

THE SARBANES-OXLEY ACT

The Sarbanes-Oxley Act is arguably the most important piece of legislation affecting financial reporting and disclosure and corporate governance since the securities laws of the early 1930s. Volumes of information exist that summarize and analyze the requirements of the Act. The following is a summary of certain provisions of the Act and certain of Headwaters' responses to the requirements. This summary is not meant to be an exhaustive description of the Act or Headwaters' efforts to comply.

SECTION 201: SERVICES OUTSIDE THE SCOPE OF PRACTICE OF AUDITORS

Section 201 prohibits our independent auditors from performing certain activities or services, including bookkeeping, financial information systems design and implementation, management functions or human resources, and services related to appraisals, valuations, internal audit outsourcing and actuarial reports. In addition, the audit committee must approve in advance any non-audit service not prohibited by this section, including tax services, to be performed

by our independent auditors.

Our independent auditors do not perform for us any of the services prohibited by this section. The Audit committee has approved certain tax services to be performed by our independent auditors.

SECTION 202: PREAPPROVAL REQUIREMENTS

The Audit Committee must approve in advance all audit services and allowed non-audit services provided to Headwaters. The Audit Committee has engaged Ernst & Young LLP as our independent auditors and the Audit Committee monitors the scope and value of audit and non-audit services performed by them. Among other non-audit services, Ernst & Young LLP has approval to perform certain tax services for Headwaters.

SECTION 204: AUDITOR REPORTS TO AUDIT COMMITTEES

Our independent auditors are required to report our significant accounting policies and practices to the Audit Committee. These reports should include critical accounting

policies and practices; alternative treatments of financial information within generally accepted accounting principles discussed with management, including the ramifications of the use of alternative disclosures and treatments; and other significant written communication between management and the auditor, including any management letter and any schedule of unadjusted differences.

Our auditors meet regularly with the Audit Committee to discuss these items. In addition, the auditors have full access to the Audit Committee to discuss matters as they arise.

SECTION 301: PUBLIC COMPANY AUDIT COMMITTEES

Each member of the Audit Committee must be independent and must be a member of the board. Under this section of the Act, the Audit Committee is responsible for appointment, compensation, and oversight of the work of our independent auditors as it relates to Headwaters. The Audit Committee is also responsible for "the receipt, retention, and treatment of complaints" received by Headwaters

regarding “accounting, internal accounting controls, or auditing matters.”

The audit committee of Headwaters consists of four independent members who are also members of the full board. This committee appoints, determines compensation, and oversees the work of Ernst & Young LLP at Headwaters. In addition, the audit committee established a policy for reporting complaints about accounting, auditing, and legal matters.

SECTION 302: CORPORATE RESPONSIBILITY FOR FINANCIAL REPORTS

This section requires our Chief Executive Officer and Chief Financial Officer to certify, in each annual or quarterly report filed, that they have reviewed the report and “the report does not contain any untrue statement of a material fact or omit to state a material fact” necessary to make the reports not misleading. The officers are required to certify that the financial information included in the report “fairly present[s] in all material respects the financial condition and results of operations” of Headwaters. This certification also addresses internal controls and communication with the auditors and the Audit Committee relating to deficiencies and fraud.

Headwaters has included this certification with its annual and

quarterly filings beginning with the quarter ended June 30, 2003.

SECTION 404: MANAGEMENT ASSESSMENT OF INTERNAL CONTROLS

This section requires each annual report of an issuer “to contain an internal control report, which shall – (1) state the responsibility of management for establishing and maintaining an adequate internal control structure and procedures for financial reporting; and (2) contain an assessment, as of the end of the most recent fiscal year of the issuer, of the effectiveness of the internal control structure and procedures of the issuer for financial reporting.” Our independent auditors are required, under this section, to “attest to, and report on the assessment made by management.”

Headwaters has included the internal control report beginning with its annual filing for the period ending September 30, 2005.

SECTION 406: CODE OF ETHICS FOR SENIOR FINANCIAL OFFICERS

We are required to adopt a “Code of Ethics” for senior financial officers and provide disclosure if the code is changed or if a waiver of the code is provided to senior financial officers. The Code of Ethics should promote honest and ethical conduct and provide for “full, fair, accurate, timely, and understandable disclosure.”

Headwaters adopted its Code of Ethics in July 2003. View our Code of Ethics.

SECTION 906: CORPORATE RESPONSIBILITY FOR FINANCIAL REPORTS

Headwaters must include with each periodic report containing financial statements filed with the SEC a written statement by the Chief Executive Officer and the Chief Financial Officer certifying that the report “fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the periodic report fairly presents, in all material respects, the financial conditions and results of operations of the issuer.”

Headwaters has included this certification with its annual and quarterly filings beginning with the quarter ended June 30, 2002.

CORPORATE GOVERNANCE HOTLINE

Policy for Reporting Complaints About Accounting, Auditing, and Legal Matters

All employees of Headwaters Incorporated and its subsidiaries are encouraged to report to Headwaters’ General Counsel or Audit Committee all evidence of activity by a Headwaters department or employee that may constitute:

- *instances of corporate fraud;*
- *conflicts of interest;*
- *weakness in internal accounting controls;*
- *questionable financial, accounting or auditing practices; and/or*
- *any violation of State or Federal law.*

Company policy and federal legislation protect employees of publicly traded companies who report evidence of such alleged misconduct from being discharged, demoted, suspended, threatened, harassed or discriminated against on account of such report. Further, we encourage each employee to help maintain the integrity of our Company by reporting any misconduct which they encounter.

Any employee who wishes to report evidence of misconduct should send a written communication to Headwaters' General Counsel or directly to the Chairman of the Audit Committee of the Board of Directors. This communication can be anonymous, at the employee's discretion; however, reporting individuals are encouraged to establish a dialog with either general counsel or the audit committee in order to assure that their concern is properly conveyed and to provide any additional information that may be required. Employees are encouraged to provide as much specific information as possible including names, dates,

places, events that took place, and the employee's perception of why the incident(s) may be misconduct. The Audit Committee will document and investigate all communications received and take actions as they deem appropriate to resolve the issue.

Contact:

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