 on an annual basis, (ii) The amount outstanding under the revolver Loan may not exceed the Borrowing Base (calculation defined as an amount determined by a detailed calculation and includes an amount equal to 85% of eligible accounts receivable, plus 55% of eligible inventory); (iii) Maintain 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, and (iv) Maintain minimum liquidity of $500,000. The Company is required to submit its Borrowing Base calculation to Bank of America daily. If, at any time, the Company's Borrowing Base calculation is less than the amount outstanding under the Revolver Loan, and that amount remains unpaid or future Borrowing Base calculations do not increase to an amount equal to the balance outstanding under the Revolver Loan, Bank of America, in its sole discretion, may accelerate any and all amounts outstanding under the Revolver Loan. At December 31, 2014 and 2013, the balance outstanding on the Revolver Loan was $5,435,005 and $4,539,163, and the weighted-average interest rate was 4.3% and 4.5%, respectively. Cash available under our Revolver Loan based on the borrowing base calculation at December 31, 2014 and 2013 was $2,754,601 and $1,761,427, respectively. At December 31, 2014, we were in compliance with all of our Loan Agreement debt covenants. See also Note 19 – Subsequent Events, Item (d) for more information.

(b) Note Purchase Agreements.

(i) New Enhanced Note. The Company entered into a Note Purchase Agreement with Enhanced Jobs for Texas Fund, LLC ("Enhanced Jobs") and Enhanced Credit Supported Loan Fund, LP ("Enhanced Credit"), on December 10, 2013, authorizing the issuance of an aggregate of $7.2 Million in Subordinated Secured Promissory Notes maturing December 10, 2016 ("New Enhanced Note"), of which $5.7 Million was to Enhanced Credit and $1.5 Million was to Enhanced Jobs. Repayment of the $7.2 Million is required on the maturity date of December 10, 2016. Interest is payable monthly and broken down into Current Pay Interest at the rate of 7.25% per annum, and PIK Interest at the rate of 4.25% (which is added to the principal balance of the outstanding notes) to create the aggregate interest rate of 15%. The Company has the right to prepay the New Enhanced Note, subject to a prepayment premium equal to 3% for the first year or 2% for the second year. The Company also entered into a security agreement with the New Enhanced Note providing for a second lien on all assets of the Company after Bank of America, which has a first lien on all assets of the Company. The Company has four material debt covenants to comply with relating to its New Enhanced Note: (i) Capital expenditures are limited to $625,000 on an annual basis, (ii) A minimum [Adjusted] EBITDA, which cannot for the three (3) months ending on the last day of each month set forth in a schedule, be less than the corresponding amount set forth in the schedule for such period, (iii) Maintain an FCCR, tested monthly as of the last day of each calendar month, in each case for the most recently completed twelve calendar months, equal to a 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 New Enhanced Note (***Refer to*** (iii) below), due to the effective interest rate on the refinanced balance of the Prior Enhanced Note being higher than the New Enhanced Note, a gain on extinguishment of debt resulted. The New 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 New Enhanced Note (***See also*** (ii) below). At December 31, 2014, the balance outstanding on the New Enhanced Note was $7,157,852 and the effective interest rate was 23.6%. At December 31, 2014, we were in compliance with all of our New Enhanced Note debt covenants.

(ii) New Guaranty Agreement. In connection with the New Enhanced Note described in (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 New Enhanced Note, to secure the Company's performance under the New Enhanced Note. The Company, in exchange for Guarantor's personal guarantee of the obligations under the New Enhanced Note, granted Guarantor 3,681,000 shares of restricted common stock, par value $.01, which shares vest monthly on a pro rata basis over the three year term of the New Enhanced Note ("New Guaranty Shares"). The New Guaranty Shares were valued at $.60 per share, 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 New Guaranty Shares are being recorded as interest expense – related party, thereby increasing the effective interest rate on the New Enhanced Note. At December 31, 2014, there were 1,298,584 New Guaranty Shares vested, valued and recorded at $779,151.

(iii) Prior Enhanced Note. Upon receipt of the $7.2 Million under the New Enhanced Note described in (i) above, the Company paid off the outstanding balances due under the prior Note Purchase Agreement dated as of June 29, 2012 entered into with Enhanced Jobs For Texas Fund, LLC ("Enhanced Jobs") and Enhanced Capital Texas Fund LP ("Enhanced Capital"), in the amount of $1,673,381 for Enhanced Jobs and $1,673,381 for Enhanced Texas ("Prior Enhanced Note"), and all related agreements, including but not limited to the Prior Enhanced Note, security agreement, and Prior Guaranty Agreement each dated June 29, 2012, were terminated. Under the Prior Enhanced Note, Enhanced Jobs and Enhanced Capital agreed to loan $4.4 Million under subordinated secured variable rate notes due June 29, 2014, of which $2.2 Million was with Enhanced Jobs and $2.2 Million was with Enhanced Texas (collectively, "Prior Enhanced Note"). At December 31, 2014, the balance outstanding on the Prior Enhanced Note was $-0-.

Note 11. Financing Instruments – continued

(b) Note Purchase Agreements – continued

(iv) Prior Guaranty Agreement. As a result of the payoff of the Prior Enhanced Notes as described in (iii) above, the Company canceled an aggregate of 1,376,712 unvested shares (with an unrecorded valued of $371,801) which shares were previously issued in connection with the personal guaranty required for the Prior Enhanced Note that was paid off earlier than the maturity date of June 29, 2014. The Chairman of the Board and majority stockholder of the Company, as Guarantor, entered into a Guaranty Agreement with Enhanced Credit, as agent under the Prior Enhanced Note, to secure the Company's performance under the Prior Enhanced Note. The Company, in exchange for Guarantor's personal guarantee of the obligations under the Prior Enhanced Note, granted Guarantor 5,000,000 shares of restricted common stock, par value $.01, which shares were vesting monthly on a pro rata basis over the two year term of the Prior Enhanced Note ("Prior Guaranty Shares"). The Prior Guaranty Shares were valued at $.27 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 June 29, 2012, for an aggregate amount of $1,350,000. The Prior Guaranty Shares were recorded as interest expense – related party, thereby increasing the effective interest rate on the Prior Enhanced Note.

(c) Notes Payable – Related Party.

(i) April 16, 2012 Promissory Note. The Company entered into a consolidated $1,300,000 promissory note with the Chairman of the Board and majority stockholder on April 16, 2012, bearing interest at 5% per annum, and maturing on June 10, 2017, which was subordinate to the Loan Agreement and the New Enhanced Note described in (a) and (b)(i) above. On December 2, 2014, the Company issued shares of its common stock, to the Chairman of the Board, in exchange for the cancellation of the $1,300,000 in principal and $185,212 in accrued and unpaid interest thereon. ***Refer to*** Note 12 – Related Party Transactions, Item (n), for more information.

(ii) November 14, 2014 Promissory Note. The Company entered into a $250,000 promissory note with the Chairman of the, bearing interest at 8% per annum, and maturing June 10, 2017, which is subordinated to the Loan Agreement and the New Enhanced Note described in (a) and (b)(i) above. At December 31, 2014, there was $3,173 in accrued and unpaid interest. ***Refer to*** Note 12 – Related Party Transactions, Item (j), for more information.

Note 12. Related Party Transactions.

(a) On January 7, 2014 and effective December 31, 2013, the Company entered into a Fourth Amendment to that certain Executive Employment Agreement dated May 10, 2010, as amended, with its CFO and Treasurer, Mr. Zajaczkowski, extending his agreement to December 31, 2015 and increasing his auto allowance to $700 per month. Mr. Zajaczkowski resigned on December 18, 2014.

(b) On January 22, 2014, the Company entered into a new three year Executive Employment Agreement with its CEO and President, Mr. Kramer, effective as of January 1, 2014 ("Kramer Agreement"), pursuant to which he is entitled to: (a) annual base salary for 2014 calendar year of $350,000, and provided the Company meets the positive earnings and cash flow budgets for 2014 established by the Board of Directors for calendar years 2015 and 2016, $400,000; (b) annual performance bonus of $120,000, $160,000, or $200,000 if Company achieves 100%, 120%, or 140%, respectively, of its budgeted earnings before interest, taxes, depreciation, amortization, and share based compensation (Adjusted EBITDA) for a particular fiscal year; (c) 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; (d) a transaction bonus subject to certain minimum and maximum transaction value limitations and offsets for a Change in Control up to 8.5% of the transaction, and including upon consummation of the Change in Control, the transfer to Mr. Kramer ownership of company provided automobile then being used by him; (e) upon termination by the Company without cause or by Mr. Kramer for good reason: (i) severance for lesser of 24 months base salary, or base salary for the remainder of the term, reduced by any earned income during severance period; (ii) the product of the value, as of the last day of calendar year of termination, of any Company equity or equity based awards granted, 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 is the number of days in the calendar year of termination through termination date and the denominator is 365, but only to extent not previously vested, exercised and/or paid; (iii) for 12 months from termination, continued participation in any plans providing medical, hospitalization and dental coverage; and (iv) all bonuses and stock options previously earned, or which may be earned in the event of a consummation of a Change in Control within one year immediately following termination; (f) upon termination by the Company for cause or by Mr. Kramer without good reason”, any bonuses, salaries, benefits or other compensation accrued through the date of employment termination or required by law to be provided; (g) upon termination on account of Mr. Kramer’s death or disability, the Company shall treat his termination as a termination without cause; and (h) upon termination following a Change in Control, if the Company or any successor or assignee terminates his employment following a “Change in Control” (as defined below) of the Company: (i) an amount equal to the base salary which would otherwise be payable over the remaining term of this Agreement, payable in a lump sum within thirty (30) days after the date of such termination of employment; (ii) 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 (iii) all bonuses and stock options previously earned, or which may be earned in the event of the consummation of a Change in Control within one year immediately following the termination of his employment.

Note 12. Related Party Transactions - continued.

(c) On January 22, 2014, and in connection with the Kramer Agreement described in Item (b) above, the Company entered into a new Option Agreement dated January 22, 2014 ("New Kramer Option"). Pursuant to the New Kramer Option, Mr. Kramer was granted the right to acquire 500,000 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 $.72 per share, for a term of five (5) years. The New Kramer Option vests over a three-year period running from the date of grant, with one-third of the New Kramer Option vesting on each of the first (1st), second (2nd) and third (3rd) anniversaries of the date of grant, subject in each case to his continued satisfactory employment through the vesting date. The transaction was valued at approximately $340,000, which was estimated using the Black-Scholes option pricing model and will be expensed over the 3 year vesting period.

(d) On February 7, 2014, the Company entered into an Option Agreement with its COO, Mr. Schnitzer ("2/17/14 Schnitzer Option"). Pursuant to the 2/7/14 Schnitzer Option, Mr. Schnitzer was granted the right to acquire 100,000 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 $.65 per share, for a term of five (5) years. The 2/7/14 Schnitzer Option vests annually over a consecutive three year period in the following respective increments: 33,334 Options on February 6, 2015 and 33,333 Options on each of the next two successive anniversaries thereof, subject to continued satisfactory employment with the Company prior to and upon exercise. Once vested, the Options are immediately exercisable. The transaction was valued at $61,489, which was estimated using the Black-Scholes option pricing model and will be expensed over the requisite vesting period.

(e) On February 7, 2014, the Company entered into a Stock Bonus Agreement with Mr. Schnitzer ("Schnitzer Stock Bonus"). Pursuant to the Schnitzer Stock Bonus, Mr. Schnitzer was granted 100,000 shares of the Company's common stock, $0.01 par value per share ("Bonus Shares"). 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. The Bonus Shares vest 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. Once vested, such Bonus Shares are freely transferable. The transaction was valued at $65,000 (calculated by multiplying the 100,000 shares by the $.65 closing price of the common stock on the date of grant) and is being expensed over the requisite service period on the respective vesting dates.

(f) On April 28, 2014, the Company granted an aggregate of 400,000 five-year stock options to four non-employee directors, consisting of Jay C. Nadel, Arthur J. Gregg, Augustus J. Larson, and Howard L. Brown, each for 100,000 shares of 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 $0.42 per share. Each of the foregoing stock options vest over a period of two (2) years at the rate of 50,000 options on April 30, 2015 and 50,000 options on April 30, 2016, and are exercisable after one (1) year from each respective vesting date. All stock options automatically vest and are exercisable upon a change in control. The transactions were valued in the aggregate at $155,027, which was estimated using the Black-Scholes option pricing model and will be expensed over the requisite vesting period.

(g) On April 28, 2014, the Company granted an aggregate of 1,025,000 five-year stock options to eight key employees, including the executive officers, consisting of Douglas J. Kramer, Michael T. Adams, Harvey L. Schnitzer, and Charles A. Zajaczkowski, of which 350,000 options were for Mr. Kramer, 150,000 options each were for Mr. Adams and Mr. Schnitzer, and 100,000 options were for Mr. Zajaczkowski, each for 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 $0.42 per share. Each of the foregoing stock options vest at the rate of 33 and 1/3 percent at December 31, 2014, December 31, 2015, and December 31, 2016, and are exercisable upon vesting. All stock options automatically vest upon a change in control. The transactions were valued at in the aggregate at $319,743, which was estimated using the Black-Scholes option pricing model and will be expensed over the requisite vesting period.

(h) On May 14, 2014, the Company granted five-year stock options to Richard J. Kurtz, Chairman of the Board and principal stockholder, for an aggregate of 400,000 shares of the Company's common stock, par value $0.01 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 $0.54 per share. The foregoing stock options vest over a period of two (2) years at the rate of 200,000 options on May 14, 2015 and May 14, 2016, respectfully, and once vested, are immediately exercisable. Upon commencement of a change in control, all unvested stock options automatically vest. The transaction was valued at $199,306, which was estimated using the Black-Scholes option pricing model and will be expensed over the requisite vesting period.

(i) On October 14, 2014, the Company granted Douglas J. Kramer, CEO and President, the right to acquire 1,150,000 shares of the Company's common stock, $0.01 par value per share, at an exercise price per share equal to the fair market value of a share of the Company's common stock on the date of grant, determined based on the per share closing price on such date, or $.425 per share, which options were immediately vested and exercisable at the time of grant ("10/14/15 Kramer Options"). The 10/14/15 Kramer Options were granted as partial replacement for 2,000,000 stock options were granted on July 12, 2005 which expired July 12, 2013 (the "7/12/15 Kramer Prior Expired Options"). The 7/12/15 Kramer Prior Expired Options were inadvertently extended to December 31, 2015, however, due to the 8 year life limitation, they were deemed canceled at the end of 8 years. The Company also undertook to grant the additional 850,000 stock options (to make up for the total 2,000,000 stock options) in January 2015 since the equity Incentive Plan only permits the grant of a total of 2,000,000 stock options during any calendar year (and Mr. Kramer was previously granted 850,000 stock options during the 2014 year for other incentives). The transaction was valued at $199,683, which was estimated using the Black-Scholes option pricing model and expensed on date of grant.

Note 12. Related Party Transactions - continued.

(j) On November 14, 2014, the Company and Enhanced Jobs and Enhanced Capital entered an amendment, effective August 31, 2014, to the Note Purchase Agreement dated December 10, 2013, as amended, between the Company and Enhanced Jobs for Texas Fund, LLC and Enhanced Credit Supported Loan Fund, LP (the "New Enhanced Note"), which amended the definition of FCCR to 1.0 to 1.0 and certain the EBITDA requirements, to enable the Company to regain compliance with its FCCR and EBITDA requirements at the time under the New Enhanced Note, and changed the PIK interest rate from 3.75% to 4.25% ("Second Enhanced Amendment"). ***Refer to*** Item (k) below for more information.

(k) 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 the Second Enhanced Note 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 11/14/14 Kurtz Note is subordinated to the Loan Agreement and the New Enhanced Note. ***See also*** Item (j) above.

(l) 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 financial 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 the Twelfth Amendment. ***Refer to*** Note 19 – Subsequent Events, Item (d) below for more information.

(m) On November 26, 2014, the Company entered into a new three year Executive Employment Agreement with Michael T. Adams, its CGO, EVP, and Corporate Secretary ("Adams Employment Agreement"). Pursuant to the terms and conditions of the Adams Employment Agreement, Mr. Adams is entitled to: (i) annual base salary of $180,000; (ii) auto allowance of $750 per month; (iii) non-discretionary annual bonus of $5,000; (iv) annual bonus equal to 25% of his annual base salary if Company achieves its budgeted earnings before interest, taxes, depreciation, amortization, and share based compensation ("Adjusted EBITDA") for the Company's fiscal year, which may be increased to 30% and 35% if Company achieves 110% and 120% of its budgeted Adjusted EBITDA, respectively, or more than 35% if the Company achieves greater than 120% of its budgeted Adjusted EBITDA in the CEO's discretion subject to review and approval by the Compensation Committee, in its discretion; (v) paid medical, dental, life, vision, and disability insurance; and (vi) a Transaction Bonus equal to 1½% upon a change in control of the Company.

(n) On November 26, 2014, the Company granted replacement stock options to Mr. Adams, for the right to acquire 80,000 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 $.38 per share, which options were immediately vested and exercisable at the time of grant and expire July 12, 2017. The foregoing stock options were granted as replacement for 80,000 stock options granted on July 12, 2005 which expired July 12, 2013 (the "Prior Expired Options"). The Prior Expired Options were inadvertently extended to July 12, 2017, however, due to the 8 year life limitation, they were deemed canceled at the end of 8 years, or on July 12, 2013. The transaction was valued at $24,326, which was estimated using the Black-Scholes option pricing model and expensed on date of grant.

(o) 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 a promissory note dated April 16, 2012 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. The shares of Common Stock sold to Mr. Kurtz were exempt from the registration requirements of the Securities Act of 1933, as amended, in reliance upon Section 4(a)(2) of the Securities Act of 1933, as amended, and Rule 506 promulgated thereunder. Mr. Kurtz was an accredited investor (as defined by Rule 501 under the Securities Act of 1933, as amended) at the time of the sale.

(p) During 2014, the Company vested an aggregate of 1,224,763 shares of restricted common stock, par value $.01 per share, to the Chairman of the Board and majority stockholder in connection with his personal guarantees related to financings with Enhanced Capital for the benefit of the Company, which transactions were valued and recorded in the aggregate at $734,858, and classified as interest expense – related party.

(q) During 2014, the Company vested an aggregate of 347,972 shares, including anti-dilution issuances, of restricted common stock, par value $.01 per share, to a director for advisory and consulting services, which transactions were valued and recorded in the aggregate at $214,113.

(r) During 2014, the Company accrued an aggregate of $70,752 for interest on two Notes Payable – Related Party, of which $67,579 related to a $1,300,000 promissory note with the Chairman of the Board and majority stockholder, bearing interest at 5% per annum, which was paid via a debt conversion for common stock on December 2, 2013 (***Refer to*** Item (o) above), and $3,173 related to a $250,000 promissory note with the Chairman of the Board, bearing interest at 8% per annum, which matures June 10, 2017 (***Refer to*** Item (k) above).

(s) During 2014, the Company vested the remaining 160,000 shares of the restricted common stock under the Non-Employee Director Share Based Compensation Program, of which 100,000 shares were for Mr. Nadel, and 20,000 shares were for Mr. Gregg, Mr. Brown, and Mr. Larson, respectively, which transactions were valued and recorded in the aggregate at $104,000. ***See also*** Note 17 – Share–Based Payment Arrangements, *Director Plan*, for more information.

***See also* Note 19 – Subsequent Events, Items (a), (b), (c), (e), and (f) for more information.**

Note 13. Income Taxes.

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

	2014	**2013**
Current:		
Federal	$ —	$ —
State	29,304	22,206
Total Current	29,304	22,206
Deferred:		
Federal	—	—
State	—	—
Total Deferred	—	—
Total Tax Provision	$ 29,304	$ 22,206

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

	2014	**2013**
Federal Income Tax Expense/(Benefit)	$ (1,244,723)	$ (670,155)
State Income Tax	29,304	22,206
Nondeductible Expenses	36,920	46,240
Prior Year Adjustments	(597,810)	8,678
Change in Valuation Allowance	1,805,613	615,237
Total Tax Provision	$ 29,304	$ 22,206

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:	**2014**	**2013**
Net Operating Loss Carry-Forward	$ 72,198,767	$ 66,888,140
Statutory Tax Rate	34%	34%
Total Deferred Tax Assets	24,547,581	22,741,968
Valuation Allowance for Deferred Tax Assets	(24,547,581)	(22,741,968)
Net Deferred Taxes	$ —	$ —

At December 31, 2014, the Company had available, net operating loss carry-forwards of approximately $24,600,000 for Federal income tax purposes. 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. The loss carry-forwards, if not used, will expire as follows: $6,022,543 in 2018, $2,528,950 in 2019, $4,557,566 in 2020, $7,870,612 in 2021, $10,869,699 in 2022, $9,811,811 in 2023, $4,244,336 in 2024, $3,280,473 in 2025, $2,359,786 in 2026, $3,629,828 in 2027, $2,117,913 in 2028, $2,547,714 in 2029, $2,198,439 in 2031, $3,038,952 in 2032, $1,437,631 in 2033, and $3,127,535 in 2034.

Note 14. 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:

2015	**2016**	**2017**
$ 374,894	$ 408,719	$ 183,219

Rent expense for the years ended December 31, 2014 and 2013 was $116,887 and $204,907, 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 $700,000 in legal fees for the defense of the lawsuit. The final outcome of this litigation cannot be determined at this time.

Note 14. Commitments and Contingencies - continued.

Legal Proceedings - continued.

(b) Great American E & S Insurance Company, Plaintiff v. Lapolla Industries, Inc., Defendant

Great American E & S Insurance Company filed a Petition for Declaratory Judgment against *Lapolla Industries, Inc.* in the Judicial District Court of Harris County, Texas on July 13, 2013 and served on or about July 21, 2013. The petition seeks a declaratory Judgment that Plaintiff has no duty to defend or indemnify Lapolla under a general liability policy issued to Lapolla with respect to, among other things, contamination claims asserted in the Gibson Litigation. The Gibson Litigation alleges, among other things, that Lapolla's proprietary spray polyurethane foam is a defective and toxic substance creating irritants which cause damages to the persons in the homes in which the spray polyurethane foam is applied. In addition to describing the terms of the insurance policy, Plaintiff alleges that the insurance of Lapolla under the policy excludes and does not apply to, among other things, damages from pollution, pre-existing damages known to Lapolla for products manufactured, distributed, or sold by Lapolla, or any damage to Lapolla's product, or repair of Lapolla's product, and seeks reasonable attorney fees. On January 9, 2014, the trial court denied Plaintiff's Motion for Final Summary Judgment, which sought a final declaration that Plaintiff had no duty to defend in the Gibson Litigation. On March 4, 2015, the court granted a final summary judgment in favor of Lapolla, finding that Great American had a duty to defend Lapolla in the federal Gibson case (which was dismissed and refiled as a state case – see (c) below), and awarded approximately $40,000 in attorney's fees to Lapolla and contingent attorney's fees in the event of an appeal. The outcome of this litigation cannot be determined at this time.

(c) 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 Gibson's re-filed their claims, which were previously pending in the federal district court in the Middle District of Florida, against Lapolla Industries, Inc. and Air Tight Insulation of Mid-Florida, LLC and two new defendants, Southern Foam Insulation, Inc. and Tailored Chemical Products, Inc. The complaint was filed in the Circuit Court of the 18th Judicial Circuit in and for Seminole County, Florida and alleges, 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 seek, among other things: actual, compensatory, statutory, and punitive damages; injunctive relief; medical monitoring, and attorney fees. 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) Michael Commaroto, Kimberly S. Commaroto, and Gretchen Schlegel v. Pasquale Guzzo a/k/a Pasqualino Guzzo PDB Home Improvements, Perfect Wall, LLC, and Jozsef Finta

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.

(e) Evanston Insurance Company v. Lapolla Industries, Inc.

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 Great American had no duty to defend. The Court signed a final judgment on March 18, 2015. The final outcome, including any appeals, of this litigation cannot be determined at this time.

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

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 alleges, 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. Grecos seek, among other things: general, compensatory, and punitive damages; restitution, and attorney fees, costs, and disbursements. 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.

Note 14. Commitments and Contingencies - continued.

Legal Proceedings - continued.

(g) V*arious 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 15. 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, 2014 and 2013 as their effect would be anti-dilutive. The computation of the Company's basic and diluted earnings per share for the years ended:

		2014		2013
Net loss available to common shareholders (A)	$	(3,660,949)	$	(1,971,045)
Weighted average common shares outstanding (B)		115,359,714		111,449,320
Dilutive effect of employee equity incentive plans		880,000		4,740,000
Weighted average common shares outstanding, assuming dilution (C)		116,066,620		111,870,040
Basic earnings per common share (A)/(B)	$	(0.03)	$	(0.02)
Diluted earnings per common share (A)/(C)	$	(0.03)	$	(0.02)

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 had an exercise price greater than the market value of the common share as of the period then ended ("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"). For 2013, a total of 4,740,000 shares of common stock were excluded from the calculation of diluted earnings per common share, all of which shares were for outstanding, vested, and exercisable in-the-money stock options. 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.

Note 16. Securities Transactions.

(a) During 2014, the Company issued an aggregate of 347,972 shares of restricted common stock, par value $.01, valued and recorded in the aggregate at $214,113 for advisory and consulting services.

(b) During 2014, 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 classified as interest expense – related party pursuant to a guaranty made in connection with a financing.

(c) During 2014, the Company issued 50,000 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 $25,000.

(d) During 2014, the Company issued 3,908,453 shares of common stock, par value $.01 per share, in exchange for the cancellation of $1,485,212 of debt.

(e) During 2014, the Company issued an aggregate of 160,000 shares of restricted common stock, par value $.01, valued and recorded in the aggregate at $104,000 for continuing Board of Directors services under the Director Plan.

Note 17. 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, 2014, the Company had four share based compensation plans, including the Equity Incentive Plan (“Equity Plan”), Non-Employee Director Restricted Stock Plan ("Director Plan"), Advisory and Consulting Agreement Plan (“Advisor Plan”), and Guaranty Agreement Plans (“Guaranty Plans”) in effect. Compensation cost charged against income for all compensation and incentive plans for 2014 and 2013 was $1,826,051 and $1,998,426, 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 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. For 2013, there were no option or stock awards granted. As of December 31, 2014, total compensation cost related to non-vested stock options was $2,605,910, which is expected to be recognized over 2.42 years after December 31, 2014 (29 months on a weighted-average basis). As of December 31, 2013, total compensation cost related to non-vested stock options was $-0-. There were 2,622,500 shares issuable and available for grant at December 31, 2014. Stock option activity under the Company’s Equity Plan as of the years ended December 31, is summarized below:

Option Awards

	2014		2013	
Options	**Number of Options**	**Weighted-Average Exercise Price**	**Number of Options**	**Weighted-Average Exercise Price**
Outstanding-Beginning of Year	5,040,000	$ 0.60	5,540,000	$ 0.61
Granted	5,317,500	0.45	—	—
Exercised	—	—	—	—
Canceled, Expired or Forfeited	(3,080,000)	0.61	(500,000)	0.74
Outstanding - End of Year	7,277,500	0.47	5,040,000	0.60
Exercisable - End of Year	4,415,000	$ 0.47	4,740,000	$ 0.61

The weighted-average grant-date fair value of option awards granted during 2014 and 2013 was $196,662 and $-0-, respectively.

The following table summarizes options outstanding at:

	Outstanding			Exercisable		Outstanding			Exercisable	
Range of Exercise Prices	**Number Outstanding at 12/31/14**	**Weighted Average Remaining Contractual Life (Years)**	**Weighted Average Exercise Price**	**Number Exercisable at 12/31/14**	**Weighted Average Exercise Price**	**Number Outstanding at 12/31/13**	**Weighted Average Remaining Contractual Life (Years)**	**Weighted Average Exercise Price**	**Number Exercisable at 12/31/13**	**Weighted Average Exercise Price**
$.35 - $.59	4,417,500	5.20	$ 0.41	1,955,000	$ 0.41	650,000	1.69	$ 0.36	350,000	$ 0.36
$.60 - $.64	2,260,000	0.46	$ 0.53	1,960,000	$ 0.56	2,310,000	2.40	$ 0.60	2,310,000	$ 0.60
$.65 - $.80	600,000	4.08	$ 0.71	—	$ —	2,080,000	1.30	$ 0.67	2,080,000	$ 0.67

Stock Awards

Nonvested Awards	2014 Number of Shares	2014 Weighted-Average Grant-Date Fair Value	2013 Number of Shares	2013 Weighted-Average Grant-Date Fair Value
Nonvested - Beginning of Year	—	$ —	—	$ —
Granted	100,000	65,000	—	—
Vested	(50,000)	(32,500)	—	—
Canceled, Expired or Forfeited	—	—	—	—
Nonvested - End of Year	50,000	$ 32,500	—	$ —

Note 17. Share–Based Payment Arrangements - continued.

Warrants

The Company did not issue any warrants during 2014 or 2013. During 2007 and 2008, the Company issued an aggregate of 2,500,000 detachable warrants in connection with mezzanine style credit instruments, which were modified and re-priced from time to time based on anti-dilution down round price protections, all of which expired in 2013. As a result, there were no warrants outstanding as of the years ended December 31, 2014 and 2013, respectively.

Director Plan

The Company's Board of Directors adopted a Director Plan, which is not shareholder-approved, that permits the grant of up to 800,000 shares of restricted common stock to non-employee directors in 2010. Effective July 1, 2010, the Board granted 800,000 shares of restricted common stock to four non-employee directors, of which 100,000 was granted to Mr. Gregg, Mr. Brown, and Mr. Larson, and 500,000 was granted to Mr. Nadel. All stock grants vest over a four-and-a-half year period, with one-fifth vesting at the end of each year beginning in 2010, for serving on the Board of Directors. The Company does not consider the shares of restricted common stock granted under the Director Plan as outstanding at the time of grant due to vesting restrictions. The shares of restricted common stock when granted are held in reserve by the Company until such time that they are earned and vested, after which the Company issues the vested portion of the shares and delivers them to the respective directors. At December 31, 2014 and 2013, there were -0- and 160,000 shares of restricted common stock unvested, respectively. The compensation cost charged against income for the Director Plan in 2014 and 2013 was $104,000 and $104,000, respectively. The fair value of each award was calculated by taking the closing price of the Company's common stock on the effective date of the grant, which was $.65 per share, for an aggregate amount of $520,000. The Company is using the straight-line method over the requisite service period for attribution of compensation expense. The expected term of the awards is the last day on which the last increment of stock is scheduled to vest, or December 31, 2014. A summary of awards activity under the Director Plan at December 31, 2014 and 2013, and changes during the year then ended, are as follows:

	2014		2013	
Nonvested Awards	**Number of Shares**	**Weighted-Average Grant-Date Fair Value**	**Number of Shares**	**Weighted-Average Grant-Date Fair Value**
Nonvested - Beginning of Year	160,000	$ 104,000	320,000	$ 208,000
Granted	—	—	—	—
Vested	(160,000)	(104,000)	(160,000)	(104,000)
Canceled, Expired or Forfeited	—	—	—	—
Nonvested - End of Year	—	$ —	160,000	$ 104,000

Advisor Plan

The Company and a non-employee director, Jay C. Nadel, entered into an advisory and consultant agreement for 3 years on February 22, 2011 ("Nadel Agreement"). The Company granted 5,000,000 shares of restricted common stock, par value $.01, which vest monthly over 3 years. The grant-date fair value 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. The Advisor Plan includes anti-dilution aspects. 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 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. For 2013, anti-dilution transactions occurred, which required the Company to grant and vest an additional 272,969 shares of restricted common stock. The grant-date fair value was calculated by taking the closing price of the Company's common stock on the anti-dilution dates for a weighted-average of approximately $0.35 per share and multiplying it by the number of shares granted, equaling $96,560. A summary of awards activity under the Advisor Plan at December 31, 2014 and 2013, and changes during the years then ended, are as follows:

	2014		2013	
Nonvested Awards	**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	1,902,380	$ 1,084,352

Granted	110,733	63,893	272,969	96,560
Vested	(347,971)	(199,112)	(1,938,111)	(1,045,693)
Canceled, Expired or Forfeited	—	—	—	—
Nonvested - End of Year	—	$ —	237,238	$ 135,219

Note 17. Share–Based Payment Arrangements - continued.

Guaranty Plans

The Company made two separate grants of restricted common stock in connection with personal guarantees provided by the Chairman of the Board and majority stockholder to secure working capital on favorable terms and the Company's performance under financing instruments. ***Refer to*** Note 11 – Financing Instruments, Items (b)(i) – New Enhanced Note and (b)(iii) – Prior Enhanced Note for information on the financial instruments.

New Guaranty Plan

The Company granted 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 New Enhanced Note ("New Guaranty Shares"). The New 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 New Guaranty Shares are being recorded as interest expense – related party, thereby increasing the effective interest rate on the New Enhanced Note. A summary of grant activity under the New Guaranty Plan at December 31, 2014 and 2013, and changes during the years then ended, are:

	2014		2013	
Nonvested Awards	**Number of Shares**	**Weighted-Average Grant-Date Fair Value**	**Number of Shares**	**Weighted-Average Grant-Date Fair Value**
Nonvested - Beginning of Year	3,607,179	$ 2,164,307	—	$ —
Granted	—	—	3,681,000	2,208,600
Vested	(1,224,763)	(734,858)	(73,821)	(44,293)
Canceled, Expired or Forfeited	—	—	—	—
Nonvested - End of Year	2,382,416	$ 1,429,449	3,607,179	$ 2,164,307

As of December 31, 2014, there is $1,367,037 of total unrecognized compensation cost related to nonvested interest expense – related party arrangement granted under the New Guaranty Plan. The cost is expected to be recognized over a weighted-average period of 1.95 years.

Prior Guaranty Plan

The Company previously granted 5,000,000 shares of restricted common stock, par value $.01, which shares were vesting monthly on a pro rata basis over the two year term of the Prior Enhanced Note ("Prior Guaranty Shares"). The Prior Guaranty Shares were valued at $.27 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 June 29, 2012, for an aggregate amount of $1,350,000. The Prior Guaranty Shares were recorded as interest expense – related party, thereby increasing the effective interest rate on the Prior Enhanced Note. As a result of the payoff of the Prior Enhanced Notes, the Company canceled an aggregate of 1,376,712 unvested shares (with an unrecorded valued of $371,801) which shares were previously issued in connection with the personal guaranty required for the Prior Enhanced Note that was paid off earlier than the maturity date of June 29, 2014. A summary of grant activity under the Prior Guaranty Plan at December 31, 2014 and 2013, and changes during the years then ended, are:

	2014		2013	
Nonvested Awards	**Number of Shares**	**Weighted-Average Grant-Date Fair Value**	**Number of Shares**	**Weighted-Average Grant-Date Fair Value**
Nonvested - Beginning of Year	—	$ —	3,726,027	$ 1,006,116
Granted	—	—	—	—
Vested	—	—	(2,349,315)	(634,315)
Canceled, Expired or Forfeited	—	—	(1,376,712)	(371,801)
Nonvested - End of Year	—	$ —	—	$ —

Guaranty Plans Summary

The following table summarizes grants activity under all Guaranty Plans at December 31, 2014 and 2013, and changes during the years then ended:

Nonvested Awards	2014 Number of Shares	2014 Weighted-Average Grant-Date Fair Value	2013 Number of Shares	2013 Weighted-Average Grant-Date Fair Value
Nonvested - Beginning of Year	3,607,179	$2,164,307	3,726,027	$1,006,116
Granted	—	—	3,681,000	2,208,600
Vested	(1,224,763)	(734,858)	(2,423,136)	(678,608)
Canceled, Expired or Forfeited	—	—	(1,376,712)	(371,801)
Nonvested - End of Year	2,382,416	$ 1,429,449	3,607,179	$ 2,164,307

Note 18. 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.

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.

Spray Rigs. *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.

The AirTight Division. *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:

Segments

2014	Foam	Coatings	Totals
Sales	$ 62,477,449	$ 9,587,566	$ 72,065,015
Depreciation	129,752	19,911	149,664
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

2013	Foam	Coatings	Totals
Sales	$ 61,080,736	$ 10,096,235	$ 71,176,971
Depreciation	134,499	22,232	156,731
Amortization of Other Intangible Assets	327,800	54,183	381,983
Interest Expense	795,153	131,433	926,586
Segment Profit	2,293,601	1,456,975	3,750,576
Segment Assets [(1)]	17,917,746	3,743,801	21,661,547
Expenditures for Segment Assets	$ 101,786	$ 16,825	$ 118,611

Note 18. Business Segments and Geographic Area Information – continued.

Business Segments – continued.

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

Segments Profit

	2014	2013
Total Profit for Reportable Segments	$ 2,206,769	$ 3,750,576
Unallocated Amounts:		
Corporate Expenses	(5,867,718)	(5,721,621)
Loss Before Income Taxes	$ (3,660,949)	$ (1,971,045)

Assets	2014	2013
Total Assets for Reportable Segments [(1)]	$ 22,142,505	$ 21,661,547
Other Unallocated Amounts [(2)]	355,550	392,612
Total	$ 22,498,055	$ 22,054,160

Notes:

(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

	United States	Europe	Middle East	Rest of World	Total
2014					
Sales	$ 69,746,725	$ 665,365	$ 3,505	$ 1,649,420	$ 72,065,015
Long-Lived Assets	$ 21,661,547	$ —	$ —	$ —	$ 21,661,547
2013					
Sales	$ 61,417,293	$ 1,741,485	$ 5,706,558	$ 2,311,635	$ 71,176,971
Long-Lived Assets	$ 21,661,547	$ —	$ —	$ —	$ 21,661,547

Note 19. Subsequent Events.

(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 the change in control bonus in the event of voluntary termination 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, determine 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.

Note 19. Subsequent Events – continued.

(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 foregoing 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 8 year life limitation under the Company's Equity Incentive Plan, as amended (the "Equity Plan"), they were deemed canceled at the end of 8 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 date of grant.

(c) On January 16, 2015, the Company granted an eight-year stock option to Michael T. Adams, CGO, EVP, and Corporate Secretary, for 300,000 shares of the Company's common stock, $0.01 par value per share, at an exercise price per share equal to the fair market value of a share of the Company's common stock on date of grant, determined based on the closing price on such date, or $0.325 per share ("1/16/15 Adams Option"). The foregoing stock options 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. The transaction was valued at $93,536, which was estimated using the Black-Scholes option pricing model and will be expensed over the requisite vesting period.

(d) On January 23, 2015, the Company and Bank of America, N.A. entered into a Twelfth Amendment (the "Twelfth Amendment") to that certain Loan and Security Agreement dated August 31, 2010, as amended from time to time (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 1, 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) Twelfth Amendment 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 (i) below for more information on the Subordinated Debt.

(e) On January 21, 2015, the Company borrowed $250,000 from the Chairman of the Board and majority stockholder as a condition precedent to entering into the Twelfth Amendment and entered into a promissory note (the "1/21/15 Kurtz Note"). Pursuant the 1/21/15 Kurtz Note, the Company agreed to pay 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 New Enhanced Note. ***See also*** Item (h) above.

(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 date of grant, determined based on the closing price on such date, or $0.41 per share ("3/23/15 Schnitzer Option"). The foregoing stock options vest 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) The Company has evaluated subsequent events through the date of this report.