

2011 ANNUAL REPORT



GROWING YOUNG MINDS

Celebrating 35 years of Helping Children Learn



**IT STARTS
WITH A SEED...**

Then, through nurture and care, that seed sprouts, takes root, and reaches for its potential, becoming the tree or bush or flower it was always meant to be.

Just as every seed has potential to become something more, so does every child. And just like the seed, it takes nurture and care to help each child see their own potential and reach for it.

Since our beginning 35 years ago, Waterford Institute™ has aimed to help children reach their full potential by providing them with a high-quality education. Through the development of educational models, programs, and software, we are providing children with the tools they need to succeed. We're helping children see what they can become.

We're helping grow young minds.



A MESSAGE FROM OUR PRESIDENT

Waterford Institute™ has always benefited from having a mission that is timeless. While many things in education have changed since we started 35 years ago, our passion for helping young minds grow is as strong today as it has ever been. I'd like to take a moment to talk about why that might be.

The need today for a robust education is beyond question. Economists have thoroughly documented the strong correlation between education and earning potential for individuals as well as for nations. During his visit here last September, President Wade underscored the vital role that he felt education would play in helping to lift his country, Senegal, out of chronic poverty.

We are driven by the sure knowledge that to help a child learn is to change what is possible. Education at its finest is not just training for a job; it is the expanding of horizons and the opening of a door to a life more richly lived. This enlargement, while experienced in a localized way by the individual, has effects that ripple outward and forward through time. There is a net compounding effect over time that benefits families, communities, and societies.

Education and its attendant knowledge have the remarkable property of not diminishing when shared. As Herb Walberg and others noted almost 30 years ago, the very act of learning enables and catalyzes future learning—it is inherently virtuous in nature.

We have never shied away from being at the forefront of this effort. Technology is not an end in and of itself; at its best it is a transparent enabler that magnifies efforts. In growing young minds, we firmly believe that the latest tools and approaches will lead to an explosion of effectiveness, much as the so-called green revolution brought about an incredible increase in the amount of productivity per hectare.

Other industries are far ahead of us and give us some indication of what to expect. Every technological approach has its advantages but can also cause unforeseen problems. It is unlikely that we are going to find a silver bullet, but the odds of meaningful change through the appropriate use of technology are overwhelming.



Benjamin Heuston

President and COO

Much like the green revolution, the technologies and scientific approaches that we have had such success with are turning out to hold great value for other nations as well. Even with very little customization, we are experiencing a passionate reception for our programs in Asia, the Middle East, Eastern Europe, and Africa.

While the particulars of the approaches or the technologies that we will be using to help children 35 years from now are currently unknown, one thing is certain: The educational opportunities for the world's children have never looked better.

Sincerely,

A handwritten signature in black ink, consisting of a stylized 'B' followed by 'H' and 'U'.

Benjamin Heuston, PhD
President and COO



THE BEGINNING

*(ca. 1971) Dustin Heuston while
teaching at Brigham Young University.*

“Dr. Heuston believed he could harness the power of technology to provide individualized teaching, allowing all children access to an excellent education.”

The history of Waterford Institute™ begins when our founder, Dr. Dustin Heuston, along with a group of educators, attorneys, and businessmen, realized the importance for every child to receive an equitable and excellent education, not just those who could afford it.

During this time, Dr. Heuston discovered the great potential computers could have in education. He and his team realized that a new generation of technologies was emerging. These new technologies would allow computers to be constructed and connected with databases that would double in power and storage every two years, without additional cost for many decades.

Dr. Heuston and his group understood that the current educational delivery system was limited to a manual-labor system. While other delivery systems had changed due to the integration of new technologies (transportation evolved from the use of horse and sailing vessels to train, car, airplane, and rocket), the educational delivery system had remained unchanged for decades, since the introduction of the book. From this and other examples, this group knew that the adoption of new technologies greatly improved the amount of work available for each delivery system, and it would do the same for education.

In September of 1976, Dr. Heuston and this group founded Waterford Institute to help accomplish their goal of providing children with high-quality

education through the use of computer technology. Through years of research and experience, we have learned much about the educational delivery system and the way children learn.

In 1989, Waterford Institute was involved in the New York City Project, which placed computers and software in 10 public schools that served low socio-economic populations. The goal of the project was to demonstrate the potential of computer-assisted



(1989) The New York City Project, which successfully demonstrated the potential of computer-assisted instruction.



(ca. 1981) *The Waterford School—first located in Provo, Utah—helped identify education issues and respond to them.*

instruction. From the New York City project, we found that the future academic success or failure of most children is determined by their performance levels at the end of first grade. Not every child who is having trouble learning to read in the first grade is doomed to failure, but statistically, as a whole, their lagging skill level does not change significantly after. Thus, we learned that we should concentrate our development efforts on the youngest children.

Waterford Institute's goal from the beginning has been to develop software that would be far more effective than anything ever built before. And it would be based on the latest research findings. Its core software, *Waterford Early Learning*,™ has proven to be an effective tool in helping children learn to read, while also teaching math and science skills. Over one million students every day benefit from the software's adaptive instruction, and children in countries around the world are also benefiting from it.

Building a new generation of children's learning software has turned into a rewarding enterprise.

Waterford Institute has been able to study the latest research; work with some of the world's leading experts in reading, mathematics, and science instruction; and take the necessary time to build a curriculum that is powerful enough to utilize much of the potential of new technologies.

In addition to creating excellent software, Waterford Institute founded the world-class Waterford School in 1981. It has served as a research school to help us identify education issues and respond to them. With over 900 students and supported by parent tuitions, The Waterford School has been a great asset in helping us understand and address the needs of early learners.

After 35 years, Waterford Institute continues to be focused on early childhood education, utilizing the latest-proven research toward technology-delivered instruction. Over 50,000 classrooms around the world benefit from our award-winning, proven educational products. And through our computer-based curriculum, we are helping plant the seeds for a lifetime of learning.



Today over 50,000 classrooms around the world benefit from Waterford Institute's award-winning, proven educational products.

A young girl with light hair is laughing joyfully, looking upwards and to the left. She is wearing a grey zip-up sweater. The background is a lush green forest with tall trees. A large, semi-transparent blue circle is overlaid on the left side of the image. The text "READYING THE SEEDS" is written in white, bold, uppercase letters across the middle of the image, partially overlapping the blue circle.

READYING THE SEEDS

***You can't just stick a seed in soil and expect it to grow.** A little preparation is needed. Some seeds need to be soaked in water or buried in a mixture of peat moss and sand before they can be planted. Likewise, Waterford Institute™ products require careful planning and preparation before they meet the needs of children. It takes a team of programmers, designers, artists, writers, and more to create a great product; continually make improvements and updates for it; and get it into the hands of children.*

Creating high-quality software

THREE MAIN PHASES

Product Definition: The seed of a great product. The product team spends time interviewing, observing, and researching our users and target market. They look at customer challenges and envision a product to meet those challenges.

Research and Design: From research to brainstorming to establishing specifics. An instructional designer and a user experience designer lead the effort in defining what to teach and how to teach it. They also lead a team to create a prototype that is tested in the usability lab to ensure it meets the needs of the intended audience.

Production: The creation process; creating a usable product. Programmers, graphic designers, writers, illustrators, animators, sound designers, musicians, videographers, quality assurance, etc. work together to create a high-quality, usable, product that meets the needs of all end users.

Customer Service

We want each child, teacher, parent, etc. to have the best experience with our products. Our friendly customer service team is ready to answer any questions and provide customers with needed assistance.

Communications

Whether it is technical documentation, marketing, or public relations, we are up to the challenge of creating Websites, brochures, info papers, anything to communicate who we are and what we do.

Teamwork is a big part of the Waterford Institute culture with a unified goal to help children learn.



A young girl with brown hair tied back, wearing large black headphones, is looking intently at a screen. She is wearing a light-colored, patterned top. The background is a warm, orange-toned image of a classroom or library with bookshelves. A large, solid red circle is positioned on the left side of the image, partially overlapping the text. The text "PLANTING SEEDS" is written in a bold, white, sans-serif font across the middle of the image.

PLANTING SEEDS

Waterford Institute™ has taken great care in selecting the right seeds to help grow children's minds, helping them become gardens of knowledge and new discovery. Our programs have been proven effective as well as engaging. Not only are children learning; they are having fun.

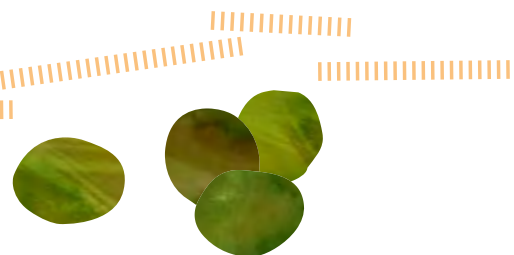
Waterford Institute Products

WATERFORD EARLY LEARNING

Composed of *Waterford Early Reading Program™* and *Waterford Early Math and Science Program™*, *Waterford Early Learning™* is designed to help all children build the foundation necessary for a lifetime of learning. With classrooms becoming larger and more diverse every year, traditional teaching methods are not enough. *Waterford Early Learning* individualizes up to four years of comprehensive reading, math, and science to give teachers, parents, and students the tools they need to succeed.

RUSTY AND ROSY READING

Because *Waterford Early Learning* has proven effective in teaching children in the classroom, parents have requested the use of the product in the home, where their children can experience the individualized curriculum every day. Waterford Institute has answered that request with *Rusty and Rosy Reading™*, a home-based product that provides the same research-based, engaging, and personalized reading content offered to schools. Through *Rusty and Rosy Reading* children discover new ideas and become confident in their learning successes.



A photograph of two young children, a girl and a boy, looking at a book together. The image is overlaid with a large, semi-transparent yellow circle on the left side. The word "GROWING" is written in white, bold, uppercase letters across the center of the image, partially overlapping the yellow circle and the children's faces. The background is a soft, out-of-focus indoor setting.

GROWING

As children receive quality education, they receive the tools they need to achieve their potential. They find the ability to burgeon, bud, and blossom. Everyday parents, teachers, administrators, and others are watching young minds grow as they experience products developed by Waterford Institute.™

Waterford Institute's goal is to provide all children with a quality education. Our reach continues to expand in more schools throughout the United States, to children in their homes, to schools and products in countries around the world, and to our community.



SCHOOL



HOME



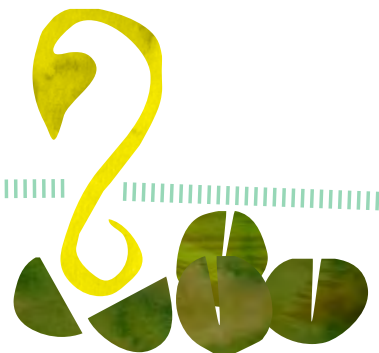
WORLD



UPSTART



COMMUNITY







SCHOOL

HOME

WORLD

UPSTART

COMMUNITY

I've never worked with any software products that can provide this type of individual instruction for every child."

—ANGIE COOK, COMPUTER LAB FACILITATOR

Growing Young Minds at School

For over a decade, Waterford Institute™ has partnered with Pearson® Digital Learning, a division of Pearson Education in North America, to provide schools with a solution to meet the unique learning needs of every early learner, even as classrooms become more diverse every year. As one of the world's leading education companies, Pearson has helped us expand the use of *Waterford Early Learning™* throughout the United States and its territories. Each day *Waterford Early Learning* is used by more than one million students across the nation.

In order to expand our reach even further and to meet the needs of all stakeholders in a student's learning, we invested significantly to bring *Waterford Early Learning 5* to market in July 2011. New features include

New deployment and architecture, which introduces a web-based solution that is easy for a district or multi-site customer to deploy and manage.

New browser-based manager and student login that simplifies the user experience for administrators, teachers, and students.

New drilldown reports that help inform decisions to improve student outcomes.

Enhanced personalization that ensures students are challenged and supported according to their individual needs.

With *Waterford Early Learning 5*, technical directors, data analysts, district administrators, principals, media lab managers, teachers, and students all experience the benefit of a simpler deployment, implementation, user experience, and reporting. *Waterford Early Learning 5* engages every school stakeholder in providing their youngest students with the foundation for a lifetime of learning and creates a platform for further Waterford Institute product development.



The enhanced personalization found in Waterford Early Learning 5 keeps students engaged and challenged.





SCHOOL



HOME



WORLD



UPSTART



COMMUNITY

Growing Young Minds at Home

Our founder, Dr. Dustin Heuston, has said, “The optimal time to invest in educating the child is in the kindergarten or preschool years.”

Waterford Institute™ understands the importance for children to learn early and establish critical foundational skills for reading before they enter kindergarten. That is why this year we have been working to establish a consumer market with *Rusty and Rosy Reading*™, a program that encompasses a complete language arts curriculum for children ages four through eight.

Rusty and Rosy Reading brings to the home the same proven-effective curriculum as well as many of the same songs and engaging characters and stories found in our school product *Waterford Early Learning*™. With three full years of content and a personalized learning path that adapts and responds to each child’s skill level, *Rusty and Rosy Reading* promises a product that is different from other reading software designed for the home. It’s a product created with young children’s academic futures in mind, designed to meet each child’s learning needs.



I love Rusty and Rosy! It has totally lightened my load. I have a Pre-K, 1st, and 3rd grader. The program exceeds all grade standards. It is very interactive, assesses proficiency and repeats material when it is necessary. I haven’t seen a program on the market that does what this program does and does it to such a high standard.”

—FREDA T., MOTHER





SCHOOL



HOME



WORLD



UPSTART



COMMUNITY

Growing Young Minds around the World

In 1990, Dr. Heuston challenged Waterford Institute™ design teams to create a program that would help every child learn to read. That challenge has taken on new meaning as our software has spread to nations around the world, providing instruction in English as a second or foreign language.

Children in many countries including China, Taiwan, India, Israel, Haiti, Ghana, Kenya, Rwanda, and Senegal now benefit from either *Waterford Early Learning™* or *Rusty and Rosy Reading™*. We are in active discussions with country-based and international organizations in Africa, Asia, the Middle East, Eastern Europe, and Latin America. It is gratifying, as we expand our reach, to see Waterford Institute's early learning software benefiting the lives of so many children under such a variety of circumstances.

We envision a great future as we continue to work with local and international organizations, as well as global partners like Intel® Corporation. Through Waterford Institute's software we are working to make English literacy, math, and science instruction available to children of all social and economic circumstances—regardless of gender, learning environment (in public school, in private school, or at home), or community (urban or rural setting).

Waterford Institute's international presence is full of potential, and we look forward to watching it grow.



Children gathering at the Waterford lab at the Kimihurura Primary School in Kigali, Rwanda.



Young children in Jerusalem enjoying their daily Waterford Early Learning session.



Children in Taipei learning center using Waterford Institute's software to learn English as a foreign language.

Growing Young Minds through UPSTART

Over the course of 35 years, Waterford Institute™ has come to understand three important issues:

- 1. We need to reach children much earlier than kindergarten and first grade.**
- 2. We need to use time in the home to offer direct, empowering instruction to children.**
- 3. We need a new model that supports technology at home from a distance.***

Utah Preparing Students Today for a Rewarding Tomorrow (UPSTART) has addressed all three concerns. UPSTART is an at-home preschool program funded by the state of Utah that uses Waterford Institute's learning software to prepare children for kindergarten and academic success.

UPSTART's second year was a success, with participants placing, on average, at the Kindergarten Advanced level. This indicates that before even entering kindergarten, UPSTART participants possessed the literacy skills of the top third of kindergartners nationwide.

*Heuston, Dustin H. *The Third Source: A Message of Hope for Education.*



“UPSTART is the reason my son is prepared to go to school. It has given him the knowledge to help him succeed in kindergarten. It has also given him the confidence to excel at school.”

—UPSTART PARENT

UPSTART Pre-K Program Year Two Results

Total number of participants:

1,449

99.9%

of parent respondents felt the program content was appropriate for their child's age.

Average completion level:

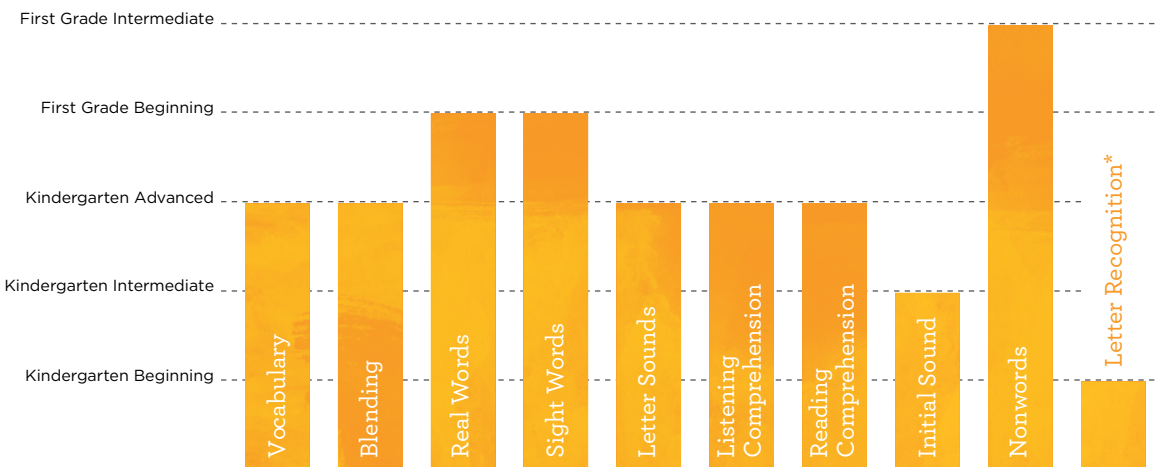
Kindergarten Advanced

UPSTART participants include children from rural and urban settings, all ethnicities, and upper and lower SES levels.

99.9%

of parent respondents felt UPSTART helped prepare their child for kindergarten.

In the final assessment (using *Waterford Assessments of Core Skills™*), participants averaged the following placement levels in the following pre-literacy skills:



*Maximum score possible is Kindergarten Beginning





SCHOOL



HOME



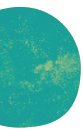
WORLD



UPSTART



COMMUNITY



Growing Young Minds through Our Community Center

The Waterford Institute™ Community Center was created for two purposes: (1) to perform studies on how children best learn using *Waterford Early Learning™* and (2) to further our mission and provide children in our hometown community with an opportunity to learn to read through our comprehensive, research-based curriculum.

The Community Center supports 200 students between ages 4 and 6. For 50 minutes to an hour and a half, 20 children per class period work through activities in *Waterford Early Learning*. Some time is also devoted to group learning or ‘Rug Time’ in which children focus on phonological awareness by listening to sounds and putting sounds together.

One of the most important attributes of the community center, however, is the way it empowers children and allows them to achieve success through the process of self-discovery. Parents have commented that they like how their children feel as a result of the process they experience in the Community Center. Their children come home happy, feeling powerful and important with the things they have learned. Waterford Institute’s software helps their children not just memorize but integrate information necessary for success.



Waterford Institute Community Center has increased my child’s confidence tremendously! She comes home from class happy, filled, and wanting to learn more.”

—AMBER, COMMUNITY CENTER PARENT



BLOSSOMING AND FLOURISHING

Every garden is full of activity. As the seeds grow and mature, helpers are busy in the soil and in the air, making sure the plants receive the nourishment and care they need to thrive. The year 2011 has been just as eventful as any garden. The following are just a few highlights....

Visit from Senegal's President Wade

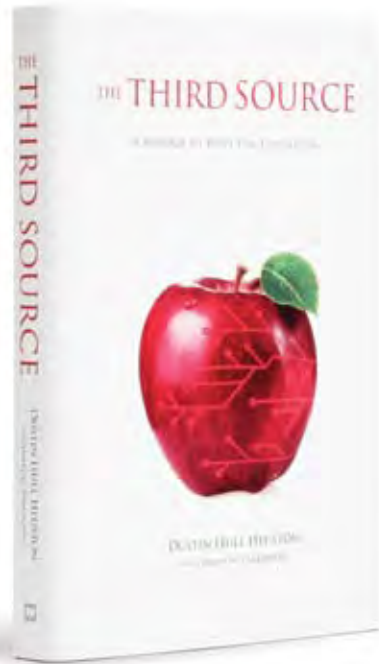
In September 2010, Dr. Heuston presented His Excellency Abdoulaye Wade, President of the Republic of Senegal, with the inaugural Waterford Award for Vision in Education for President Wade's commitment to advancing early education in Senegal. At the direction of President Wade, we have been working with Senegal's National Agency for Early Childhood Development. The Case de Tout-Petits in Dakar, Senegal—the national preschool program—established a pilot program using *Waterford Early Learning™* to teach English language and computer instruction in January 2010. We are now working with the Agency to deploy the program to other Case des Tout-Petit locations around Senegal.

Inaugural EETC Conference

In March 2011 we hosted our first Early Education and Technology for Children (EETC) conference in Salt Lake City, Utah. The conference featured diverse and enlightening topics from both renowned speakers and well-researched presenters. Keynote speakers included Dr. Marilyn Jager Adams (author of *Beginning to Read: Thinking and Learning about Print*), Dr. Grover J. Whitehurst (former Director of the Institute of Education Sciences at the U.S. Department of Education), and our very own Dr. Dustin Heuston (chairman, founder, and CEO of Waterford Institute™). Overall, attendees enjoyed the event and were impressed that this was our inaugural EETC Conference.



*Clockwise from left: Dr. Heuston with His Excellency Abdoulaye Wade, President of Senegal. Dr. Heuston's book, *The Third Source: A Message of Hope for Education*. Dr. Marilyn Adams presenting at the 2011 EETC conference.*



Ernst & Young Finalist

In May, Dr. Heuston was nominated as a Utah finalist in the Ernst & Young Entrepreneur of the Year award. The category for which Dr. Heuston was nominated honors a "social entrepreneur who has found an innovative, scalable solution to a pressing social problem." Dr. Heuston was acknowledged for his dedication to education and his vision to apply technology in education, which was not widely accepted when he first sought funding. But Dr. Heuston persevered; today Waterford Institute is a U.S. leader in preschool through second-grade software for reading, math, and science.

The Third Source Release

Of great note is the release of Dr. Heuston's book *The Third Source: A Message of Hope for Education*. Dr. Heuston wrote this book to address the potential of technology in the education system. "The adoption of the new metaphors," Dr. Heuston writes, "will encourage the development of a new generation of enhanced educational software that will be capable of activating the new delivery systems and will herald a new day of equality and excellence for children." The *Third Source* was released in September 2011.



HARVESTING THE FRUITS

It's to the beauty of the flowers or harvesting of fruit that every gardener looks forward, when that first bud blooms and then another and another.

It's seeing the potential of a plant take shape, bringing forth an abundance of fruit, that causes enthusiasm for baking and feasts.

It's that kind of potential that Waterford Institute™ sees in every child that inspires us to develop educational products and programs.

Imagine each child's future, full of promise waiting to be discovered.

It's that future we're working toward.





NURTURE AND SUPPORT

HELP US GROW YOUNG MINDS.

As a nonprofit organization, Waterford Institute™ invites your support to bring high-quality education to children around the world.

To contribute, visit www.waterfordresearch.org/contribute.





PARTNERS/ RESELLERS

***As a nonprofit organization,** Waterford Institute™ actively develops relationships with national and international organizations. Together, we are opening doors to new opportunities and helping children plant the seeds for a lifetime of learning.*

PEARSON

One of the World's leading education companies, providing learning materials, technologies, assessments, and services to teachers and students of all ages in more than 70 countries.



The most recognized brand in Chinese private education, providing a comprehensive range of educational services and products to address the needs of students of all ages.



A digital content service offered by EduTone, a global educational solutions company.

Intel® Learning Series

Advancing Education Worldwide

An alliance bringing vendors together to deliver locally relevant, integrated solutions to classrooms worldwide.

learnin3.com

Learning.com enables K-12 teachers to identify and meet individual student needs more directly, providing opportunities for key differentiated instruction via the Learning.com Marketplace.

Waterford Institute Donors

On the occasion of our 35th Anniversary, Waterford Institute would like to thank all of the donors who have supported our mission.

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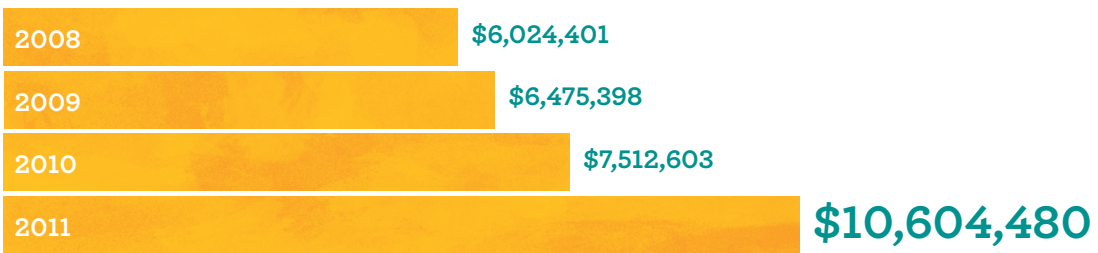
Vice President of Design
and Creative

The background is a vibrant teal color with a watercolor-like texture. It features several overlapping geometric shapes: a large orange circle on the left, a large yellow arrow pointing upwards and to the right, and various teal and blue triangles and polygons. There are also faint white circular outlines scattered across the background.

FINANCIAL REPORT

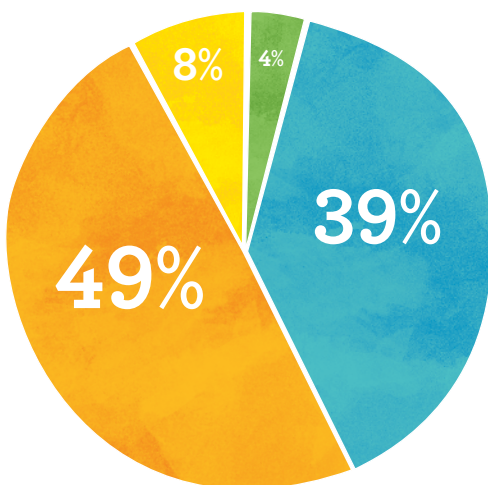
Waterford Institute™ operates on a fiscal year ending August 31. The following information is taken from the audited financial statements for the year that ended on August 31, 2011. For the purpose of filing our annual IRS Form 990, we consolidate our operations with those of our affiliates. The following information pertains only to the research operations of Waterford Institute.

Waterford Institute Net Assests



Waterford Institute Revenue Sources

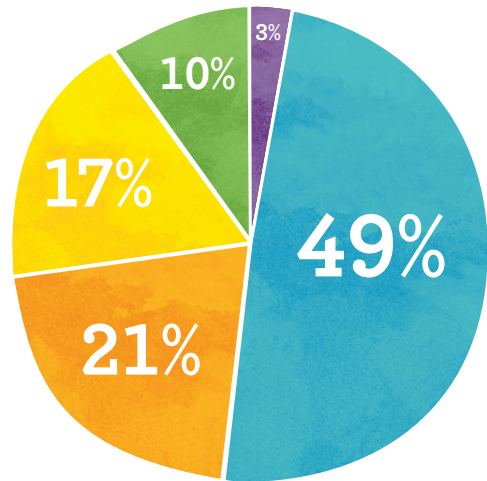
Revenue increased 13% in Fiscal 2011 to \$18.7 million. Sources of revenue were as follows:



- Distribution Royalties
- Development Fees
- Government and Other Agencies
- Product Licensing

Waterford Institute Expense Categories

Fiscal 2011 expenses of \$15.9 million were allocated as follows:



- Program Expenses
- General and Administrative
- Selling Expenses
- Research and Development
- Fundraising

Locations



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