



## **Citra Case Study**

A Joint Venture L3C

### **The Problem**

It is estimated that 1 in 88 people have some form of autism, 25% of whom are considered nonverbal. That is, they have trouble communicating and may only be able to say a few words. We also know that 1 in 691 babies are born with Down syndrome. Similar to children with autism, children with Down syndrome have difficulty expressing themselves. They are late in saying their first words, have a slow-growing vocabulary, and have difficulty mastering syntax and grammar. As a result, many teenagers and adults with Down syndrome are restricted to short, “telegraphic” phrases. This limits their social and cognitive growth, including their ability to build meaningful relationships with their peers. <sup>[1]</sup>

Individuals with Down syndrome, autism, and other speech impairments often use an augmentative and alternative communication method (AAC) such as sign language, picture cards, or electronic devices that convert text and images to speech. As technology has developed, electronic devices like tablets and computers have become common household items, and affordable apps have replaced prohibitively expensive and complicated AAC methods.



Children with special needs depend on a community of parents, teachers, guardians, and therapists for support. With the increase in the adoption of AAC apps by teachers and therapists, a child with a speech impairment may utilize different apps between home, therapy, and school. Consistency is vital to children with special needs. Switching between different sets that use different pictures for the same item can be confusing to the child and make it hard for them to learn and effectively communicate.

Beyond consistency of learning materials, communication among all the parties responsible for the child’s care is very important for their growth. After a therapy session, therapists will often communicate with the child’s parent about what to practice with the child at home. If the parent and therapist cannot communicate after a session, it is difficult for the parties to track the progress of the child and their learning will again be slowed.

### **About Citra**

Citra is an innovative app that addresses the need for a cost-effective AAC solution. It can operate on iPads, Android devices, or online. It stores everything in the cloud, allowing parents, teachers, and therapists to share lesson plans and post confidential notes to each other. The child is able to learn more quickly and can avoid confusing discrepancies between apps and images. The concept was originally developed by a group of Ohio State students working directly with the Columbus Speech and Hearing Center (CSH). Their mission was to increase the quality of life of children with special needs, while providing therapists with a tool that would help organize the hundreds of pictures used in speech therapy.

## A Joint Venture

After validating the initial prototype with the therapists at the Columbus Speech and Hearing Center, the management team and staff of the Tony R. Wells Foundation started to explore the benefits of creating a social enterprise. Market analysis determined the merits of marketing Citra to other speech and hearing centers, special needs teachers, and parents. The potential audience was a major consideration in the decision-making process. Since nearly all speech and hearing organizations are nonprofits, Citra would gain credibility if the Columbus Speech and Hearing Center created the app. However, the CSH management team did not want to be in the software app business, nor did it have the support staff to provide customer support. While the market size was not large enough to allow for traditional investors, the opportunity was perfect for a foundation investment.

All parties determined that the best solution was to create a separate joint venture between the Columbus Speech and Hearing Center and the Tony R. Wells Foundation. Since the Wells Foundation was created in 2001 after Tony and Dana Wells sold their Information Technology Training and Education business, the foundation felt comfortable hiring and managing technology resources. They would be able to move the Citra app from a prototype to a commercially viable solution. A new organization would be created and staffed through funding provided by an equity investment of the Wells Foundation. As a result, the foundation would be responsible for marketing, customer support, and future product enhancements.

The board of the Columbus Speech and Hearing Center spent four months debating the merits of being a long term equity partner in the joint venture versus receiving royalties for their contribution of intellectual know-how. They sought legal and accounting advice, which determined they would need to pay UBIT on all future income from the sale of the Citra app. The final recommendation and approval of the board was to share in an equity position with the Wells Foundation and receive a maximum potential of profits.

After considering the contribution of intellectual know-how by the Columbus Speech and Hearing Center and the total startup funding paid exclusively by the Wells Foundation, a reasonable split of equity was negotiated between the two parties. The foundation funding would be provided through a Program Related Investment (PRI) as defined by the IRS.

## Legal Structure

With the decision to make Citra a joint venture, the two parties needed to decide on a legal structure that was mutually beneficial. It was important to build trust by letting the market know that the primary purpose for developing the product was to create social value, not financial return. In 2013, the Columbus Speech and Hearing Center and the Tony R. Wells Foundation jointly agreed to incorporate Citra as a low-profit limited liability corporation (L3C). This allowed the Columbus Speech and Hearing Center to participate in their share of profits once the organization became cash flow-positive and participate in any long term value creation if the organization was ever sold. The legal structure was not a requirement to provide a Program Related Investment (PRI). However, recognizing an L3C as a social enterprise supported the mission of the Wells Foundation.

## Today

Citra's launch is planned for February 2014. Its goal is to have 400 clients within the first year and a revenue of \$1 million within four years.

[1] <http://www.down-syndrome.org/reviews/5/>