September 30, 2010

HEADWATERS

Kirk A. Benson
CHAIRMAN AND CEO

Dear Fellow Shareholders,

In spite of the continued overall weakness in the economy, Headwaters' 2010 operating metrics improved when compared to fiscal 2009. Gross profit increased $16.8 million, or 11%, and gross margin improved by 300 basis points to 24.9%. Operating income, excluding goodwill and asset impairments, improved by $21.9 million. Adjusted EBITDA increased by $19.3 million and was $400,000 above our forecast of $95 million.

Although revenue for 2010 declined by 1.8%, the decline occurred in the first half of the year, with revenue dropping $36.0 million compared to the first half of 2009. Revenue in the second half of fiscal 2010 increased $24.1 million when compared to the second half of last year.

We are focused on improvements to our balance sheet. During fiscal 2010, we refinanced our senior debt and eliminated the associated EBITDA maintenance covenants. We have no additional maturities until 2014. We repaid $29.0 million of our 16% convertible senior subordinated notes during fiscal 2010, and repaid another $10.0 million in November of fiscal 2011, a total debt reduction of $39.0 million. Our debt repayments will save Headwaters $6.2 million in annual interest expense, and reduces the amount of our 16% debt to $9.2 million. We anticipate more debt reductions in 2011 from our cash on hand and proceeds from the sale of non-strategic assets. We ended our fiscal year with almost $91.0 million of cash, and a $70.0 million asset based revolving credit facility, with over $61.0 million of availability. The combination of reducing debt, increasing EBITDA and preserving cash, resulted in a reduction of our net debt to EBITDA ratio from over five times to approximately four times.

At the end of fiscal 2010 Headwaters' Light Building Products segment reported operating income, excluding impairments, of $17.2 million, increasing from $3.0 million reported in fiscal 2009. Adjusted EBITDA increased by 15% to $52.3 million, and Adjusted EBITDA generated by our accessory and stone product lines grew by approximately 29%.

Headwaters' Heavy Construction Materials is the largest domestic manager and marketer of coal combustion products (CCPs), including fly ash, in the United States. We saw revenues decline in the first half of fiscal 2010 compared to the first half of fiscal 2009 by $12.2 million, or 11%. However, revenues increased in the second half of fiscal 2010 by $9.5 million, or 7%. The growth was due to increased service revenue, which accounted for 30% of the segment's revenue during the year.

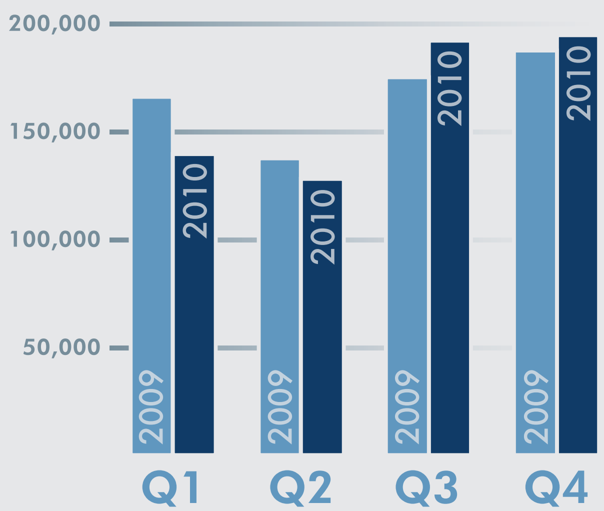
Headwaters' Energy Technology segment made significant progress during the year. Although revenues in our coal cleaning business declined 3% year-over-year, revenues from metallurgical coal sales were up 144%. The coal cleaning business recorded record sales of 1.5 million tons of clean coal. Coal cleaning Adjusted EBITDA, including tax credits, was $1.2 million compared to an Adjusted EBITDA loss of $(7.2) million for fiscal 2009. For the over-all Energy Technology segment, revenues increased 22.3%, with Adjusted EBITDA improvements of $22.6 million.

During fiscal 2010 we continued to make progress in our heavy oil upgrading technology (HCAT®). In October, the Company announced, in conjunction with Neste Oil Corporation, the completion of another successful plant test of its HCAT technology at Neste's Porvoo refinery in Finland. The data was presented jointly by Neste Oil and Date Headwaters at the 8th International Bottom-of-the-Barrel Technology Conference in London.

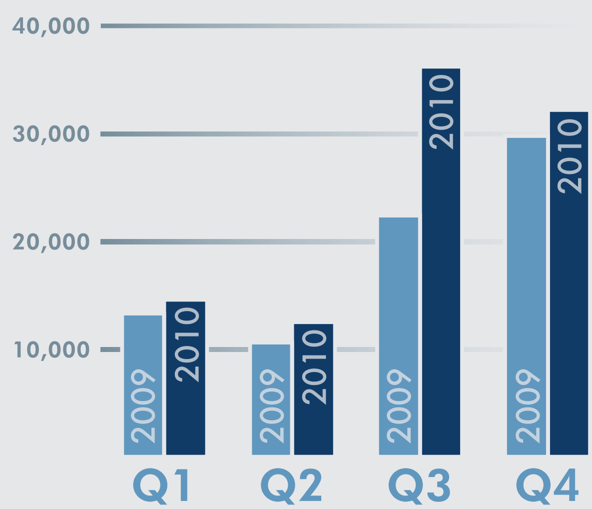
Although we feel Headwaters turned the corner during 2010, we still have important work ahead. We intend to continue the process of improving our debt to EBITDA ratio, while finding opportunities to grow our core business. After excess housing inventories are finally absorbed into the market, we anticipate that new construction will return to historical norms and Headwaters will benefit from its positive operating leverage. The upside for Headwaters is outstanding.

Sincerely,

Kirk A. Benson



Headwaters Incorporated
REVENUE
(dollars in thousands)



Headwaters Incorporated
ADJUSTED EBITDA
(dollars in thousands)

31 DEC 2009	31 MAR 2010	30 JUN 2010	30 SEP 2010
5.52	5.58	4.87	4.07

NET DEBT TO ADJUSTED EBITDA