

# INVESTMENT PROFILE

## STOCK DATA

Recent Price (09/30/11) .....	\$1.44
52-Week Range .....	\$1.44 - \$6.41
Market Capitalization (millions) .....	\$87.0
Shares Outstanding (millions) .....	60.4
Institutional Ownership.....	58%
Price/Sales (2011) .....	0.2x

## OPERATIONAL DATA

*(Year ended September 30, 2011)\**

Revenue.....	\$592 Million
Adjusted TTM EBITDA as of 9/30/2011 .....	\$82.4 mm
Diluted EPS (FY 2011) .....	\$(3.80*)

\*Discontinued Operations

Headwaters is a leading manufacturer of light building products for the residential construction, residential remodeling, commercial and institutional construction industries. The Company’s portfolio of light building products consists of architectural stone, resin-based exterior siding accessories (such as shutters, mounting blocks, and vents), concrete block and other building products. The Company’s heavy construction materials segment focuses on the sale of fly ash, a material used in infrastructure projects.

Headwaters has more than 3,000 wholesale distributors around the country, generates incremental sales through big box stores, and has a direct sales network for heavy construction materials. The broad distribution system and superior reputation for quality has enabled the Company to capture the number one market position in all of its key niche product categories.

Headwaters’ focus on transforming underutilized resources into valuable products has helped it capitalize on increasing demand for building materials that contribute to sustainability. The Company’s fly ash business is a perfect example of sustainability. Headwaters is the largest supplier of fly ash in the United States today. Fly ash is a coal combustion product, a byproduct of burning coal at electric generating plants. Fly ash can serve as a replacement for a portion of the portland cement used in producing concrete for major construction projects.

The Company also has an Energy Technology Segment. This segment continues to focus on marketing its proprietary HCAT® technology. The technology is designed to upgrade residual oil feedstocks into higher-value distillates. In addition, the Company is also involved in the production of ethanol at its Blue Flint plant in North Dakota.

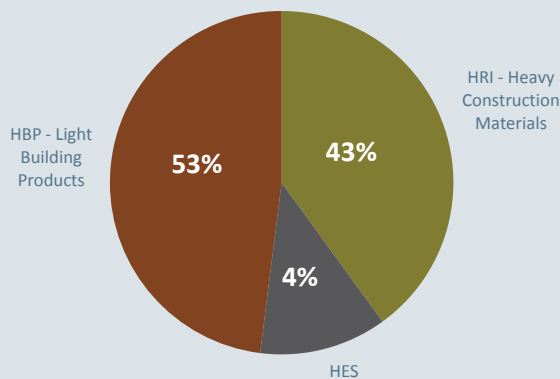
## INVESTMENT APPEAL

- *Premier market leadership positions in all business segments*
- *High quality product offerings with strong brand names*
- *Extensive and established national distribution network*
- *Long-term customer relationships and exclusive contracts*
- *Well positioned to benefit from improvements in the construction markets*
- *Significant operational improvements and cost reductions implemented in Fiscal Year 2011*
- *Completed debt restructuring providing greater liquidity and no near-term maturities*

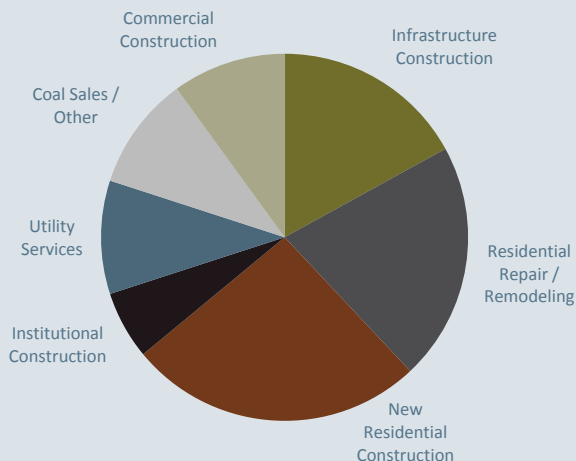
**INVESTMENT SUMMARY**

Headwaters has three business segments: Headwaters Light Building Products, Headwaters Heavy Construction Materials, and Headwaters Technology Segment. Headwaters enjoys diversified end-markets that position the company well to capitalize on an expected rebound in its light building products and heavy construction materials markets.

**2011 Revenue Breakdown of \$592 Million**



**Diversified End Markets**



**HEADWATERS BUILDING PRODUCTS**

- *Leading market positions*
- *Diversified revenue stream*
- *Innovative product development expertise*
- *Unmatched national distribution network*
- *Efficient manufacturing*
- *Margins among highest in peer group*

**LIGHT BUILDING PRODUCTS: MARKET LEADERSHIP AND DIVERSIFIED END MARKETS**

Headwaters Building Products (HBP) brands rank number one in U.S. market share for resin-based accessories products, and number one in U.S. market share for manufactured stone veneer. These two product lines position Headwaters in two high-growth areas of the construction materials market: specialty siding and manufactured stone. Headwaters also has the number one market share position in the Texas concrete block market for commercial and institutional construction.

HBP implements a strategy to produce environmentally sustainable wall components that minimize waste, conserve natural resources, and/or use less energy in manufacturing or application. HBP's wall products, which use a variety of raw materials and production processes, are offered via an expansive distribution system.

**HBP BRANDS AND DISTRIBUTION**

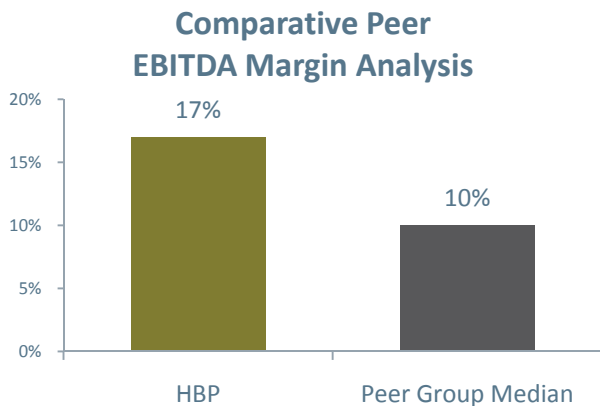
Headwaters is a market leader in the manufacturing of building products and professional tools used in residential remodeling and construction. As the largest U.S. manufacturer of injection molded siding accessories, Headwaters is the leader in each of its core markets and is the vendor of choice for both wholesalers and the leading U.S. home improvement retailers, including Lowe's and Home Depot. Headwaters' brands include Atlantic Premium Shutters™, Mid America Siding Components™, Tapco Integrated Tool Systems™, and others. Headwaters

is also a leading manufacturer and marketer of premium quality architectural stone veneer. Brands include Eldorado Stone®, StoneCraft, and Dutch Quality Stone. In addition to its stone product lines, HBP has introduced an architectural brick to complement stone siding. HBP is the leading producer of concrete blocks in Texas. Many of our concrete-based building products are more sustainable because of the use of fly ash, creating products at a lower cost and improved quality.



**HBP EFFICIENT MANUFACTURING AND BEST IN CLASS MARGINS**

HBP has consistently generated higher margins relative to its light building product peers. From 2007 through 2009 (peak to trough), HBP’s EBITDA margins averaged 17%, compared to average EBITDA margins of roughly 10% generated by most of its peers. The cost savings initiatives implemented in FY 2011 should start to reflect significant savings in FY2012 and FY2013, resulting in increased cash flow and improved margins.



**Average EBITDA Margin (2007 - 2009)**

*Note: The peer group median margins reflect the margins of CPG, Trex, Owens Corning, Ply Gem, Masco, Associated Materials, and USG.*

**HEADWATERS RESOURCES**

- *Clear market leader in fly ash*
- *Increasing market share*
- *Unrivaled national footprint*
- *Attractive long term market fundamentals*

**CLEAR MARKET LEADER**

Headwaters is the largest supplier of fly ash in the country today. When coal is burned in today’s modern electric generating plants, combustion temperatures reach approximately 2800 degrees Fahrenheit. The non-combustible minerals that naturally occur in coal form bottom ash and fly ash.

Fly ash can replace a portion of portland cement (normally 20% to 30%) used in producing concrete. Fly ash reacts with lime that is produced by the hydration of cement, creating more of the durable binder that holds concrete together. As a result, concrete made with fly ash is stronger and more durable than traditional concrete made exclusively with portland cement.

**INCREASING MARKET SHARE AND UNRIVALED FOOTPRINT**

Headwaters Resources (HRI) continues its efforts to increase supplies of quality coal combustion products and to expand its infrastructure and logistics system. These efforts, and HRI’s national footprint, have allowed HRI to continue to increase its market share even during the recession.

Due to the efforts that HRI has made to expand its supply, reduce its overall cost structure, and increase its focus on utility services, HRI has strengthened its ability to meet the needs of its clients and customers as the economy rebounds. Cement consumption bottomed in calendar 2009, and remained relatively flat in 2010 and 2011. A slight increase is anticipated in calendar 2012, with more rapid growth expected in 2013 and beyond.

**SUSTAINABLE AND BETTER FOR THE ENVIRONMENT**

The use of fly ash has positive environmental impacts, as it reduces landfill utilization. In addition, the use of fly ash helps displace portland cement production, which emits approximately one ton of CO<sub>2</sub> for every ton of product.

**“If all the fly ash generated each year were used in producing concrete, the reduction in CO<sub>2</sub> emissions would be equal to eliminating 25 percent of the world’s vehicles.”**

*– From National Conference of State Legislatures’ Briefing Paper entitled “Recycling Fly Ash”*

**HEADWATERS TECHNOLOGY SEGMENT**

- *Alternative energy platform*
- *Proprietary heavy oil upgrading technology*
- *Production of ethanol*

Since 2006, Headwaters Energy Services’ (HES) business was involved in upgrading waste coal into a marketable product by removing many of the impurities, mainly mercury and sulfur, and thereby producing a cleaner-burning coal. Headwaters has been in the process of actively trying to sell its coal cleaning business. As a result, coal sales revenue and results for the coal cleaning operations are now presented as discontinued operations for all periods. The Company expects to sell the coal cleaning business to one or more buyers by the end of fiscal 2012.

Currently, Headwaters’ Energy Segment continues to focus on marketing its heavy oil upgrading business through its proprietary HCAT technology, and continues to utilize waste heat from a coal-fired utility in the production of ethanol.

**ALTERNATIVE ENERGY PLATFORM**

In October of 2010 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 8<sup>th</sup> International Bottom of the Barrel Technology Conference in London.

On January 18, 2011, Headwaters announced that the Porvoo refinery had become the first refinery to commercially implement its HCAT technology. Additional HCAT proposals have been made to new customers.

**FISCAL 2011 AS REPORTED**

With the continued softness in the construction markets, total revenue for the year ended September 30, 2011 were \$592.0 million, down 1% from \$598.2 million reported in fiscal 2010. Gross profit from continuing operations decreased 13%, from \$171.8 million in 2010 to \$149.9 million in 2011. The operating loss from continuing operations in 2011 was \$(8.2) million compared to operating income of \$33.9 million in 2010. The loss from continuing operations increased from \$(21.1) million, or a diluted loss per share of \$(0.35) in 2010, to a loss of \$(133.9) million, or \$(2.21) per diluted share, in 2011. The net loss including discontinued operations increased from \$(49.5) million, or a diluted loss per share of \$(0.83) in 2010, to a net loss of \$(229.9) million, or \$(3.80) per diluted share, in 2011. For the 2011 year, adjusted EBITDA from continuing operations was \$82.4 million, compared to \$94.2 million in 2010. Results for the 2011 fiscal year were significantly impacted by the non-routine charges incurred in the March 2011 quarter as well as the restructuring charges incurred in the September 2011 quarter.

## CONTACT INFORMATION

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**FORWARD LOOKING LANGUAGE**

*Certain statements contained in this press release 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.*

**HEADWATERS INCORPORATED**
**Condensed Consolidated Statements of Operations (Unaudited)**
*(in thousands, except per-share amounts)*

	Quarter Ended September 30,		Year Ended September 30,	
	2010	2011	2010	2011
<b>Revenue:</b>				
Light building products	\$ 89,346	\$ 90,041	\$ 316,884	\$ 314,062
Heavy construction materials	84,734	82,554	258,264	253,300
Energy technology	3,789	5,523	23,065	24,592
<b>Total revenue</b>	<b>177,869</b>	<b>178,118</b>	<b>598,213</b>	<b>591,954</b>
<b>Cost of revenue:</b>				
Light building products	63,170	66,416	227,637	238,377
Heavy construction materials	59,745	59,911	192,785	193,006
Energy technology	2,101	2,917	5,999	10,648
<b>Total cost of revenue</b>	<b>125,016</b>	<b>129,244</b>	<b>426,421</b>	<b>442,031</b>
<b>Gross profit</b>	<b>52,853</b>	<b>48,874</b>	<b>171,792</b>	<b>149,923</b>
<b>Operating expenses:</b>				
Amortization	5,513	5,533	22,218	22,359
Research and development	2,261	1,503	8,182	6,451
Selling, general and administrative	27,935	23,053	104,013	111,358
Asset impairments and restructuring costs	0	11,738	3,462	17,930
<b>Total operating expenses</b>	<b>35,709</b>	<b>41,827</b>	<b>137,875</b>	<b>158,098</b>
<b>Operating income (loss)</b>	<b>17,144</b>	<b>7,047</b>	<b>33,917</b>	<b>(8,175)</b>
Net interest expense	(19,629)	(13,425)	(71,182)	(126,252)
Other income (expense), net	3,401	(46)	4,522	324
<b>Income (loss) from continuing operations before income taxes</b>	<b>916</b>	<b>(6,424)</b>	<b>(32,743)</b>	<b>(134,103)</b>
Income tax benefit (provision)	(207)	3,091	11,663	171
<b>Income (loss) from continuing operations</b>	<b>709</b>	<b>(3,333)</b>	<b>(21,080)</b>	<b>(133,932)</b>
Loss from discontinued operations, net of income taxes	(24,771)	(43,399)	(28,402)	(95,989)
<b>Net loss</b>	<b>\$ (24,062)</b>	<b>\$ (46,732)</b>	<b>\$ (49,482)</b>	<b>\$ (229,921)</b>
<b>Basic and diluted earnings (loss) per share:</b>				
From continuing operations	\$ 0.01	\$ (0.05)	\$ (0.35)	\$ (2.21)
From discontinued operations	(0.41)	(0.72)	(0.48)	(1.59)
	<b>\$ (0.40)</b>	<b>\$ (0.77)</b>	<b>\$ (0.83)</b>	<b>\$ (3.80)</b>
Weighted average shares outstanding -- basic and diluted	60,052	60,537	59,973	60,440
<b>Operating income (loss) by segment:</b>				
Light building products	\$ 7,410	\$ (5,760)	\$ 17,178	\$ (14,751)
Heavy construction materials	17,171	15,501	33,739	31,304
Energy technology	(2,267)	308	3,272	(10,397)
Corporate	(5,170)	(3,002)	(20,272)	(14,331)
<b>Total</b>	<b>\$ 17,144</b>	<b>\$ 7,047</b>	<b>\$ 33,917</b>	<b>\$ (8,175)</b>

**HEADWATERS INCORPORATED**  
**CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)**

*(in thousands, except per-share amounts)*

	September 30,	
	2010	2011
<b>Assets:</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 90,984	\$ 50,810
Trade receivables, net	92,279	90,931
Inventories	40,848	33,247
Other	21,156	16,818
<b>Total current assets</b>	<b>245,267</b>	<b>191,806</b>
Property, plant and equipment, net	268,650	164,709
Intangible assets, net	183,371	164,221
Goodwill	115,999	116,671
Assets held for sale	0	24,446
Other assets	75,687	66,384
<b>Total assets</b>	<b>\$ 888,974</b>	<b>\$ 728,237</b>
<b>Liabilities and Stockholders' Equity:</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 15,412	\$ 18,979
Accrued liabilities	82,892	94,223
<b>Total current liabilities</b>	<b>98,304</b>	<b>113,202</b>
Long-term debt	469,875	527,803
Income taxes	23,820	15,909
Other long-term liabilities	15,034	14,587
<b>Total liabilities</b>	<b>607,033</b>	<b>671,501</b>
<b>Stockholders' equity:</b>		
Common stock - par value	60	61
Capital in excess of par value	633,171	637,547
Retained earnings (accumulated deficit)	(350,940)	(580,861)
Other	(350)	(11)
<b>Total stockholders' equity</b>	<b>281,941</b>	<b>56,736</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 888,974</b>	<b>\$ 728,237</b>