HOMASOTE®

2015 Annual Report
Our 106th Year

About Us

Homasote Company is America's leading green building products manufacturer. All our base products are manufactured from Homasote® board which is made from 98% recycled paper fiber (high post-consumer content). The remaining 2% is comprised of environmentally-friendly materials that give our products their strength, water resistance and mold/mildew resistance. They contain no added urea formaldehyde, phenolics or resins to outgas.

We categorize our served markets into two sales divisions. The larger is our millboard division that supplies a variety of products including sound insulation in walls and floors (440 SOUNDBARRIER®, COMFORT-BASE®), roof decking (HOMASOTE EASY-PLY®, FIRESTALL®), floor decking (HOMASOTE 4-WAY® floor decking), concrete expansion joint and forming board (HOMEX®), finished interior panels (NovaCork, DesignWall, PINnacle™, Burlap panels), and ice arena coverings (ICE DECK®).

Our industrial division is the smaller of the two sales divisions and serves the glass, metal and paper industries with a variety of shapes and coated strips for product separation and breakage reduction, along with custom designed packaging that protects customers' products during interplant transport (PAK-LINE®, STAPLE-SAFE®). Homasote products are used in everything from finished caskets to blocking for refrigerator doors during shipping.

Whether you need sound control for a home theatre installation or a joint filler for your driveway that contains no harmful bituminous material, you can count on Homasote to deliver time tested performance while keeping an eye on the planet. Homasote, Sensible. Sound. Solutions.

440 SoundBarrier®

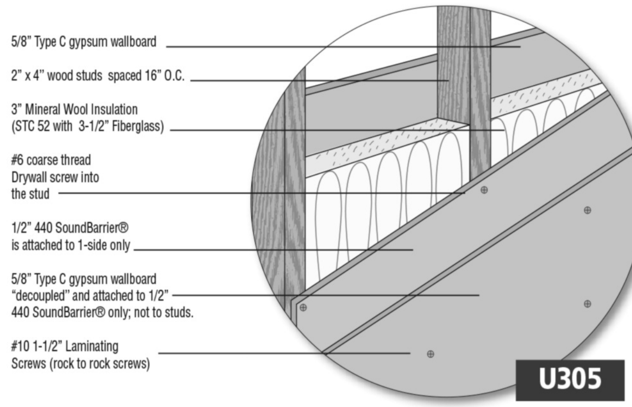
International Building Code (IBC) Calls for minimum Sound Transmission Class (STC) and Insulation Impact Class (IIC) Ratings of 50 • **UL®-listed wall and floor assemblies** • **ICC-ES ESR-1374**

Less Material, Less Labor, Better Results!

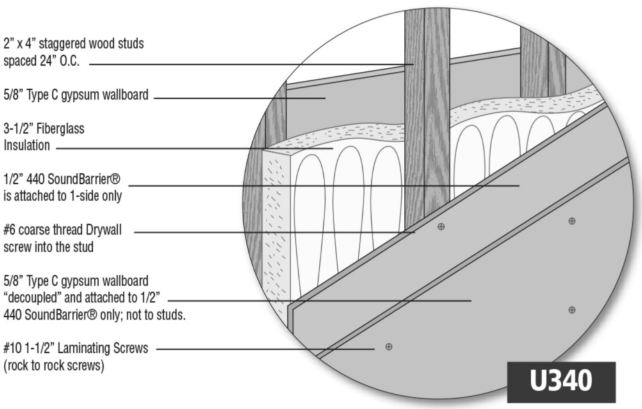
Superior Sound Control For Both Metal and Wood Stud Walls In:

- Multi-family residential
- Home theatres
- Hotels
- Dormitories

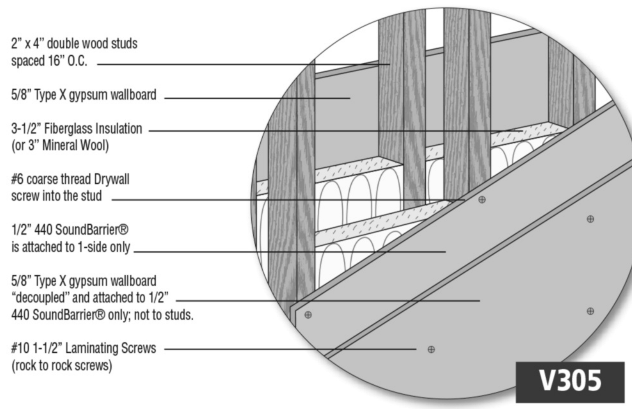
STC 53



STC 53



STC 60



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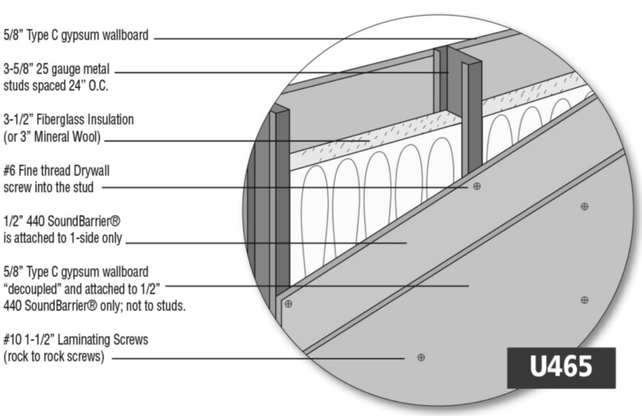

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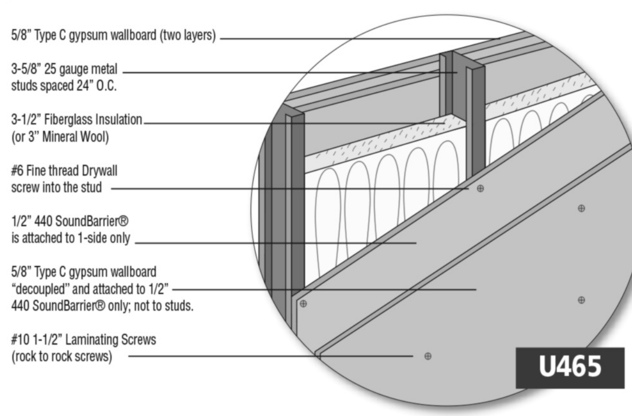


HOMASOTE®

Sensible. Sound. Solutions.

MADE IN THE USA SINCE 1909 • CHPS SCHOOLS MEMBER • MEMBER ICC • FSC® C102908 The mark of responsible forestry

www.homasote.com

To Shareholders and Employees

Herewith is presented the Annual Report of your Company for the year ended December 31, 2015.

The year 2015 was not an easy one for us. Even though we achieved a large sales order backlog, we were unable to fully attain our goals due to a large recall of product made during the first six months of the year and various machinery breakdowns, which unfortunately occurred during the period of replacement of recalled product. Along with the replacement of poor quality product, we were forced to pay for the removal of inferior product that had already been installed. Various capital projects were put on hold to enable us to cover the cash outlay for the recall. In particular, our restart of the cogen facility, the preheating of the Coe dryer air intake and the plant energy monitoring system have yet to be completed. Even with the recall, bookings and backlog continued to grow, and, as of this date, we continue to run mostly 24/7 to satisfy orders.

Sales

The millboard sales group continued our program of presenting continuing education courses to architects in large groups throughout the U.S. During 2015, we presented to 2199 architects in 62 cities and will continue our stated goal to be recognized as the manufacturer of the best products for noise reduction in construction today. Our industrial department has started a new marketing strategy on the West Coast. Up until now, freight has been a major deterrent, but with two of our key millboard distributors on board to ship units of Pak-Line product along with their millboard stock, costs can be cut considerably. We have found great acceptance for Pak-Line products on the West Coast and this should show in 2016 sales.

Year In Review

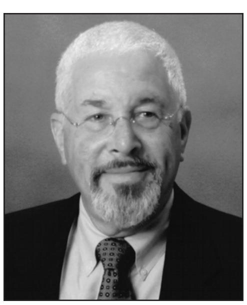
Millboard sales results were as follows: millboard products, including our flagship 440 SoundBarrier, decreased by 4%. Homex expansion joint and forming boards increased 15%. Nova pre-finished interior panels increased by 7%. Industrial (Pak-Line Division) sales decreased by 9%.

Net sales for 2015 were $19,409,538 versus 2014 sales of $20,410,058, a decrease of $1,000,520 or 5%. Net income for the year was $234,651, resulting in diluted earnings per common share of $0.66. The 2014 net income was $631,772. Working capital was $(3.9) million, a decline of $0.2 million from the previous year.

We wish to acknowledge and express our appreciation for the many years of loyal effort and cooperation given to Homasote Company by our retirees in 2015. Our retirees include Mr. Benedict Genovario, Ms. Marcia Kenney and Ms. Edna Mae Vinyard.

We wish to thank our loyal shareholders, employees, directors, officers, customers and suppliers for their continued support and we value each of you.

Homasote Management Team



Warren L. Flicker
Chairman of the Board,
Chief Executive Officer

Ronald D. Fasano
Chief Financial Officer
& Treasurer

Peter Tindall
Vice President,
Operations

Five Year Highlights

	2015	2014	2013	2012	2011
Net sales	$ 19,409,538	$ 20,410,058	$ 20,713,544	$ 19,529,396	$ 19,283,283
Depreciation and amortization	$ 832,622	$ 790,167	$ 727,585	$ 786,131	$ 797,174
Net income (loss)	$ 234,651	$ 631,772	$ 770,809	$ 824,508	$ (944,737)
Common shares outstanding (weighted average):					
Basic	357,187	356,007	354,707	353,441	351,732
Diluted	357,582	357,132	356,732	356,532	351,732
Net earnings (loss) per common share:					
Basic	$ 0.66	$ 1.78	$ 2.17	$ 2.33	$ (2.69)
Diluted	$ 0.66	$ 1.77	$ 2.16	$ 2.31	$ (2.69)
Dividends – declared and paid	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Dividends per share	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Working capital	$ (3,948,036)	$ (3,794,946)	$ (3,674,045)	$ (1,808,224)	$ (3,057,749)
Working capital ratio	.4:1	.5:1	.5:1	.7:1	.5:1
Capital expenditures	$ 824,710	$ 532,035	$ 2,243,964	$ 4,496,945	$ 256,948
Total assets	$ 11,940,797	$ 12,393,983	$ 12,063,435	$ 11,177,633	$ 6,320,228
Long-term debt, excluding current portion	$ 4,479,339	$ 4,404,910	$ 5,246,706	$ 6,129,686	$ 1,800,000
Stockholders' equity	$ (4,578,184)	$ (3,897,190)	$ (3,149,662)	$ (5,252,931)	$ (5,804,190)
Common shares outstanding	358,159	357,099	355,799	354,499	353,199
Per share book value of common stock	$ (12.78)	$ (10.91)	$ (8.85)	$ (14.82)	$ (16.43)

Two Year Dividend and Stock Price Comparison

CASH DIVIDENDS

Quarterly cash dividends for the last two years were as follows:

Quarter	2015	2014
First	$ 0.00	$ 0.00
Second	0.00	0.00
Third	0.00	0.00
Fourth	0.00	0.00
	$ 0.00	$ 0.00

STOCK PRICES

Quarterly stock prices for the Company's common stock for the last two years were as follows:

	2015		2014	
Quarter	High	Low	High	Low
First	$ 5.25	$ 4.05	$ 4.10	$ 2.25
Second	$ 4.50	$ 3.80	$ 4.50	$ 2.50
Third	$ 4.50	$ 3.60	$ 6.10	$ 2.81
Fourth	$ 6.00	$ 3.60	$14.00	$ 4.25

The common stock of the Company is traded over-the-counter.

The number of Stockholders of record of the Company at December 31, 2015 and 2014 is 164 and 158, respectively.

Profile Homasote Company manufactures building and industrial products used in various construction and manufacturing industries.

Statements of Income

Years Ended December 31

	2015	2014	2013
Net sales	$ 19,409,538	$ 20,410,058	$ 20,713,544
Cost of sales	13,574,474	14,795,784	14,960,652
Gross profit	5,835,064	5,614,274	5,752,892
Selling, general and administrative expenses	5,060,427	4,420,035	4,414,652
Operating income	774,637	1,194,239	1,338,240
Other income (expense):			
Interest expense	(549,464)	(576,326)	(591,143)
Other income	9,478	13,859	23,712
Income before income tax expense	234,651	631,772	770,809
Income tax expense	—	—	—
Net income	$ 234,651	$ 631,772	$ 770,809
Net earnings per common share:			
Basic	$ 0.66	$ 1.78	$ 2.17
Diluted	$ 0.66	$ 1.77	$ 2.16
Weighted average common shares outstanding:			
Basic	357,187	356,007	354,707
Diluted.	357,582	357,132	356,732

See accompanying notes to financial statements.

Statements of Comprehensive (Loss) Income

Years Ended December 31

	2015	2014	2013
Net income	$ 234,651	$ 631,772	$ 770,809
Other comprehensive (loss) income:			
Net actuarial (loss) gain of retirement benefit plans:			
Unrealized (loss) gain arising during the period	(974,809)	(1,295,410)	1,284,982
Amortization of actuarial gain (loss)	55,766	(86,404)	45,242
Total other comprehensive (loss) income	(919,043)	(1,381,814)	1,330,224
Comprehensive (loss) income	$ (684,392)	$ (750,042)	$ 2,101,033

See accompanying notes to financial statements.

Homasote Company

Balance Sheets

December 31

ASSETS	**2015**		**2014**	
Current Assets:				
Cash and cash equivalents	$ 38,089		$ 38,093	
Accounts receivable (net of allowance for doubtful accounts of $107,857 in 2015 and $46,000 in 2014)	1,087,880		1,457,970	
Inventories	1,838,015		1,550,772	
Prepaid expenses and other current assets	178,286		657,720	
Total Current Assets		$ 3,142,270		$ 3,704,555
Property, plant and equipment, net		8,667,919		8,633,859
Deferred income taxes		53,125		30,762
Other assets		77,483		24,807
Total Assets		$ 11,940,797		$ 12,393,983
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities:				
Short-term debt	$ 1,938,309		$ 1,950,356	
Current portion of long-term debt	1,049,347		947,588	
Accounts payable.	3,381,314		3,912,152	
Accrued expenses	584,336		540,405	
Current portion of obligations under benefit plans	137,000		149,000	
Total Current Liabilities		$ 7,090,306		$ 7,499,501
Long-term debt		4,479,339		4,404,910
Deferred income taxes		53,125		30,762
Obligations under benefit plans		4,016,759		3,476,548
Other liabilities		879,452		879,452
Total Liabilities.		16,518,981		16,291,173
Commitments and Contingencies				
Stockholders' Equity:				
Common stock, par value $0.20 per share; Authorized 1,500,000 shares; Issued 874,795 shares in 2015 and 872,595 shares in 2014	174,959		174,519	
Additional paid-in capital	950,787		947,829	
Retained earnings	5,654,867		5,420,216	
Accumulated other comprehensive loss	(3,847,968)		(2,928,925)	
	2,932,645		3,613,639	
Less cost of common shares in treasury, 515,196 shares in 2014 and 2013	7,510,829		7,510,829	
Total Stockholders' Equity.		(4,578,184)		(3,897,190)
Total Liabilities and Stockholders' Equity		$ 11,940,797		$ 12,393,983

See accompanying notes to financial statements.

Homasote Company

Statements of Changes in Stockholders' Equity

Years Ended December 31

	COMMON STOCK SHARES	PAR VALUE	ADDITIONAL PAID IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME	TREASURY STOCK	TOTAL STOCKHOLDERS' EQUITY
Balances at January 1, 2013	356,599	174,359	$943,239	$4,017,635	$(2,877,335)	$(7,510,829)	$(5,252,931)
Net income				770,809			770,809
Net change in unrecognized retirement benefit plans					1,330,224		1,330,224
Other comprehensive income							2,101,033
Share based compensation	400	80	2,156				2,236
Balances at December 31, 2013	356,999	$174,439	945,395	4,788,444	(1,547,111)	(7,510,829)	(3,149,662)
Net income				631,772			631,772
Net change in unrecognized retirement benefit plans					(1,381,814)		(1,381,814)
Other comprehensive loss							(750,042)
Share based compensation	400	80	2,434				2,514
Balances at December 31, 2014	357,399	174,519	947,829	5,420,216	(2,928,925)	(7,510,829)	(3,897,190)
Net income				234,651			234,651
Net change in unrecognized retirement benefit plans					(919,043)		(919,043)
Other comprehensive loss							(684,392)
Share based compensation	2,200	440	2,958				3,398
Balances at December 31, 2015	359,599	$174,959	$950,787	$5,654,867	$(3,847,968)	$(7,510,829)	$(4,578,184)

See accompanying notes to financial statements.

Homasote Company

Statements of Cash Flows

Years Ended December 31

	2015	2014	2013
Cash flows from operating activities:			
Net income	$ 234,651	$ 631,772	$ 770,809
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	832,622	790,167	727,585
Bad debt expense	102,805	—	12,500
Share based compensation expense	3,398	2,514	2,236
Amortization of retirement plans prior service cost and actuarial gain and loss	55,766	(86,404)	45,242
Changes in assets and liabilities:			
Decrease (increase) in accounts receivable, net	267,285	165,470	(248,851)
(Increase) decrease in inventories.	(287,243)	(225,622)	288,687
Decrease (increase) in prepaid expenses and other current assets	479,434	(520,663)	51,558
Increase in debt acquisition costs	(94,648)	—	—
(Decrease) increase in accounts payable	(530,838)	758,602	462,288
Increase (decrease) in accrued expenses	43,931	70,595	(169,153)
Decrease in other current liabilities	—	—	(151,528)
Decrease in obligations under benefit plans	(446,598)	(365,560)	(260,021)
Increase in other liabilities	—	298,604	47,435
Net cash from operating activities	660,565	1,519,475	1,578,787
Cash flows from investing activities:			
Capital expenditures	(824,710)	(532,035)	(2,243,964)
Net cash used in investing activities	(824,710)	(532,035)	(2,243,964)
Cash flows from financing activities:			
Net (repayment of) proceeds from issuance of short-term debt	(12,047)	(210,986)	348,145
Net proceeds from (repayment of) issuance of long-term debt	176,188	(777,188)	(197,488)
Net cash provided by (used in) financing activities	164,141	(988,174)	150,657
Net decrease in cash and cash equivalents	(4)	(734)	(514,520)
Cash and cash equivalents at beginning of year	38,093	38,827	553,347
Cash and cash equivalents at end of year	$ 38,089	$ 38,093	$ 38,827
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 549,464	$ 576,326	$ 591,143

See accompanying notes to financial statements.

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS: Homasote Company is in the business of manufacturing wood fiberboard products used in a variety of building material applications including sound insulation, thermal insulation, floor and roof decking and interior tack panels. The Company also manufactures an industrial packaging product line consisting primarily of glass, paper and metal separators. Sales in 2015 were distributed as follows: Building material wholesalers and contractors, approximately 58%; industrial manufacturers, approximately 42%; in 2014 building material wholesalers and contractors, approximately 56%; industrial manufacturers, approximately 44% and in 2013, building material wholesalers and contractors, approximately 57%; industrial manufacturers, approximately 43%. The Company's primary basic raw material, post-consumer wastepaper, is generally readily available from various regional suppliers.

CASH AND CASH EQUIVALENTS: The Company considers all highly liquid debt instruments purchased with a maturity of ninety days or less to be cash equivalents.

INVENTORY VALUATION: Inventories are valued at the lower of cost (first-in, first-out) or market.

PROPERTY, PLANT AND EQUIPMENT: Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is computed using the straight-line and various accelerated methods at rates adequate to depreciate the cost of applicable assets over their expected useful lives. Maintenance and repairs are charged to operations as incurred. Alterations and major overhauls which extend the lives or increase the capacity of plant assets are capitalized. The cost of assets retired or otherwise disposed of and the accumulated depreciation thereon is removed from the accounts with any gain or loss realized upon sale or disposal charged or credited to operations.

PRODUCT WARRANTIES: Product warranty costs are accrued when the covered products are delivered to the customer. Product warranty expense is recognized based on the terms of the product warranty and the related estimated costs, considering historical claims expense. Accrued warranty costs are reduced as these costs are incurred and as the warranty period expires. The table presents the changes in the Company's accrual for product warranties, which is included in accrued expenses, for the years ended December 31, 2015 and 2014.

	2015	2014
Balance at January 1	$ 28,000	$ 12,000
Accruals and adjustments for product warranties issued during the period	523,978	45,097
Settlements made during the period	(446,394)	(29,097)
Balance at December 31	$ 105,584	$ 28,000

REVENUE RECOGNITION: Revenue from product sales is recognized when the related goods are shipped and title and risk of loss pass to the buyer. The Company generally has no obligations after the product is shipped except for routine and customary warranties. Consequently, the point at which the Company recognizes revenue is subject to very little judgment and subjectivity.

NET EARNINGS PER SHARE: Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 260, *Earnings Per Share,* requires presentation of basic earnings per share and diluted earnings per share. Basic earnings per share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share gives effect to all dilutive potential common shares outstanding during the period.

BUSINESS AND CREDIT CONCENTRATIONS: Sales of the Company's products are dependent upon the economic conditions of the housing and manufacturing industries. Changes in these industries may significantly affect management's estimates and the Company's performance.

The Company's customers are located throughout the United States of America. Additionally, export sales, 60% to Canada and the balance to other countries, accounted for approximately 4% in the years ended December 31, 2015 and 2014, and 6%, in the year ended December 31, 2013, of the Company's sales. One customer accounted for 11% of the Company's sales in 2015, 12% in 2014 and 10% in 2013. Additionally, one customer accounted for 8% of the accounts receivable balance at December 31, 2015 and 10% at December 31, 2014.

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ACCOUNTS RECEIVABLE: The Company records accounts receivable at net realizable value. This value includes an appropriate allowance for uncollectible accounts to reflect any loss anticipated on the accounts receivable balances. The Company calculates this allowance based on the history of write-offs, level of past-due accounts based on the contractual terms of the receivables, and the Company's relationships with and economic status of its customers.

FAIR VALUE OF FINANCIAL INSTRUMENTS: Cash and cash equivalents, trade accounts receivable, trade accounts payable and accrued expenses are reflected in the financial statements at carrying value, which approximates fair value due to the short-term nature of these instruments. The carrying value of the Company's borrowings approximates their fair value based on the current rates available to the Company for similar instruments.

PENSIONS AND OTHER POSTRETIREMENT PLANS: The Company has a non-contributory pension plan covering substantially all of its employees who meet age and service requirements. Employees hired subsequent to April 1, 2010 are not eligible to enter the pension plan. Effective March 1, 2012 the pension plan was amended to discontinue benefit accruals. Additionally, a supplemental non-contributory plan, curtailed for active employees in 2005, covers certain retired key employees of the Company. The Company also provides certain health care benefits, discontinued for new employees hired on or after January 1, 2005, to retired employees. The Company records annual expenses relating to its pension benefit and postretirement plans based on calculations which include various actuarial assumptions, including discount rates, assumed asset rates of return and turnover rates. The Company reviews its actuarial assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends. The effects of the gains, losses, and prior service costs and credits are amortized over future service periods. In accordance with FASB ASC 715, the funding status, or projected benefit obligation less plan assets, if any, for each plan, is reflected in the Company's balance sheet.

Refer to Note 7 (Post Employment Benefit Plans).

SHARE-BASED COMPENSATION COSTS: The Company has an incentive plan (the "2008 Stock Plan") which rewards "key persons", as defined, with restricted shares of Common Stock. Shares awarded vest in four equal annual installments based on the date of grant. The cost of these awards is determined using the market price of the shares on the date of grant. Compensation expense is recognized over the requisite vesting period and adjusted for actual forfeitures before vesting. On December 13, 2010 the 2008 Stock Plan was amended and restated (the "Amended Stock Plan"). Shares awarded to employees under the Amended Stock Plan vest in five equal annual installments based on the date of grant. Other provisions of the stock award incentive plan continue substantially unchanged.

Refer to Note 8 (Share-based Compensation).

INCOME TAXES: In accordance with FASB ASC 740, income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets are reduced by a valuation allowance when in the opinion of management, it is more likely than not, that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled.

The Company has adopted accounting guidance related to accounting for uncertainty in income taxes. Under the "more-likely-than-not" threshold guidelines, the Company believes no significant uncertain tax positions exist, either individually or in the aggregate, that would give rise to the non-recognition of an existing tax benefit. As of December 31, 2015, 2014 and 2013, the Company had no material unrecognized tax benefits or accrued interest and penalties. The Company's policy is to account for interest as a component of interest expense and penalties as a component of Selling, general and administrative expense.

IMPAIRMENT OF LONG-LIVED ASSETS: Long-lived assets, such as property, plant, and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset, which is generally based on discounted cash flows.

USE OF ESTIMATES: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Areas in which the Company makes such estimates include inventory valuation, the valuation of long-lived assets, accounts receivable, deferred tax assets and pension and postretirement benefits, among others. Actual results could differ from those estimates.

RECLASSIFICATIONS: Certain financial statement amounts reported in prior periods have been reclassified to conform with the current year presentation. The reclassifications did not impact the Company's net income or loss or net income or loss per share.

RECENT ACCOUNTING PRONOUNCEMENTS: In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14*, Revenue from Contracts with Customers (Topic 606) – Deferral of the Effective Date* ("ASU 2015-14"), which defers the effective date of ASU 2014-09 by one year. The updated standard will be effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016. The updated standard will be effective for the Company for the year ending December 31, 2019. The Company has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements and related disclosures.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* ("ASU 2014-15"). ASU 2014-15 explicitly requires management to evaluate, at each annual or interim reporting period, whether there are conditions or events that exist which raise substantial doubt about an entity's ability to continue as a going concern and to provide related disclosures. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and annual and interim periods thereafter, with early adoption permitted. ASU 2014-15 will be effective for the Company for the year ending December 31, 2016. The Company is currently evaluating the impact of adopting this new standard on its financial statements and related disclosures.

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs* ("ASU 2015-03"). ASU 2015-03 requires that debt issuance costs related to a debt liability be reported on the balance sheet as a direct deduction from the debt liability and will no longer be recorded as a separate asset. Amortization of the issuance costs is to be reported as interest expense. ASU 2015-03 is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. ASU 2015-03 will be effective for the Company for the year ending December 31, 2016. The Company is currently evaluating the impact of adopting this new standard on its financial statements and related disclosures.

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory* ("ASU 2015-11"). Historically U.S. GAAP required entities to measure inventory at the lower of cost or market. When measuring inventory, "market" could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. ASU 2015-11 does not apply to inventory measured using the last-in, first-out method or the retail inventory method. The ASU applies to all other inventory, which includes inventory measured using the first-in, first-out method or the average cost method. Inventory within the scope of ASU 2015-11 now is required to be measured at the lower of cost and net realizable value. Net realizable value is defined as "the estimated selling prices in the ordinary course of business, less reasonably

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

predictable costs of completion, disposal and transportation." ASU 2015-11 is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2016. ASU 2015-11 will be effective for the Company for the year ending December 31, 2017. The Company is currently evaluating the impact of adopting this new standard on its financial statements and related disclosures.

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes (Subtopic 740-10)* ("ASU 2015-17"). ASU 2015-17 simplifies the presentation of deferred income taxes by eliminating the requirement for companies to present deferred tax liabilities and assets as current and non-current on the balance sheet. Instead, companies will be required to classify all deferred tax assets and liabilities as non-current. The guidance is effective for annual and interim periods beginning after December 15, 2016 and early adoption is permitted. The Company early adopted ASU 2015-17 on both prospective and retrospective bases as of December 31, 2015.

In February 2016, the FASB issued ASU 2016-02, *Leases* ("ASU 2016-02"), revising accounting guidance for the recognition, measurement, presentation and disclosure of leasing arrangements. The update requires the recognition of lease assets and liabilities for those leases currently classified as operating leases while also refining the definition of a lease. In addition, lessees will be required to disclose key information about the amount, timing and uncertainty of cash flows arising from leasing arrangements. ASU 2016-02 is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted, and with a modified retrospective approach for leases that commenced prior to the date of adoption. ASU 2016-02 will be effective for the Company for the year ending December 31, 2019. The Company is currently evaluating the impact of adopting this new standard on its financial statements and related disclosures.

Note 2 – INVENTORIES

The following are the major classes of inventories as of December 31:

	2015	2014
Finished goods	$ 1,225,764	$ 1,021,806
Work in process	36,537	8,461
Raw materials	575,714	520,505
	$ 1,838,015	$ 1,550,772

Inventories include the cost of materials, labor and manufacturing overhead.

Note 3 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following at December 31:

	2015	2014	Estimated Useful Lives
Land	$ 591,492	$ 591,492	
Buildings and additions	11,595,935	11,549,159	10-50 years
Machinery and equipment	33,528,053	32,821,912	3-20 years
Office equipment	1,487,742	1,484,552	3-10 years
Automotive equipment	379,588	310,985	3-5 years
Cogeneration system	3,606,248	3,606,248	20 years
	51,189,058	50,364,348	
Less accumulated depreciation	42,521,139	41,730,489	
	$ 8,667,919	$ 8,633,859	

Depreciation expense was $790,650, $763,105 and $695,857 for the years ended December 31, 2015, 2014 and 2013, respectively.

Note 4 – DEBT

On May 21, 2015, the Company amended and extended its Credit Facilities Agreement (the “Agreement”) with ACF Finco I LP, successor-in-interest to Keltic Financial Partners II, LP (the “Lender”). The Agreement is comprised of a term loan (the “Term Loan”) and a revolving credit facility (the “Revolving Credit Facility”). The Term Loan, in the amount of $3,166,667 is payable in 42 equal installments of $45,833.33 commencing on June 1, 2015 and in one installment on December 14, 2018 equal to the then outstanding and unpaid principal and interest amount. As of December 31, 2015 and 2014, the outstanding balances under the Agreement, including current portion, were $2,845,833 and $2,350,000, respectively. Under the Revolving Credit Facility, the Company can borrow up to specified percentages of eligible receivables and inventory, as defined, in an aggregate amount not to exceed $2,500,000. As of December 31, 2015 and 2014, the outstanding amount was $1,938,309 and $1,950,356, respectively. As of December 31, 2015 and 2014, the unused credit under the Revolving Credit Facility was $561,691 and $549,644, respectively. The unused credit was limited to $17,746, based on eligible receivables and inventory as of December 31, 2015. Interest on each loan is payable monthly at the greatest of (a) the Lender’s prime rate, as defined (3.50% at December 31, 2015) plus 2.75%, (b) the LIBOR Rate, as defined, plus 5.25%, or (c) 6.00%. The Agreement further provides for an annual facility fee in the amount of $56,667 payable in equal monthly installments, a monthly collateral management fee of $1,500 and a closing fee of $62,370 paid at the loan settlement and certain other expenses of the Lender. The Agreement contains financial and other covenants including minimum EBITDA and limitations on other indebtedness, capital expenditures and dividends. For the measurement periods in 2015 and 2014 all covenants were satisfied by the Company. Loans and advances under the Agreement are collateralized by substantially all of the Company’s assets, including real property.

On July 6, 2012, the Company and Caterpillar Financial Services Corporation (“Caterpillar”) agreed to terminate an operating lease arrangement for an on-site cogeneration system to supply substantially all of the Company’s electricity requirements and thermal energy for the pulping process. Caterpillar agreed to refinance the remaining balance outstanding under the lease, subject to the terms and conditions of the Security Agreement and Promissory Note (the “Caterpillar Agreement”). The Caterpillar Agreement provides for payment of the principal amount of $3,467,852 over a term of seven years commencing August 1, 2012 with interest on the outstanding principal at 5.9% per annum. Principal and interest are payable in unequal monthly installments in accordance with an amortized payment schedule, with a final payment due on August 1, 2019. As of December 31, 2015, the outstanding principal under the Caterpillar Agreement, including current portion, was $2,470,403.

From July 2013 through December 2015 the Company executed purchase agreements with a lender covering five vehicles with original costs ranging between $33,269 to $43,130. Principal and interest are payable in monthly installments ranging between $521 and $847 over periods of sixty to seventy-two months with interest rates ranging between 5.23% to 7.14%. Final payments are due between July 2019 and July 2021. As of December 31, 2015, outstanding amounts due under the loans, including current portion, were $162,847.

In February 2015, the Company purchased a 2014 Kubota wheel loader. The Company secured a purchase agreement with Kubota Credit Corporation USA for the payment of $62,656 over a term of four years commencing March 12, 2015 with 0% interest per annum. Principal is payable in equal monthly installments of $1,305.34 per month, with a final payment due in February 2019. As of December 31, 2015, the outstanding amount, including current portion, was $49,603.

The balance of long-term debt, including current portion, out¬standing at December 31, 2015 and 2014 was $5,528,686 and $5,352,498, respectively. Aggregate maturities of long-term debt as of December 31, 2015 are as follows: $1,049,347 in 2016, $1,079,611 in 2017, $2,307,163 in 2018, $1,065,292 in 2019, $23,530 in 2020 and $3,743 thereafter.

Total interest costs incurred during 2015, 2014 and 2013 were $549,464, $576,326 and $591,143, respectively.

Notes to Financial Statements (continued)

December 31, 2015, 2014 and 2013

Note 5 – ACCRUED EXPENSES

Accrued expenses as of December 31, 2015 and 2014 consist of the following:

	2015	2014
Commissions	$ 47,513	$ 48,509
Payroll	70,752	69,234
Warranty claims	105,585	28,000
Maintenance CoGen	175,537	175,537
Other	184,949	219,125
	$ 584,336	$ 540,405

Note 6 – INCOME TAXES

During 2015, 2014 and 2013, the Company had no current tax expense (benefit) as a result of current losses incurred or utilization of net operating loss carryforwards coupled with a change in the deferred tax valuation allowance which was equal to the change in deferred tax assets and liabilities.

The actual income tax expense (benefit) differs from the amounts computed by applying the U.S. federal income tax rate of 34% to income before income tax expense (benefit) as a result of the following:

	2015	2014	2013
Computed "expected" tax expense (benefit)	$ 73,005	$ 220,720	$ 262,075
Change in valuation allowance	9,327	(494,612)	(237,135)
Other	(82,332)	273,892	(24,940)
	$ —	$ —	$ —

The tax effect of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31 are presented below:

	2015	2014
Deferred tax assets:		
Accounts receivable, due to allowance for doubtful accounts	$ 39,084	$ 14,378
Inventories, due primarily to cost capitalization	96,148	89,389
Other liabilities, principally due to supplemental pension and postretirement costs	505,425	608,558
Nondeductible accrued expenses	71,179	60,961
Net operating loss carryforwards – federal and state	4,520,665	4,203,745
Alternative minimum tax credit	26,182	26,182
Total deferred tax assets	5,258,683	5,003,213
Less valuation allowance	3,718,581	3,709,254
Net deferred tax assets	1,540,102	1,293,959
Deferred tax liabilities:		
Fixed assets, due to accelerated depreciation	1,156,809	963,632
Other assets, due to pension costs	383,293	330,327
Total deferred tax liabilities	1,540,102	1,293,959
Net deferred tax assets	$ —	$ —

Note 6 – INCOME TAXES (continued)

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon this assessment, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of existing valuation allowances at December 31, 2015. The amount of net deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income are reduced.

The net change in the total valuation allowance for the year ended December 31, 2015 was an increase of $9,327. The net change in the total valuation allowance for the year ended December 31, 2014 was a decrease of $494,612. In addition, at December 31, 2015, the Company has net operating loss carryforwards for federal and state income tax purposes of approximately $12,351,000 and $5,412,000, respectively, which are available to reduce future income taxes, if any. The net operating loss carryforwards will begin to expire in year 2019 for federal and 2029 for state tax purposes.

Note 7 – POST EMPLOYMENT BENEFIT PLANS

The Company has a noncontributory defined benefit retirement plan (the "Pension Plan") covering all eligible employees. Benefits under the Pension Plan are calculated at a rate of $23.00 per month per year of service, as defined. The Company's funding policy for the Pension Plan is to contribute amounts sufficient to meet minimum funding requirements set forth in U.S. employee benefit and tax laws. The Company expects to contribute approximately $153,000 to the Pension Plan in 2016. On December 17, 2009 the Board of Directors of the Company resolved that employees hired on or subsequent to April 1, 2010 are not eligible to enter the Pension Plan. On December 2, 2011 the Board of Directors of the Company resolved that the Pension Plan be amended to discontinue benefit accruals effective March 1, 2012.

A supplemental non-contributory plan (the "Supplemental Plan") covering certain key employees of the Company provides retirement benefits based upon the employee's compensation, as defined, during the highest five of the last ten consecutive years preceding retirement. The Company's policy for funding the Supplemental Plan is to contribute amounts determined at the discretion of management. As of December 31, 2015 and 2014, the plan was unfunded. On May 11, 2005 the Board of Directors of the Company resolved to terminate the Supplemental Plan for all current employees not already receiving benefits. The termination was recognized as a curtailment gain in 2005. Additionally, as of June 1, 2005, the benefit payments of retired participants were reduced to 50% of their actuarially determined benefit. The payment of the balance of such benefits was deferred and recorded as an other liability ($512,578 at December 31, 2015 and 2014) until such time as the Board of Directors determined that it was prudent to either reinstate the full monthly payment as it accrues and/or to begin paying the deferred portion. On September 16, 2013 the Board of Directors of the Company resolved to reinstate, as of October 1, 2013, the full monthly payment of such benefits as earned. The estimated amount of such benefits payable for the year ended December 31, 2016, $113,000, is reflected in current liabilities on the balance sheet of the Company.

The Company also provides a portion of certain health care benefits for eligible retired employees who have reached the age of 65. Partial benefits are provided to eligible early retirees who have reached the age of 62. Employees hired on or subsequent to January 1, 2005 are not eligible for retiree health benefits. The Company's policy is to fund the cost of health care benefits for retirees in amounts determined at the discretion of management. As of December 31, 2015 and 2014, the plan was unfunded. Effective July 1, 2005 the Company reduced its contribution to the postretirement benefit plan for all current and future retirees by 50% of the portion paid by the Company prior to such date.

The Company uses a December 31 measurement date for the pension and other postretirement benefit plans. Year-end asset and obligation amounts are disclosed as of the plan measurement dates.

The following tables set forth the Company's defined benefit, supplemental pension and postretirement benefit plans' benefit obligations, fair value of assets, funded status and other information:

Note 7 – POST EMPLOYMENT BENEFIT PLANS (continued)

	Pension Plan		Supplemental Plan		Postretirement Benefits	
	2015	2014	2015	2014	2015	2014
Change in benefit obligation						
Benefit obligation at beginning of year	$10,114,272	$ 9,018,403	$ 812,015	$ 805,642	$ 254,020	$ 243,239
Service cost	—	—	—	—	2,011	1,590
Interest cost	423,654	468,453	33,011	42,273	10,395	12,308
Actuarial (gain) loss	237,561	1,128,354	53,989	92,363	(28,089)	26,785
Benefits paid	(502,613)	(500,938)	(121,590)	(128,263)	(26,722)	(29,903)
Benefit obligation at end of year	10,272,874	10,114,272	777,425	812,015	211,615	254,019
Accumulated benefit obligation at end of year						
Change in plan assets	10,272,874	10,114,272	777,425	812,015	—	—
Fair value of plan assets at beginning of year	7,554,758	7,371,585	—	—	—	—
Actual return on plan assets	(16,036)	597,465	—	—	—	—
Employer contributions	242,078	214,680	121,590	128,263	26,722	29,903
Administrative expenses	(170,032)	(128,034)	—	—	—	—
Benefits paid	(502,613)	(500,938)	(121,590)	(128,263)	(26,722)	(29,903)
Fair value of plan assets at end of year	7,108,155	7,554,758	—	—	—	—
Funded status						
Benefit obligation in excess of plan assets	$(3,164,719)	$(2,559,514)	$ (777,425)	$ (812,015)	$ (211,615)	$ (254,019)
Amounts recognized in balance sheets						
Current benefit liability	$ —	$ —	$ (113,000)	$ (121,000)	$ (24,000)	$ (28,000)
Non-current benefit liability	(3,164,719)	(2,559,514)	(664,425)	(691,015)	(187,615)	(226,019)
Net liability recognized	$(3,164,719)	$(2,559,514)	$ (777,425)	$ (812,015)	$ (211,615)	$ (254,019)
Unrecognized prior service credit	$ —	$ —	$ —	$ —	$ —	$ 123,650
Unrecognized actuarial (loss) gain	(4,124,392)	(3,386,571)	(94,388)	(48,329)	370,812	382,325
Accumulated other comprehensive (loss) income	$(4,124,392)	$(3,386,571)	$ (94,388)	$ (48,329)	$ 370,812	$ 505,975

The total amount included in Accumulated Other Comprehensive Loss ("AOCI") relating to the Company's retirement plans at December 31, 2015 and 2014 was $3,847,968 and $2,928,925, respectively. The estimated amounts of prior service credit and actuarial net (loss) gain included in AOCI as of December 31, 2015 and expected to be amortized into net periodic benefit cost in 2016, are $(301,000) for the defined benefit plan, $(13,220) for the supplemental plan and $34,187 for the postretirement plan.

Notes to Financial Statements (continued)

December 31, 2015, 2014 and 2013

Note 7 – POST EMPLOYMENT BENEFIT PLANS (continued)

	Pension Plan			Supplemental Plan		
	2015	2014	2013	2015	2014	2013
Components of net periodic benefit cost:						
Service cost	$ 102,062	$ 91,351	$ 83,040	$ —	$ —	$ —
Interest cost	423,654	468,453	450,776	33,011	42,273	40,716
Expected return on plan assets	(627,342)	(608,690)	(533,084)	—	—	—
Amortization of prior service cost	—	—	—	—	—	—
Recognized actuarial loss (gain)	211,088	121,581	257,707	7,930	430	(3,074)
Net periodic benefit cost	$ 109,462	$ 72,695	$ 258,439	$ 40,941	$ 42,703	$ 37,642

	Postretirement Benefits		
	2015	2014	2013
Components of net periodic benefit cost:			
Service cost.	$ 2,011	$ 1,590	$ 1,881
Interest cost	10,395	12,308	12,253
Expected return on plan assets	—	—	—
Amortization of prior service cost	(123,650)	(161,908)	(161,908)
Recognized actuarial gain.	(39,602)	(46,507)	(47,483)
Net periodic benefit cost	$ (150,846)	$ (194,517)	$ (195,257)

	Pension Benefits			Postretirement Benefits		
	2015	2014	2013	2015	2014	2013
Assumptions:						
Weighted-Average Assumptions used to determine net periodic benefit cost for years ended December 31:						
Discount rate	4.33%	5.40%	4.80%	4.33%	5.40%	4.80%
Expected long-term return on plan assets	8.50%	8.50%	8.50%	N/A	N/A	N/A

	Pension Benefits		Postretirement Benefits	
	2015	2014	2015	2014
Weighted-Average Assumptions used to determine benefit obligations at December 31:				
Discount rate	4.93%	4.33%	4.93%	4.33%

Note 7 – POST EMPLOYMENT BENEFIT PLANS (continued)

Assumed Health Care Cost Trend

For measurement purposes, no health care cost trend rate of increase was assumed for 2015. The Company monthly-paid benefit for each participant is fixed at the amount as of January 1, 2003 and further adjusted as of July 1, 2005 as discussed above.

Plan Assets

The asset allocation for the Pension Plan at the end of 2015 and 2014, and the target allocation for 2016, by asset category, are as follows:

	Target Allocation	Percentage of the Plan Assets at end of year	
	2016	2015	2014
Equity Mutual Funds	70%	67%	69%
Debt Mutual Funds	30%	29%	28%
Cash and Cash Equivalents	0%	4%	3%
	100%	100%	100%

The target asset allocations reflect the investment strategy of the outside Custodian and Asset Manager of the plan assets appointed by the Pension Plan Committee of the Board of Directors, and the current funded status, within an appropriate level of risk. No equity investments within plan assets include Homasote Company common stock. The expected long-term rate of return on plan assets reflects the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the projected benefit obligation.

FASB ASC 820 10, *Fair Value Measurements and Disclosures*, establishes a framework and provides guidance on measuring the fair value of assets in a pension plan and how an employer should disclose the same. The framework establishes a fair value hierarchy that prioritizes the inputs to the valuation techniques used to measure fair value. The three levels of fair value hierarchy are described as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Note 7 – POST EMPLOYMENT BENEFIT PLANS (continued)

The following table sets forth by level, within the fair value hierarchy, the Pension Plan assets at fair value as of the dates indicated.

	December 31, 2015			
Plan Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$ 290,178	—	—	$ 290,178
Equity mutual funds	4,771,830	—	—	4,771,830
Debt mutual funds	2,046,147	—	—	2,046,147
Fair value of plan assets	$ 7,108,155	—	—	$ 7,108,155

	December 31, 2014			
Plan Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$ 192,504	—	—	$ 192,504
Equity mutual funds	5,211,918	—	—	5,211,918
Debt mutual funds	2,150,336	—	—	2,150,336
Fair value of plan assets	$ 7,554,758	—	—	$ 7,554,758

Benefit Payments

The following table summarizes expected benefit payments from pension and postretirement plans through 2025. Actual benefit payments may differ from expected benefit payments.

	Pension Benefit	**Supplemental Plan**	**Postretirement Benefits**
2016	$ 569,000	$ 113,000	$ 24,000
2017	559,000	104,000	23,000
2018	567,000	95,000	21,000
2019	577,000	87,000	19,000
2020	563,000	80,000	18,000
2021-25	3,261,000	296,000	71,000

Savings Plan

The Company has a voluntary savings plan (the "Savings Plan") for which all employees are eligible. The Savings Plan provides for the Company to contribute a minimum of $0.25 for every dollar contributed by employees, up to 4% of their compensation, as defined. On March 25, 2009 the Board of Directors resolved to suspend the Company contributions as of April 1, 2009. On May 22, 2015 the Board of Directors resolved to reinstate the Company contributions as of July 1, 2015. The Savings Plan qualifies and meets the requirements under Section 401(k) of the Internal Revenue Code. Company contributions charged to operations under this Plan amounted to $16,178 in 2015 and $0 in 2014 and 2013.

Note 8 – SHARE-BASED COMPENSATION

On October 24, 2008, the Board adopted the 2008 Stock Incentive Plan (the “2008 Stock Plan”). No stock was awarded in 2010 or 2009 under the 2008 Stock Plan. On December 13, 2010, the 2008 Stock Plan was amended and restated (the “Amended 2008 Plan”). The Amended 2008 Plan authorizes the issuance of restricted stock to “key persons” including officers, employees, directors and consultants to provide an incentive to enter and remain in the service of the Company, enhance the long-term performance of the Company and acquire a proprietary interest in the success of the Company. An aggregate of 35,000 shares of the Company’s stock is available for issuance under the Amended 2008 Plan and a total of 24,200 shares, net of cancellations, remain available as of December 31, 2015 for future grants of stock.

The Amended 2008 Plan is administered by a Compensation Committee selected by the Board and consisting of not less than two non-employee directors. The Compensation Committee may amend or modify the Amended 2008 Plan and take all action necessary to administer it without prior Board approval.

Stock available for issuance under the Amended 2008 Plan may be from unissued Common Stock, issued Common Stock held in the Company’s treasury or stock acquired by the Company for the purposes of the Amended 2008 Plan. Shares issued under the Amended 2008 Plan are subject to certain restrictions including continued service to the Company, non-transferability and repurchase rights, as defined, and such other restrictions as may be determined at the time of grant. A maximum of 3,500 shares of Common Stock may be granted annually to any key person under the Amended 2008 Plan. Shares awarded to employees under the Amended 2008 Plan vest in five equal annual installments based on the date of grant. The cost of these awards is determined using the market price of the shares on the date of grant. Compensation expense is recognized over the requisite vesting period into Selling, general and administrative expense and adjusted for actual forfeitures before vesting.

On September 16, 2013, the Board of Directors, on the recommendation of the Compensation Committee, resolved to grant 100 fully paid and non-assessable shares of stock to each of four non-employee members of the Board of Directors. All shares granted were from authorized but unissued Common Stock.

On September 9, 2014, the Board of Directors, on the recommendation of the Compensation Committee, resolved to grant 100 fully paid and non-assessable shares of stock to each of four non-employee members of the Board of Directors. All shares granted were from authorized but unissued Common Stock.

On December 2, 2015 the Board of Directors, on the recommendation of the Compensation Committee, resolved to grant 300 fully paid and non-assessable shares of stock to each of six employees of the Company. The shares vest in five equal annual installments based on the date of grant. Additionally, on such date, 100 fully paid and non-assessable shares were granted to each of four non-employee members of the Board of Directors. All shares granted were from authorized but unissued Common Stock.

The total fair value of shares vested and compensation incurred pursuant to the Amended 2008 Plan and 2008 Stock Plan in 2015, 2014 and 2013 was $3,398, $2,514 and $2,236, respectively. As of December 31, 2015 there was $6,120 of unrecognized compensation cost related to non-vested share-based compensation under the Amended 2008 Plan.

Note 9 – TREASURY STOCK

The Company has a policy offering directors, officers and employees the option to purchase reacquired shares of Homasote Company common stock on the date acquired and at the purchase price paid by the Company. No shares were acquired or sold in 2015, 2014 or 2013.

Note 10 – COMMITMENTS AND CONTINGENCIES

On July 6, 2012, following resolution of certain operational problems with a cogeneration system (“Cogen System”), the Company successfully completed negotiations with Caterpillar to terminate an operating lease arrangement and purchase the Cogen System. Caterpillar agreed to refinance the remaining balance outstanding under the lease of $3,467,852 for a term of seven years, payable in a series of unequal monthly payments, commencing August 1, 2012 with interest at the rate of 5.9% per annum. A final payment is due on August 1, 2019 equal to the sum of the outstanding principal plus any accrued interest due.

The Company leases certain office, manufacturing equipment and vehicles under operating leases that expire at various dates. Payments under these leases were $73,264 in 2015. Lease payments subsequent to December 31, 2015 are as follows: 2016, $82,933; 2017, $82,214; 2018, $80,389, 2019, $24,282 and 2020, $8,055.

The Company is a defendant in various asbestos litigation matters. The Company is being defended in these matters by its insurance carrier, who paid all prior defense and indemnity costs as of June 16, 2008. Although the Company believes that the limits of these policies are more than sufficient to cover these claims, the Company has been requested by its insurance carrier to pay a portion of the defense and indemnity costs for claims which occurred, in whole or in part, prior to 1965. The Company has worked to locate coverage for those periods, but has not been able to do so. The Company continues to investigate the merits of these claims, and intends to defend them vigorously.

On June 17, 2008, the insurance carrier and the Company signed an Interim Asbestos Claims Administration Agreement (the “Agreement”) that defines how the parties will share past and future defense and indemnity costs from asbestos claims. The Agreement provided for a settlement of $172,638 covering all prior costs. The Company further agreed to pay 6% of ongoing defense costs. The Company’s agreed upon share of future indemnity costs varies from 0% to 10.49%, based on the claimant’s date of first exposure. The Company incurred $53,322 of such costs for the year ended December 31, 2015. The amount of such costs payable in the future is not determinable as of December 31, 2015. As of December 31, 2015 the Company recognized a provision of $18,000 in its financial statements.

During the normal course of business, the Company is from time to time involved in various claims and legal actions. In the opinion of management, uninsured losses, if any, resulting from the ultimate resolution of these matters will not have a material adverse effect on the Company’s financial position, results of operations or liquidity.

Note 11 – SUBSEQUENT EVENTS

The Company assessed events occurring subsequent to December 31, 2015 through September 21, 2016 for potential recognition and disclosure in the financial statements. There were three events that require such disclosure. Other than the events described below, there were no events that have occurred that would require adjustment to or disclosure in the financial statements, which were issued on September 21, 2016.

On April 30, 2014 the Company experienced a high voltage breakdown in its 4160V switchgear. This equipment was supplying electric power to the facility and the Cogen System. A temporary bypass was put in place to supply power to the plant. On August 2, 2014 the Company experienced another breakdown of the switchgear equipment. Cogeneration is not possible until permanent repairs and/or replacement is completed. Due to extended negotiations with the insurance carrier, the Company was not able to finalize plans to replace the substation/transformer. There are still significant matters to be resolved. The approximate cost of the project is $860,000, to be financed in part by additional debt. The amount of $332,000 of such cost, resulting from insurance proceeds received by the Company to date, is reflected in Other liabilities in the December 31, 2015 Balance Sheet included in the Company's financial statements. The Company anticipates that final replacement of the equipment will be completed by late 2017.

The Company has chosen a vendor for a monitoring system which will allow for effective management of energy consumption when using the Cogen System. The monitoring system will allow the Company to measure electric usage in response to market conditions. It will measure the optimal time to either produce electricity through the Cogen System or purchase the commodity from a public utility company. As of May 25, 2014 the vendor had completed the installation of the hardware and software necessary to proceed with the completion of the web-based monitoring system. Due to the above referenced substation/transformer replacement, the Company anticipates completion of this project by late 2017.

The Company plans to install a heat exchanger to pre-heat the Coe dryer's combustion air stream, utilizing excess thermal energy generated by the Cogen System in the board drying process. Projected completion date of this System component was August 2013. However, due to engineering design changes, the planned completion date is in late 2017. The cost of such design changes has not been determined.

On July 15, 2016 a motion was filed against the Company by a creditor bankruptcy trustee seeking recovery from the Company for preferential payments of $153,138 made to the Company during 2014 and 2015. The company has accrued a liability in the amount of $63,000 related to this matter at December 31, 2015 which represents the amount of payments the Company received from the creditor during 2014 and 2015. This matter is in the early stages of discovery and the Company disputes the amount of claimed preferential payments. The Company is being represented by legal counsel on this matter and at this time the outcome is uncertain.

Independent Auditors' Report

The Board of Directors and Shareholders of **Homasote Company:**

Report on the Financial Statements

We have audited the accompanying financial statements of Homasote Company (the "Company") which comprise the balance sheet as of December 31, 2015 and 2014, and the related statements of income, comprehensive (loss) income, changes in stockholders' equity and cash flows for each of the three years ended December 31, 2015, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

Mercadien, P C
Certified Public Accountants

Hamilton, New Jersey
September 21, 2016

Management's Discussion and Analysis of Financial Condition and Results of Operations

General

This Annual Report, including our Letter to Shareholders and Employees and this Management's Discussion and Analysis and accompanying materials, may include forward-looking statements about the future that are necessarily subject to various risks and uncertainties. These statements are based on the beliefs and assumptions of management and on information currently available to management. These forward-looking statements are identified by words such as "believe", "estimate", "expect", "anticipate", "plan", "potential", "continue" and other similar expressions.

Factors that could cause future results to differ materially from those expressed in or implied by the forward-looking statements or historical results include the impact or outcome of:

- events or conditions that affect the building and manufacturing industries in general and the Company in particular, such as general economic conditions, employment levels, interest rates, inflation, costs of energy, weather, strikes, international unrest, terrorist acts and other factors;
- competitive, regulatory and market conditions, such as changes in choices regarding building materials by architects and builders and packing products by industrial firms;
- the performance of new products and the continued acceptance of current products in the marketplace; and
- the execution of strategic initiatives and alliances.
- other important factors disclosed previously and from time to time in the Company's Annual Report and other material.

Although the ultimate impact of the above and other factors are uncertain, these and other factors may cause future operating results to differ materially from results or outcomes we currently seek or expect. Therefore, the reader is cautioned not to rely on these forward-looking statements. The Company disclaims any intent or obligation to update these forward-looking statements.

Results of Operations 2015-2014

Net sales decreased in 2015 by $1,000,520 or 5% to $19,409,538 from $20,410,058 in 2014. The Company operates two sales divisions, Millboard and Industrial. The Company's millboard division serves several markets including the construction and renovation of multi-family dwellings, commercial office buildings, educational facilities, single-family dwellings and retail establishments. The primary channel of distribution is through a "two-step" model wherein wholesale distributors sell the Company's products to dealers that typically specialize in lumber and other forestry products. The economic downturn and other external factors affecting the construction industry continued to present challenges for our business. The millboard product line is led by 440 Sound-Barrier, followed by Homex expansion joint and NovaCork cork board. Net sales for the millboard division in 2015 decreased by $227,472 or 2% to $11,324,100 from $11,551,572 in 2014. The decrease in sales is reflective of mixed results across the division as follows: the largest product line, millboard products decreased 4%; the Homex product line sales volume increased 15%; the Nova pre-finished panels product line saw a sales volume increase of 7%; while decking product sales decreased by 69%.

The Company's industrial (Pak-Line) division provides sustainable packaging solutions for users in three main manufacturing and finishing sectors: glass, paper and steel. Additionally, the division provides a variety of products to end-users as varied as appliance manufacturers and office furniture makers. Net sales for the industrial division in 2015 decreased by $773,048 or almost 9% to $8,085,438 from $8,858,486 in 2014.

Gross profit as a percentage of sales increased to 30% in 2015 from 27.5% in 2014. The relatively higher level of gross profit in 2015 as compared to 2014, is due primarily to a 17% decrease in the cost of natural gas, from an average cost of $6.51 per dekatherm in 2014 to $5.39 per dekatherm in 2015. The decrease in the cost of natural gas between 2015 and 2014 based on 198,150 dekatherms purchased was $221,928. Also contributing to the higher gross profit was a decrease in the cost of paper of 6% from an average of $137 per ton in 2014 to $129 per ton in 2015, based on 18,318 tons purchased. The effect on cost of sales was a decrease of $138,000. Also contributing to the increase in gross profit was a reduction in maintenance and supplies expense for machinery and equipment of $196,000, health insurance expense of $59,000 and insurance claim related costs of $117,000, partially offset by an increase in professional services of $51,000.

Selling, general and administrative expenses increased $640,392 from $4,420,035 in 2014 to $5,060,427 in 2015, and as a percentage of sales were 26% in 2015 as compared to 21.7% in 2014. The year-over-year increase in selling general and administrative expenses is due primarily to an increase in customer claims expense of $440,000 related to a recall of product made in the first six months of the year. The increase is also due in part to higher retirement plan, bad debt and payroll service expenses, partially offset by a net reduction in salary and related compensation costs.

Interest expense on debt decreased to $549,464 in 2015 from $576,326 in 2014. The decrease is due primarily to the relatively lower level of borrowed funds resulting from repayments of debt incurred in connection with the purchase of the Cogen System.

In 2015, other income consists primarily of the sale of scrap metal from the dismantling of obsolete and fully depreciated equipment sold to brokers.

As a result of the foregoing, net income in 2015 was $234,651 as compared to net income of $631,772 in 2014.

Results of Operations 2014-2013

Net sales decreased in 2014 by $303,486 or 1.5% to $20,410,058 from $20,713,544 in 2013. The Company operates two sales divisions, Millboard and Industrial. The Company's millboard division serves several markets including the construction and renovation of multi-family dwellings, commercial office buildings, educational facilities, single-family dwellings and retail establishments. The primary channel of distribution is through a "two-step" model wherein wholesale distributors sell the Company's products to dealers that typically specialize in lumber and other forestry products. The economic downturn and other external factors affecting the construction industry continued to present challenges for our business. The millboard product line is led by 440 Sound-Barrier, followed by Homex expansion joint and NovaCork cork board. Net sales for the millboard division in 2014 decreased by $380,625 or 3% to $11,551,572 from $11,932,197 in 2013. The decrease in sales is reflective of mixed results across the division as follows: the largest product line, millboard products decreased 2%; the Homex product line sales volume decreased 1%; the Nova pre-finished panels product line saw a sales volume decrease of 15%; while decking product sales decreased by 6%.

The Company's industrial (Pak-Line) division provides sustainable packaging solutions for users in three main manufacturing and finishing sectors: glass, paper and steel. Additionally, the division provides a variety of products to end-users as varied as appliance manufacturers and office furniture makers. Net sales for the industrial division in 2014 increased by $77,139 or almost 1% to $8,858,486 from $8,781,347 in 2013.

Gross profit as a percentage of sales decreased to 27.5% in 2014 from 27.8% in 2013. The relatively lower level of gross profit in 2014 as compared to 2013, is due primarily to a 16% increase in the cost of natural gas, from an average cost of $5.63 per dekatherm in 2013 to $6.51 per dekatherm in 2014 that was offset in part by a 20% decrease in the amount of gas consumed. The increase in the cost of natural gas between 2013 and 2014 based on 203,946 dekatherms purchased was $179,472. Also contributing to the lower gross profit was an increase in the cost of paper of 2% from an average of $134.00 per ton in 2013 to $137.00 per ton in 2014, based on 19,565 tons purchased. The effect on cost of sales was a decrease of $59,000. Offsetting some of the decrease in gross profit was a reduction in maintenance expense for machinery and equipment, building and forklifts of $171,000 and machine rental of $75,000, partially offset by increases in waste disposal and depreciation of $116,000.

Selling, general and administrative expenses increased $5,383 from $4,414,652 in 2013 to $4,420,035 in 2014, and as a percentage of sales were 21.7% in 2014 as compared to 21.3% in 2013. The year-over-year increase in Selling general and administrative expenses is due in part to increases in customer claims expense, agents' commissions, professional fees and architectural presentations, as offset by decreases in advertising costs, employee benefits, the cost of the Company's retirement plans, insurance and debt related expense.

Interest expense on debt decreased to $576,326 in 2014 from $591,143 in 2013. The decrease is due primarily to the relatively lower level of borrowed funds resulting from repayments of the Term Loan and debt incurred in connection with the purchase of the Cogen System.

In 2014, other income consists primarily of the sale of scrap metal from the dismantling of obsolete and fully depreciated equipment sold to brokers.

As a result of the foregoing, net income in 2014 was $631,772 as compared to net income of $770,809 in 2013.

Disclosures About Contractual Obligations and Commercial Commitments:

	Cash Payments Due by Period				
	Total	Within Year 1	2-3 Years	4-5 Years	After 5 Years
Short-term debt	$ 1,938,309	$ 1,938,309	$ —	$ —	$ —
Long-term debt (includes current portion)	5,528,686	1,049,347	3,386,774	1,092,565	—
Operating leases	277,873	82,933	162,603	32,337	—
	$ 7,744,868	$ 3,070,589	$ 3,549,377	$ 1,124,902	$ —

In addition to the aforementioned contractual obligations and commercial commitments, the Company has certain benefit plan obligations (see Note 7 of the Company's financial statements) the timing of which is presently unknown and is contingent upon the retirement dates of the respective participants.

The Company leases certain office, manufacturing equipment and vehicles under operating leases that expire at various dates. Payments under these leases were $73,264 in 2015. Lease payments subsequent to December 31, 2015 are as follows: 2016, $82,933; 2017, $82,214; 2018, $80,389, 2019, $24,282 and 2020, $8,055.

Liquidity and Capital Resources

Cash flows from operating activities and bank borrowings are the primary sources of liquidity. Net cash provided by operating activities amounted to $0.7 million in 2015 and $1.5 million in 2014.

Working capital was $(3.9) million at December 31, 2015, as compared to $(3.8) million at December 31, 2014, a decline of $0.1 million. The decrease was due primarily to a reduction of $0.5 million in prepaid expenses and other current assets resulting from collection of an insurance claim, offset in part by a decrease of $0.5 million in accounts payable and an increase in Current portion of long-term debt of $0.1 million.

Capital expenditures for new and improved facilities and equipment, which are financed primarily through internally generated funds and debt were $0.8 million in 2015 and $0.5 million in 2014. The Company has estimated capital expenditures for 2016 in the amount of $1.0 million to implement switchgear equipment replacement and other improvement projects.

Cash flows provided by financing activities were $0.2 million in 2015 as compared to cash flows used in financing activities of $1.0 million in 2014. The increase in long-term debt in 2015 is due primarily to the refinancing of the Term Loan at a higher level, offset in part by the contractual obligation of repayments in monthly installments and repayments due under the Promissory Note payable to Caterpillar Financial Services Corporation. Refer to Note 4 (Debt) for explanation.

Management believes that cash flows from operations, coupled with its credit facilities, are adequate for the Company to meet its future obligations.

Critical Accounting Policies

Management is required to make certain estimates and assumptions during the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. These estimates and assumptions impact the reported amount of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from those estimates.

The significant accounting policies are described in Note 1 of the Notes to Financial Statements included in the Company's 2015 Annual Report. Not all of these significant accounting policies require management to make difficult, subjective or complex judgments or estimates. However, management considers the following policies to have the potential for the most significant impact on the financial statements.

Pension and Other Postretirement Benefits

The costs and obligations of the Company's pension and retiree medical plans are calculated using many assumptions to estimate the benefit that the employee earns while working, the amount of which cannot be completely determined until the benefit payments cease. The most significant assumptions, as presented in Post Employment Benefit Plans (Note 7 of the Notes to Financial Statements), include discount rate, expected return on plan assets and mortality rates. The selection of assumptions is based on historical trends and known economic and market conditions at the time of valuation. Actual results may differ substantially from these assumptions. These differences may significantly impact future pension or retiree medical expenses.

Annual pension and retiree expense is principally the sum of four components: 1) value of benefits earned by employees for working during the year; 2) increase in liability from interest; less 3) expected return on plan assets (Pension Plan only); and 4) other gains and losses as described below. The expected return on plan assets is calculated by applying an assumed long-term rate of return to the fair value of plan assets. In any given year, actual returns can differ significantly from the expected return. Differences between the actual and expected return on plan assets are combined with gains or losses resulting from the revaluation of plan liabilities. Plan liabilities are revalued annually, based on updated assumptions and information about the individuals covered by the plan. The combined gain or loss, together with prior service costs or credits, are recognized in AOCI in accordance with ASC 715 (see Note 7 of the Notes to Financial Statements) and generally expensed evenly over the remaining years that employees are expected to work.

The Company's funding policy for the Pension Plan is to contribute amounts sufficient to meet minimum funding requirements set forth in U.S. employee benefit and tax laws. The Company expects to make cash contributions to the Pension Plan as required in 2016. The Company's policy for funding the Supplemental Plan and Postretirement Benefit Plan is to contribute benefits in amounts as determined at the discretion of management. As of December 31, 2015 and 2014, these Plans were unfunded.

Inventories

Inventories are valued at the lower of cost, (first-in, first-out) or market value and have been reduced by an allowance for excess and obsolete inventories. The estimate is based on management's review of inventories on hand compared to estimated future usage and sales. Cost includes material, labor and manufacturing overhead.

Long-Lived Assets

Long-lived assets, such as property, plant and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

The Company does not have any goodwill or identifiable intangible assets.

Deferred Income Tax

A majority of the deferred tax assets, which have been recorded by the Company, represent net operating loss carryforwards. A valuation allowance has been recorded for certain capital losses and other deferred tax assets. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon this assessment, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of existing valuation allowances at December 31, 2015. The amount of net deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income are reduced.

Accounts Receivable

The Company estimates an allowance for doubtful accounts after considering the collectability of balances due, the credit worthiness of the customer and its current level of business with the customer. Actual results could differ from these estimates.

Inflation and Economy

The Company will continue to maintain a policy of constantly monitoring such factors as product demand and costs, and will adjust prices as these factors and the economic conditions warrant.

Summarized (unaudited) quarterly financial data of the Company for years 2015 and 2014 are as follows:

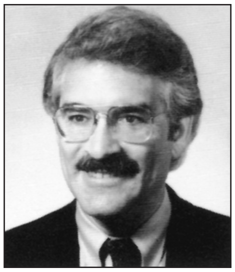
(in thousands of dollars except per share data)

	2015				2014			
	First	Second	Third	Fourth	First	Second	Third	Fourth
Net sales	$ 5,078	$ 4,978	$ 4,805	$ 4,549	$ 4,831	$ 5,641	$ 4,726	$ 5,212
Gross profit	$ 1,505	$ 1,664	$ 1,232	$ 1,434	$ 1,225	$ 1,613	$ 1,225	$ 1,551
Net earnings (loss)	$ 135	$ 260	$ (216)	$ 56	$ (75)	$ 297	$ (69)	$ 479
Net earnings (loss) per common share:								
Basic	$ 0.38	$ 0.72	$ (0.60)	$ 0.16	$ (0.21)	$ 0.83	$ (0.19)	$ 1.35
Diluted	$ 0.38	$ 0.72	$ (0.60)	$ 0.16	$ (0.21)	$ 0.83	$ (0.19)	$ 1.34

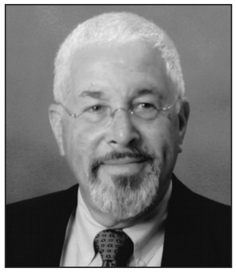
Valuation and Qualifying Accounts for years 2015, 2014 and 2013:

	Balance at Beginning of Year	Additions Charged to Profit and Loss	Accounts Written Off	Balance at End of Year
Year Ended December 31, 2015				
Allowance for doubtful accounts	$ 46,000	$ 102,805	$ 40,948	$ 107,857
Year Ended December 31, 2014				
Allowance for doubtful accounts	$ 46,000	$ —	$ —	$ 46,000
Year Ended December 31, 2013				
Allowance for doubtful accounts	$ 46,000	$ 12,500	$ 12,500	$ 46,000

Board of Directors

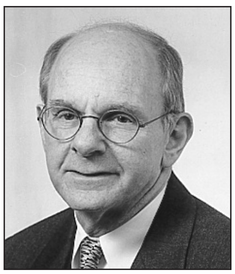


Michael R. Flicker
Attorney at Law

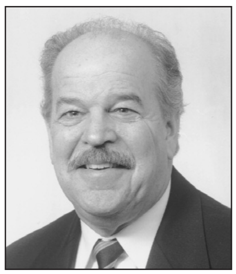


Warren L. Flicker
Chairman of the Board,
Chief Executive Officer

John P. Outerbridge
Vice President,
Carlson Wagonlit
Harvey's Travel



James M. Reiser
Retiree, Former Chief
Financial Officer,
Homasote Company



Norman Sharlin
Retired, Former President,
& Chief Operating Officer,
Sharlin Lite Corp.

Other Officers

Ronald D. Fasano
Chief Financial Officer
& Treasurer

Peter Tindall
Vice President,
Operations

Jennifer D. Bartkovich
Corporate Secretary

Corporate Office
Homasote Company
932 Lower Ferry Road, P.O. Box 7240
West Trenton, New Jersey 08628-0240
609-883-3300
www.homasote.com

Stock Transfer Agent and Registrar
Computershare
P.O. Box 30170
College Station, TX 77842-3170

Common Stock Traded
OTCMarkets.com

Independent Auditors
Mercadien, P.C., Certified Public Accountants

Mail to:
P.O. Box 7648
Princeton, New Jersey 08543

Located:
3625 Quakerbridge Road
Hamilton, New Jersey 08619

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