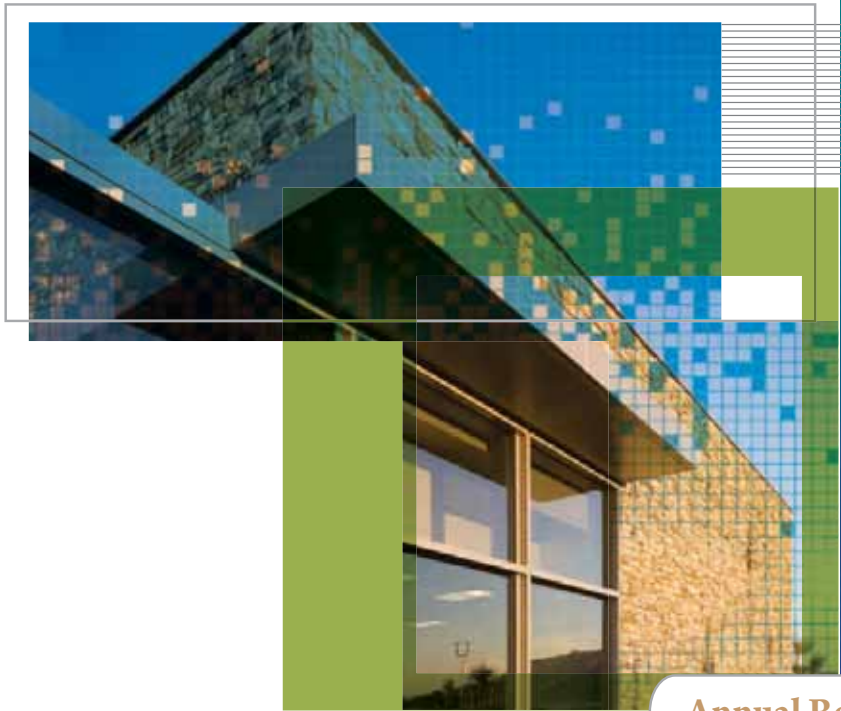


APPLICATION  
DESIGN  
PURPOSE



Annual Report

## Headwaters 2010

Heavy Construction Materials  
Light Building Products



# Vision Statement

*Improving Lives through Innovative Advancements in Construction Materials  
Application – Design – Purpose*

## 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%.

Shareholder Letter Continued: ➔

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.

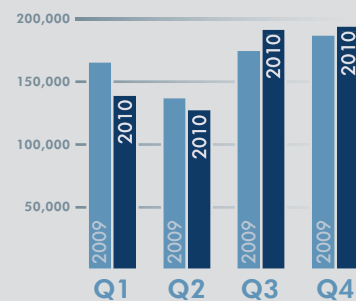
During fiscal 2010 we continued to make progress in our heavy oil upgrading technology (HCAT®). In October, the Company announced, in conjunction with Neste Oil Corporation, the completion of another successful plant test of its HCAT technology at Neste's Porvoo refinery in Finland. The data was presented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

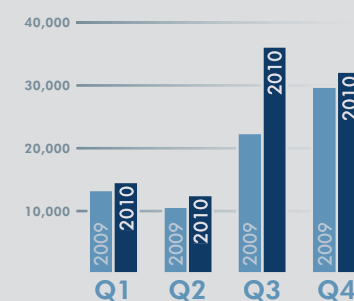
Sincerely,



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**

# Headwaters Resources

## Mission Statement:

*Headwaters Resources safely provides sustainable raw materials and products to the construction industry.*

### COAL ASH RECYCLING IS ONE OF AMERICA'S GREATEST ENVIRONMENTAL SUCCESS STORIES

— annually using more than 50 million tons of material that would otherwise wind up disposed. Headwaters Resources has long been a leader in creating that success.

With equal parts foresight and diligence, Headwaters Resources has spent decades transforming what some consider waste into a strategic resource that benefits our infrastructure, environment and economy.

Conservation is the key. Using large volumes of material that would otherwise be disposed does far more than just reduce the number of landfills. It conserves natural resources and energy in numerous ways.

#### Economic Benefits

Recycled coal ash is often less expensive than the materials it replaces. This allows construction budgets for roads, bridges and buildings to stretch further. A 2010 study by the American Coal Council estimated the economic benefits of the coal ash recycling industry at between \$6.4 billion and \$11.4 billion annually.

#### Environmental Benefits

Using recycled coal ash reduces the need to mine or quarry millions of tons of raw materials each year. Using coal ash to reduce the consumption of portland cement in concrete also creates substantial savings in energy use and greenhouse gas emissions from cement production. According to the American Coal Ash Association, approximately 12 million tons of greenhouse gas emissions are reduced annually — the equivalent of removing six million cars from the road.

#### Performance Benefits

Products made with recycled coal ash often perform better and last longer than products made with conventional materials. In the case of roads and bridges, for instance, concrete made with coal ash is stronger, more durable, and more resistant to chemical attack. Longer lasting structures create even more environmental and economic benefits by lengthening the lifespan of our infrastructure. Numerous state and federal agencies require the use of coal ash in projects in order to increase durability of roadways and structures.



Concrete with high fly ash content was specified for this project because of its economic, performance, and environmental benefits



**HEADWATERS RESOURCES BRINGS UNPARALLELED TECHNICAL EXPERTISE TO THE MARKETING OF COAL ASH.** These capabilities range from innovative — developing new techniques for improving coal ash quality and safely using ash in the field — to necessary — ensuring that ash delivered to customers meets demanding specifications.

From its industry-leading Materials Testing and Research Facility near Atlanta, Georgia, Headwaters Resources conducts a full range of basic research and quality assurance activities. A national network of technical service representatives takes the resulting knowledge and uses it to educate ash users and develop new markets.

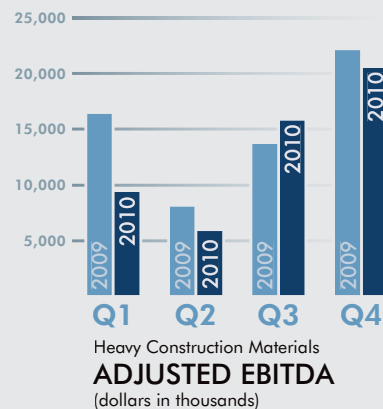
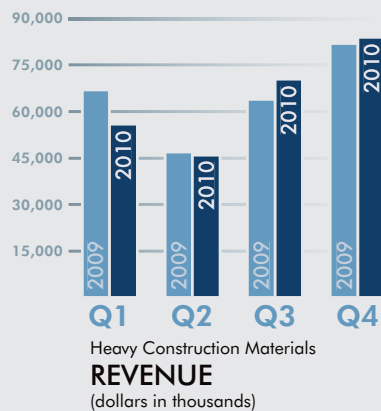
Not all ash is created equal. Quality assurance and quality control testing is conducted routinely to ensure that material sold by Headwaters Resources meets exacting standards set by internationally recognized bodies such as ASTM and the American Concrete Institute.

In cases where coal ash may not meet formal standards or user requirements, Headwaters Resources also develops and evaluates technologies for making “unusable” ash usable. Technologies for removing residual carbon or ammonia from coal ash sources are common examples.

Headwaters Resources also develops and evaluates entirely new product applications for coal ash — working to expand the universe of uses for an abundant resource that still sees more than 70 million tons annually make its way into landfills.



Concrete samples are cast at Headwaters' Materials Testing & Research Lab



**Mission Statement:**  
*Headwaters Plant Services provides innovative management solutions for coal combustion products and other industrial residuals.*

## Headwaters Plant Services

A tanker truck being filled with fly ash at one of Headwater's load out facilities



Successfully marketing coal ash begins miles – sometimes hundreds of them – from the power plant where ash is produced. Headwaters Resources works with architects, engineers, and concrete producers to create demand for the resource, then builds and maintains the logistics networks necessary to supply ash where and when it's needed.

Coal ash is moved by truck and rail through an expanding network of storage and distribution terminals. Marketing programs and ash distribution infrastructure are developed to accommodate the seasonal nature of construction in many parts of the country.

Headwaters Resources representatives are continually engaged in increasing material supply capabilities to match customer demand that they have created. The result is a steadily growing share of the construction materials market, even in the face of a lingering economic downturn.

Headwaters Resources is the only coal ash marketer with a national footprint, enjoying diversity from more than 100 sources of supply and thousands of customer locations in every region of the country.

Although America currently recycles about 40 percent of the coal ash produced annually, that leaves tens of millions of tons of material that still must be disposed. Headwaters Resources has a long history of assisting its clients there, too.

For more than 20 years, Headwaters Resources has provided an array of services to electric utilities and industrial plants. These services have included landfill design, construction, operation and closure; disposal pond operation and clean-outs; operation of pollution control equipment such as Flue Gas Desulfurization equipment; and even the maintenance of heavy equipment and other vehicles on plant sites.

This disposal expertise is expected to become even more important as government regulation of coal ash disposal increases. New disposal standards now being developed are expected to significantly increase the complexity of disposal operations and completely phase out one type of disposal – the practice of placing coal ash in wet ponds. (Converting disposal operations from wet to dry handling is just one more capability in the portfolio of Headwaters Resources.)

Preparing for the changing coal ash disposal market, Headwaters Resources has created a standalone business unit – Headwaters Plant Services – to leverage its decades of disposal experience in a growing new market. Together, Headwaters Plant Services and Headwaters Resources can offer powerful synergies to utility and industrial clients. Compliance with emerging regulations can be attained with a skilled eye for increasing the beneficial use of coal ash as a preferred alternative to disposal.

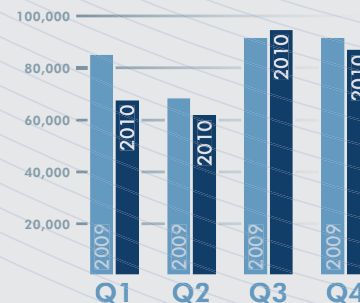
Decades of experience, the only national coal ash management footprint and full service capabilities make Headwaters Resources the industry leader in turning what some consider waste into valuable, sustainable building materials.

HEAVY CONSTRUCTION MATERIALS

# Light Building Products

## Mission Statement:

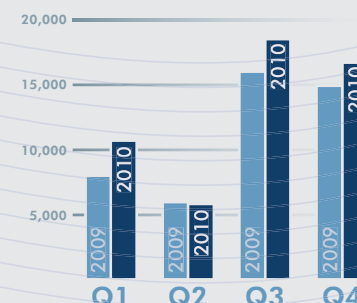
To be the brand experience leader in innovative building products through superior design, manufacturing and channel distribution.



Light Building Products

### REVENUE

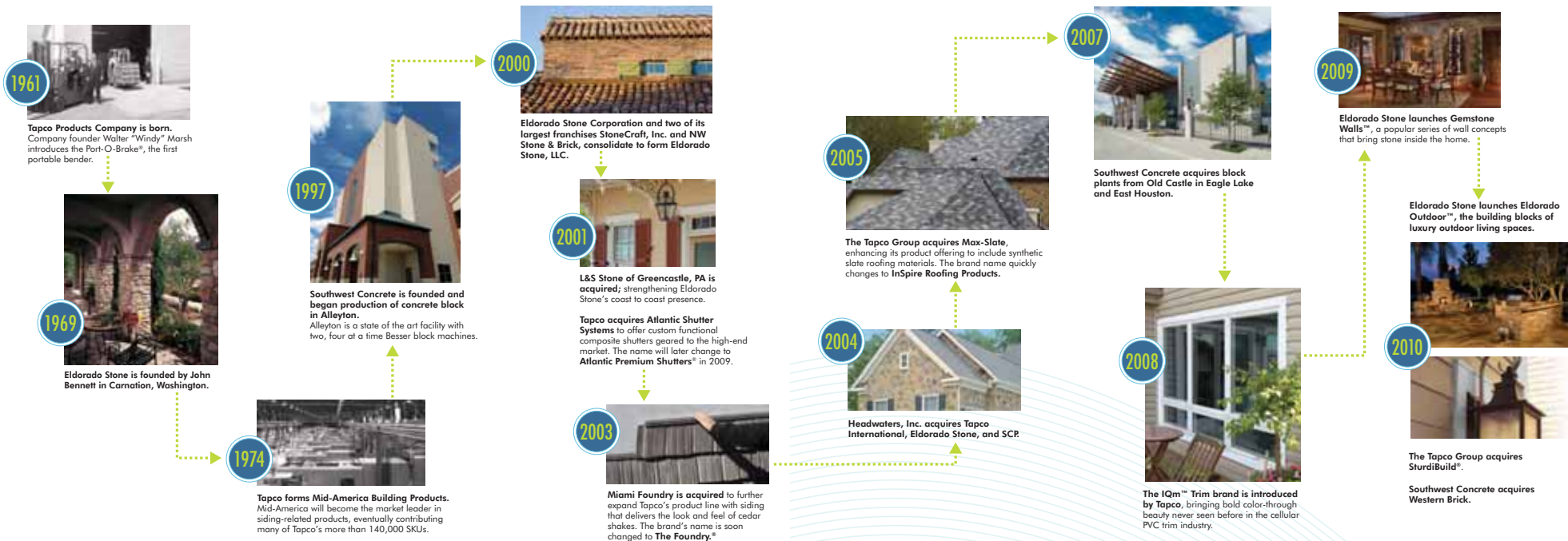
(dollars in thousands)



Light Building Products

### ADJUSTED EBITDA

(dollars in thousands)



## Our History

Building on Innovation

At Headwaters, innovation is our cornerstone. As a leader in the building materials industry, our history of innovation stretches back half a century. We began as a pioneer in the aluminum trim fabrication industry back in 1961, introducing the market's first-ever portable brake. Today, we are recognized as a premier provider of innovative interior and exterior building products, specializing in the manufacturing of stone veneer, masonry brick and block, roofing, siding, shutters, trim, tool systems, egress systems, siding components, and outdoor living products. Our industry leadership and steady growth have been achieved through strategic acquisitions that enhance our offerings with products that are a natural and valuable fit for Headwaters Building Products and its customers.

The depth and breadth of our product line portfolio allows us a full understanding of the markets. With a large number of masonry, one and two-step distribution points, we deliver well balanced distribution and versatility. Many of our products are also available through a large number of home improvement and specialty retailers. Our national presence is secured through operational excellence, including top-of-the-line inventory planning and better than 99% on-time delivery.

## Sustainability

*Headwaters Strives To Deliver Value By  
Optimizing Business Processes Focused  
On Long Term Sustainability.*

Headwaters has always focused on the sustainability of its products and services, embracing the conservation of natural resources, transforming waste materials into usable products, and reducing greenhouse gas emissions. During fiscal 2010, we continued to focus on the sustainability of our products and services, but expanded our commitment to sustainability by exploring opportunities within our operations to minimize Headwaters' environmental impact.

Headwaters' heavy construction materials segment continues to explore new areas where coal combustion products recovered from electric utility plants can be used in productive ways. Millions of tons of fly ash are beneficially used rather than disposed in landfills. The use of natural resources are minimized when fly ash is used as a substitute for portland cement or other aggregate materials, saving energy and resources. The heavy construction materials segment is consistently upgrading its mobile equipment fleet with newer equipment designed to produce lower emissions, as well as replacing diesel-driven pumps with ones equipped with electric motors. Headwaters' heavy construction materials segment is continuing to investigate other opportunities that will help increase efficiencies and reduce costs throughout its operations.

Headwaters' light building products segment produces a large variety of building products, many of which contribute to sustainability through the use of recycled materials, extended product life, and a positive environmental impact. This segment has undertaken a number of projects over the past year that has not only reduced costs, but improved the sustainability of its operations. For instance, crushers are being installed at a number of locations in order to grind waste concrete for use as a raw material. This effort will minimize the amount of waste concrete being sent to landfills and reduce raw material requirements from virgin sources.

Fly ash use in Headwaters' light building products continues to increase as existing plants are retrofitted with the necessary equipment to facilitate increased utilization. Other Headwaters locations are installing energy efficient lighting, and motion lighting sensors in various locations to help reduce unnecessary use of electricity. While other locations are testing Low-VOC (volatile organic compounds) paint systems in order to reduce VOC emissions from painting operations.

“...focused on  
Long Term  
Sustainability”

# Sustainability

*Headwaters Strives To Deliver Value By  
Optimizing Business Processes Focused  
On Long Term Sustainability.*



## Directors

**KIRK A. BENSON**  
Chairman, Chief Executive Officer

**RAYMOND J. WELLER**  
President of WanSutter, L.L.C.

**JAMES A. HERICKHOFF**  
President, Chief Executive Officer  
American Talc Company

**E.J. "JAKE" GARN**  
Former United States Senator

**R. SAM CHRISTENSEN**  
CEO of Black Bear Ventures

**MALYN K. MALQUIST**  
Executive Vice President  
Avista Corporation (Retired)

**WILLIAM S. DICKINSON**  
V.P. of Engineering and Technology  
Arco Products Co. (Retired)

**BLAKE O. FISHER, JR.**  
President of Blake Fisher Associates

## Officers

**KIRK A. BENSON**  
Chairman, Chief Executive Officer

**DONALD P. NEWMAN**  
Chief Financial Officer

**HARLAN M. HATFIELD**  
Vice President, General Counsel  
Corporate Secretary



10653 South River Front Parkway • Suite 300  
South Jordan, Utah 84095

phone: (801) 984.9400  
fax: (801) 984.9410  
www.headwaters.com

Sharon Madden  
Vice President of Investor Relations

Phone: (801) 984-9400  
Fax: (801) 984-9410  
smadden@headwaters.com

or

Financial Profiles

Tricia Ross

tross@finprofiles.com  
Phone: (916) 939-7285

American Stock Transfer

6201 15th Ave  
Brooklyn, NY 11219  
Phone: (718) 921-8208  
Fax: (718) 921-8335

## Forward Looking Statements

Certain statements contained in this report are forward-looking statements within the meaning of federal securities laws and Headwaters intends that such forward-looking statements be subject to the safe-harbor created thereby. Forward-looking statements include Headwaters' expectations as to the managing and marketing of coal combustion products, the production and marketing of building materials and products, the production and marketing of cleaned coal, the licensing of residue hydrocracking technology and catalyst sales to oil refineries, the availability of refined coal tax credits, the development, commercialization, and financing of new technologies and other strategic business opportunities and acquisitions, and other information about Headwaters. Such statements that are not purely historical by nature, including those statements regarding Headwaters' future business plans, the operation of facilities, the availability of feedstocks, and the marketability of the coal combustion products, building products, cleaned coal, catalysts, and the availability of tax credits, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 regarding future events and our future results that are based on current expectations, estimates, forecasts, and projections about the industries in which we operate and the beliefs and assumptions of our management. Actual results may vary materially from such expectations. Words such as "may," "should," "intends," "plans," "expects," "anticipates," "targets," "goals," "projects," "believes," "seeks," "estimates," "forecasts," or variations of such words and similar expressions, or the negative of such terms, may help identify such forward-looking statements. Any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances, are forward-looking. In addition to matters affecting the coal combustion products, building products, and energy industries or the economy generally, factors that could cause actual results to differ from expectations stated in forward-looking statements include, among others, the factors described in the caption entitled "Risk Factors" in Item 1A in Headwaters' Annual Report on Form 10-K for the fiscal year ended September 30, 2010, Quarterly Reports on Form 10-Q, and other periodic filings and prospectuses.

Although Headwaters believes that its expectations are based on reasonable assumptions within the bounds of its knowledge of its business and operations, there can be no assurance that our results of operations will not be adversely affected by such factors. Unless legally required, we undertake no obligation to revise or update any forward-looking statements for any reason. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this press release. Our internet address is [www.headwaters.com](http://www.headwaters.com). There we make available, free of charge, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our reports can be accessed through the investor relations section of our web site.



This annual report is printed  
on paper containing 20%  
post-consumer waste.