Headwaters manufactures and markets a portfolio of high-margin, niche building products that wrap the exterior of a home. The Company sells its building products through an extensive national network of one-step and two-step distributors, as well as retail sales through big box stores. Products distributed nationally include architectural stone, siding accessories, specialty roofing, and trim. Headwaters’ best-in-class building products are a welcome addition to any new or repair and remodel construction project.
Dear Fellow Shareholders:

In fiscal 2016, Headwaters posted its 21st consecutive quarter of year-over-year growth in revenue and Adjusted EBITDA. We reported revenue of $975 million, an increase of 9% over fiscal 2015. Gross profit increased 7% to $288 million, Adjusted EBITDA increased 14% to $190 million, and adjusted earnings per share increased by 38% to $0.99 per share.

Headwaters’ Building Products segment ended fiscal 2016 with revenues of $594 million, reflecting 13% growth over prior year. Adjusted EBITDA improved 17% to $119 million, and Adjusted EBITDA margins expanded to 20.1%. We should soon surpass our all-time building products record of $124 million Adjusted EBITDA, which was achieved with housing starts above 2 million, compared to roughly 1.2 million today. The improvement and growth in our business is quite remarkable.

In August 2016, Headwaters acquired the assets of Krestmark™, a manufacturer of vinyl windows that is focused on providing outstanding customer service. 2017 revenue is predicted to be in the range of $125 million, and Adjusted EBITDA margins should be accretive to Headwaters’ 2016 consolidated Adjusted EBITDA margin of 19.5%. Krestmark promises to make 2017 an exceptional year of revenue growth and margin expansion for Headwaters.

Headwaters’ Construction Materials segment posted record revenue and Adjusted EBITDA in fiscal 2017. Revenues increased 5% to $370 million and Adjusted EBITDA increased 15% to $92 million, with Adjusted EBITDA margins of 24.9%. When we acquired the fly ash business in 2002, Adjusted EBITDA margins were 14% - since then we’ve almost doubled our margins, and tripled total Adjusted EBITDA.

We anticipate continued growth in fly ash far beyond 2016. We’ve forecasted 2017 fly ash volume sales at between 6.1 and 6.5 million tons, a 14% to 22% increase over fiscal 2016. We have already taken steps towards achieving this goal by expanding storage and blending capabilities, reclaiming landfilled ash, and enhancing utilization. Reclamation of fly ash alone has the potential of resetting our entire business, providing growth opportunities for decades to come.

We’re excited about the promise of 2017, and look forward to another great year.

Sincerely,

[Signature]

C.A. Bensen
In August 2016, Headwaters acquired Krestmark™, a leading manufacturer of premium vinyl windows sold mainly into the new residential construction market. Based in Dallas, Texas, Krestmark has developed a best-in-class business model offering an optimal line of branded window products to a diverse customer base of homebuilders, lumber yards and distributors throughout the Texas and South Central regions of the U.S.

This acquisition was a natural fit for Headwaters’ business strategy, supplying customers and homeowners with high-margin, high-quality, niche products for the exterior of a home. It also provides Headwaters the opportunity to expand its building products business into the Southern half of the United States. It is predicted that the Southern U.S. will remain the fastest growing region of the country for years to come.

Krestmark is organized to ship high quality window products within five days of receiving a customer’s order. Short lead times are achieved through a highly focused work force, a limited and standardized SKU set, and an efficient and proven manufacturing process. The end result is a consistent, quality product every time. Short lead times, high-quality products, and outstanding customer service lead to unsurpassed customer loyalty. In a virtuous cycle, customer loyalty leads to increased sales, and an opportunity to create new loyalty.

Headwaters anticipates a very positive contribution from Krestmark. In 2017, Krestmark’s revenue will be approximately 10% of Headwaters’ total revenue and its Adjusted EBITDA margins will be accretive. In sum, Krestmark will contribute to Headwaters’ position as a top-tier building products company.
STONE PRODUCTS

Headwaters’ stone division has demonstrated over and over again the ability to create authentic stone products that elevate quality and design to an enviable level. Multiple national brands supported by nationwide manufacturing, channel distribution, and strong market presence, have led Headwaters to become the de facto choice for discerning architects, builders, developers, masons, and other end users.

Headwaters’ proprietary processes and trade secrets demonstrate the pioneering accomplishments that produce a product acknowledged “as the most believable and realistic stone veneer manufactured today.” Every piece of Headwaters’ stone products is cast from special molds, replicating natural stone. Headwaters selects stones from quarries across the U.S. that have been carefully vetted to reflect timeless beauty and natural characteristics. We select only those stones that complement each other and have just the right shape, texture, size and detail.

The Company has three leading stone brands in the market today. Eldorado Stone® provides high-end, hand-crafted stone profiles, with an unbelievable look of authenticity. Originally produced in an Ohio Amish community, the Dutch Quality Stone® brand reflects this strong cultural heritage and has become one of the industry’s leading brands, reflecting both quality and consistency. StoneCraft™ sells in an extremely competitive environment, offering a varied, but more limited, product offering. This three prong approach provides an array of unique product profiles that can meet the quality and price points demanded by Headwaters’ customers.

Headwaters’ stone division also offers a stunning and varied line of fire features and outdoor kitchen units, sold under the Eldorado Outdoor® brand. Along with outdoor living features, Headwaters also markets beautiful handcrafted fireplace surrounds.

Headwaters’ stone division is committed to producing the highest quality, longest lasting, and most affordable manufactured stone products in the market today.
SPECIALTY ROOFING

Headwaters’ specialty roofing division includes three niche product offerings: stone coated metal; composite; and concrete tile. All three products have achieved new heights in authenticity, beauty, and durability.

Our Inspire® Roofing line offers one of the industry’s finest composite slate and shake roofing products in today’s market. Headwaters’ premium stone-coated metal roofing product, sold under the brand name of Gerard® Roofing Systems, is available in a variety of different styles, including barrel vaulted, shake, and classic roofing products. Entegra®, the Company’s concrete tile roofing product, has a manufacturing facility located in central Florida, allowing it to distribute its roofing products throughout South Florida.

During fiscal 2016, Headwaters’ stone-coated metal roofing group completed the consolidation of its manufacturing facilities into a single site. This consolidation will help Headwaters cut overhead costs, increase profitability, and centralize back office activities.

Because Headwaters can provide builders, roofing contractors, and distributors with a wide selection of multiple high-end brands, the Headwaters’ specialty roofing group is now considered the “one stop shop” for specialty roofing systems.

SIDING AND TRIM

Headwaters’ siding accessories group has been an innovator in the building product industry, focused on the manufacturing of specialty siding, shutters, gable vents, mounting blocks, trimboards, decking, railing and tool systems. Headwaters’ integrated tool systems, sold under the brand of Tapco Tools® Systems, has manufactured these systems for the professional siding business since 1961. Headwaters manufactures and markets millions of siding units every year, producing quality products which have become industry standards. Most products are distributed nationally, mainly through one-step and two-step wholesale distribution.

Our family of brands delivers what our competitors cannot – solutions for building exteriors, designed to provide everything you need to produce a beautiful finished look. Headwaters knows that by creating beautiful, long-lasting products for new residential, repair and remodel, commercial and institutional projects, we are providing contractors and builders products they can rely upon year after year.
Headwaters’ Construction Materials segment is the largest distributor of coal combustion products (“CCPs”), primarily fly ash, in the U.S. today. Through the acquisition of Synthetic Materials LLC in fiscal 2016, Headwaters has also become a national leader in the processing and managing of synthetic gypsum. Both fly ash and synthetic gypsum are by-products that are produced at coal-fired power plants. High quality fly ash is used primarily as a mineral additive replacing portland cement in the production of concrete. Synthetic gypsum is used mainly in the production of wall board products and agricultural soil amendments.

Starting in the December 2016 quarter, Headwaters’ regional Texas block business will become part of the Construction Materials segment. Headwaters has formed cross-functional teams to identify and leverage synergies between the fly ash and block groups to reduce costs and improve margins.

Looking forward to 2017, we see strong demand for high quality fly ash, and anticipate that the newly acquired synthetic gypsum business will continue to grow while maintaining strong margins.

**BLOCK**

Headwaters’ concrete block operation is the leader in concrete masonry products sold in Texas. State-of-the-art concrete block manufacturing facilities located in Texas produce a wide range of concrete masonry units. Architects, contractors, and big box stores choose from a complete line of concrete products, including lightweight, normal, and heavy weight block, foundation block, architectural block, segmental retaining wall units, and a diverse line of hardscape products.

With the start-up of its new eighteen-at-a-time big board machine in the fall of 2016, Headwaters’ block group has the capability to enhance its production capabilities, while supplying the building community with unique masonry product lines, such as CalStar masonry units. Headwaters’ CalStar technology allows manufacturing of a wide variety of concrete products without the use of portland cement. The technology uses 100% fly ash as the cementitious binder, resulting in a new, sustainable design solution that delivers important environmental benefits for application in commercial construction.
FLY ASH

EXPANDING HEADWATERS’ FLY ASH SUPPLY

In order to strengthen Headwaters’ ability to meet the needs of its fly ash customers, we have long focused on ways to increase supply of high value coal combustion products (“CCPs”). Over the years, Headwaters has developed several methods to increase its high value CCPs inventory, including: securing new supply sources, procuring additional storage space, and blending non-specification ash with ash that meets specifications, resulting in a final product that meets ASTM standards.

More recently, Headwaters has been exploring the possibility of reclaiming high quality fly ash that has been previously stored in ponds and landfills. This reclaimed ash can be treated and then used beneficially in a number of applications.

RECLAMATION OF FLY ASH FROM LANDFILLS

The American Coal Ash Association estimates approximately one billion tons of ash have been sent to ponds and landfills since 1974. Many of these landfills contain high value CCPs that were disposed of prior to the implementation of NOx control regulations. These particular CCPs will typically have lower unburned carbon levels, and have not been subjected to activated carbon injections, making them a prime target for reclaimed CCPs.

Headwaters has been preparing to move forward with its fly ash reclamation process, and has already identified multiple sites. In the September quarter, the first of these sites moved into detailed engineering, and should commence installation of reclamation equipment sometime during the first half of calendar 2017.

Headwaters feels confident enough in its process that it predicts it could add tens of thousands of tons of additional high quality fly ash to its supply in 2017. Supply from reclamation sites should continue to grow as we become more efficient in the process, and identify and expand reclamation sites across the country.
In March 2016, Headwaters completed the acquisition of Synthetic Materials LLC ("SynMat"). SynMat is a leader in the synthetic gypsum processing and management industry. Synthetic gypsum is a valuable by-product derived from flue gas desulfurization ("FGD") systems at electric power plants.

In the 1990s, coal-fired electric utilities installed "scrubbers" in order to comply with the Clean Air Act regulations imposed by the government. FGD gypsum is produced by "scrubbing" the flue gases produced by coal fired utilities. The process begins by neutralizing an acidic, sulfur bearing solution, utilizing a form of calcium carbonate, such as limestone. A chemical reaction causes the precipitation of gypsum solids when sulfur dioxide is passed through the limestone slurry solution. The resulting gypsum slurry is then "bled" from the system and either dewatered using a mechanical process to produce gypsum cake or ponded onsite. Today, almost half of all gypsum used in the United States is FGD gypsum.

Synthetic gypsum can be used in the manufacturing of wall board, cement production, mining applications, and agricultural soil enhancement. Using synthetic gypsum also creates many positive economic and environmental benefits. Economically, it creates value from a product that would otherwise be landfilled, reducing waste management costs. From an environmental perspective, using synthetic gypsum encourages electric utility plants to capture their waste material and put it to beneficial use.

SynMat provides operations and maintenance services at ten different utility sites and manages over four million tons of bulk synthetic gypsum on an annual basis. Headwaters is benefitting from SynMat's utility relationships and expertise in adding value to Headwaters' existing 2.5 million tons of synthetic gypsum currently under contract. SynMat fits nicely into our utility-based supply network, providing Headwaters with relationships and products highly complementary to our fly ash business.
KIRK A. BENSON
Chairman and Chief Executive Officer

JAMES A. HERICKHOFF
President and Chief Executive Officer
American Talc Company

R SAM CHRISTENSEN
Chief Executive Officer
Black Bear Ventures

MALYN K. MALQUIST
Executive Vice President and Chief Financial Officer (Retired)
Avista Corporation

BLAKE O. FISHER, JR.
President
Blake Fisher Associates

SYLVIA SUMMERS
Chief Executive Officer (Retired)
Trident Microsystems

THOMAS N. CHIEFFE
Chief Executive Officer
RSI Cabinets
CAUTIONARY STATEMENTS RELEVANT TO FORWARD-LOOKING INFORMATION FOR THE PURPOSE OF “SAFE HARBOR” PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This report contains forward-looking statements relating to Headwaters’ operations that are based on management’s current expectations, estimates and projections about the industries in which Headwaters operates. Words such as “may,” “should,” “anticipates,” “expects,” “intends,” “plans,” “targets,” “forecasts,” “projects,” “believes,” “seeks,” “schedules,” “estimates,” “budgets,” “goals,” “outlook” and similar expressions are intended to help identify such forward-looking statements. Forward-looking statements include Headwaters’ expectations as to the managing and marketing of coal combustion products and other construction materials, the production and marketing of building products, the sales to oil refineries of residue hydrocracking catalysts, the development, commercialization, and financing of new products and other strategic business opportunities and acquisitions, and other information about Headwaters which 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 coal combustion products, construction materials, building products and catalysts. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and other factors, many of which are beyond the Company’s control and are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. The reader should not place undue reliance on these forward-looking statements, which speak only as of the date of this report. Unless legally required, Headwaters undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Among the important factors that could cause actual results to differ materially from those in the forward-looking statements are: changing feedstock and energy prices; actions of competitors or regulators; technological developments; potential disruption of the Company’s production facilities, transportation networks and information technology systems due to war, terrorism, malicious attack, civil accidents, political events, civil unrest or severe weather; potential environmental liability or product liability under existing or future laws and litigation; potential liability resulting from other pending or future litigation; changed accounting rules under generally accepted accounting principles promulgated by rule-setting bodies; and the factors set forth under the heading “Risk Factors” in the Company’s Annual Report on Form 10-K, quarterly reports on Form 10-Q and other periodic reports. In addition, such results could be affected by general domestic and international economic and political conditions and other unpredictable or unknown factors not discussed in this report which could have material adverse effects on forward-looking statements.