



interSector Partners, L<sup>3</sup>C  
What's *your* bottom line?

**WHO IS THE L<sup>3</sup>C ENTREPRENEUR?**  
*Come along and experience the next chapter*

FALL 2012  
interSector Partners, L<sup>3</sup>C  
Longmont, Colorado

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Erin Shaver

# FOREWORD

“It’s a great aversion of paradigm paralysis, I think. Very innovative,” I said one evening to a student in my cross-sector analysis class, after discussing at length this new hybrid form of social enterprise called the L3C. He looked puzzled for a moment. I waited a beat and then asked him if he needed clarification. “No, I understand it completely,” he said, “I just can’t understand why we didn’t do this sooner.” The query my student had—of why “we” didn’t do this sooner—is the standard reaction I get from most people when I describe the current research project I am undertaking, and what exactly these low-profit limited liability companies are. Our colleague Marc Lane (2011) explains it simply:

*The ‘L3C’ is a legal form intended to bridge the gap between for-profit and nonprofit functions... [it] combines the financial advantages and governance flexibility of the traditional limited liability company with the social advantages of a nonprofit entity. The primary focus of the L3C is not on earning revenue or capital appreciation, but on achieving socially beneficial goals and objectives, with profit as a secondary goal (p. 33).*

The L3C is one of several legal forms of social enterprise gaining traction in the United States. The production of social goods and services by nonprofit organizations has witnessed a number of shocks to their operations over the past several years and economic decline has provided substantial hardships that have threatened the sustainability of traditional public charities and human service providers to the point that nearly 280,000 nonprofit organizations shuttered over the past

three years (Philanthropy Journal, 2011). Obviously we can’t generalize as to why these nonprofits closed; surely the reasons are myriad from lapses in paperwork to insufficient capital resources, but it is a telling component of the state of American nonprofits. Not that they are weak or inefficient (though candidly, some are) but there are big changes developing within the American social economy. Nonprofit commercialization and other market-based approaches to providing social services have been increasing over the past several decades. We find ourselves in the midst of a considerable transformation. If a call to end the alleged faddism of social entrepreneurship is in order, consider it done. It’s time to take the L3C and social enterprise seriously, to recognize its strengths as well as potential limitations, and to make either incremental, or in some cases, radical changes as necessary.

Sometimes, when we take the time to dig deep and do our research, we find that fads are not really so. A recent example as of this writing is the buzz about changes to program related investments (changes that are potentially beneficial for L3Cs, as well) which most will claim were pioneered in the 1960s and 1970s, and yet Ben Franklin was essentially making PRIs in the late 1700s (Ford Foundation, 1974). Your first thought upon reading this might have been akin to mine.

*What didn’t that guy do?*

And while research on L3Cs thus far has largely been the province of legal scholars, researchers in other disciplines are starting to examine these unique organizations, as well. While the assessment

and analysis of the legislation and legality of L3Cs is critical, now that a sizeable number of these organizations exist, my mindset has been focused on sampling and surveying them beyond statutory and regulatory issues. With the number of current L3Cs growing, now is an optimal time to collect data and assess the initial impact of these organizations, and to give some variance to research in the area of social enterprise.

I reached out to Rick and Caryn precisely because of their early and continued work with L3Cs. Their excitement, as well as their pragmatism, led me to approach them. As a social scientist, I care about theory, but I also care a great deal about the applied elements of practice, and I saw these L3C pioneers as the perfect partners to help guide this component of my research. At the time of this writing, The 2012 National L3C Survey is in progress, and I look forward to what I hope will be interesting results from the nearly 600 organizations we are surveying. Data collection will also include a survey—believed to be the first—administered to L3Cs to: 1) assess managerial perceptions of the work these organizations are engaged in; 2) to contribute more to our understanding of organizational and environmental attributes of L3Cs; 3) examine the solicitation and use of program related investments (PRIs); and 4) to provide greater breadth and depth regarding the testing of empirical hypotheses concerning social enterprises. This would not be possible if it weren't for the groundwork laid by Rick Zwetsch and Caryn Capriccioso. Much of my guidance came before I had the opportunity to meet them, as it is was contained in the first iteration of this paper, which served as one of

the best primers of information on the L3C. This paper of theirs is tremendously useful to those who are seeking to learn more about L3Cs, and I hope my future research will be a complement to it. I laud them for their energy and commitment to L3C development, and consider myself fortunate to be counted among their myriad colleagues.

Who is the L3C Entrepreneur? Rick, Caryn, and Erin will tell you in these pages, and in the years to come, I hope we'll look upon them with the same ingenuity and innovative spirit exhibited by Ben Franklin to create sustainable blended value in these organizations. **Simply put, there is purpose in the profit and mission within the market.**

--John C. Ronquillo, Assistant Professor  
DePaul University School of Public Service

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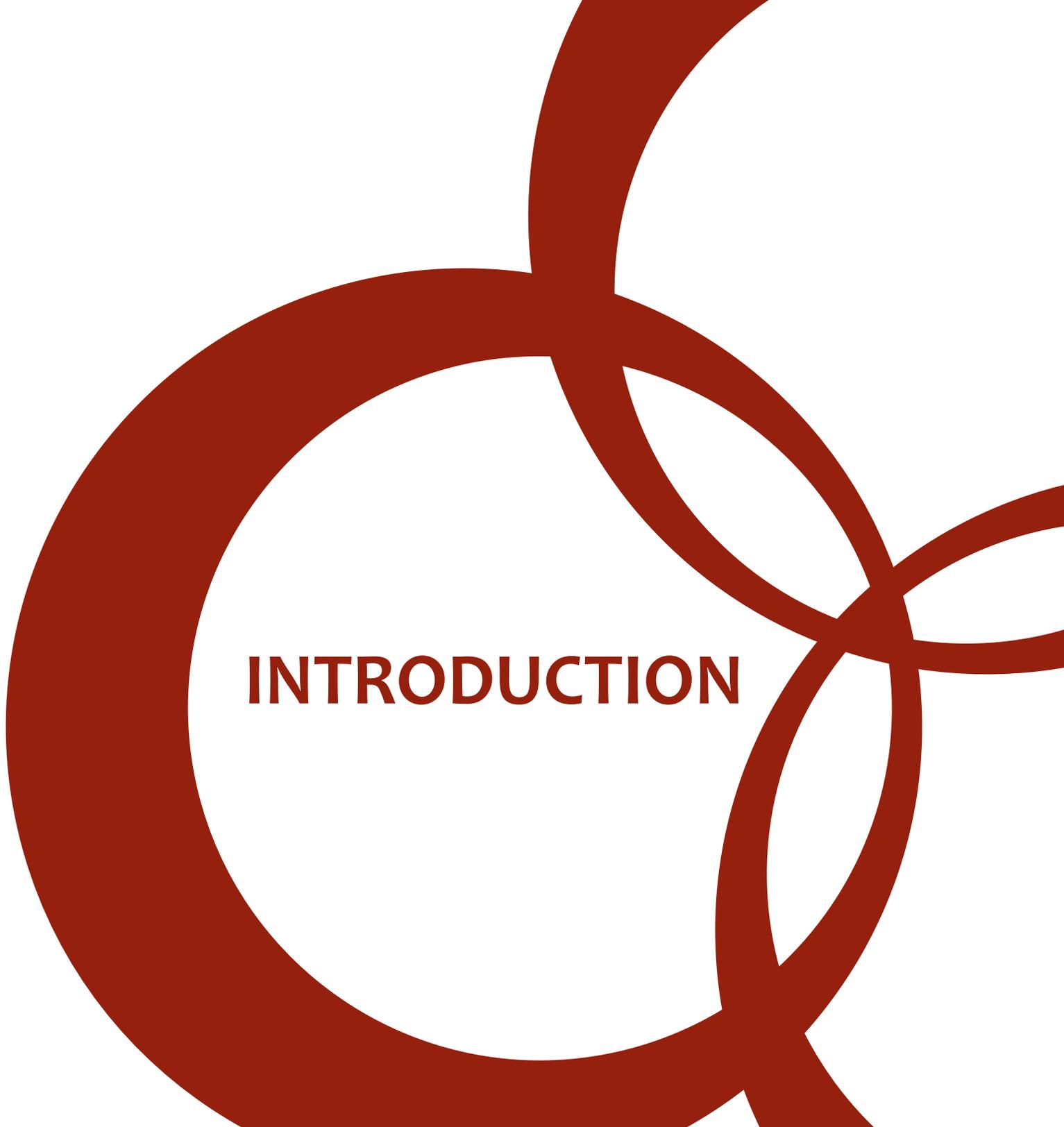
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# INTRODUCTION

# WHO WE ARE

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# WHY WE DID THIS

**“ The first version of  
our paper has been  
downloaded...more  
than 700 times ”**

## WHO WE ARE

We are interSector Partners, L3C, the 39th L3C in the U.S. and the first low-profit limited liability company doing business in Colorado. We—partners Caryn Capriccioso and Rick Zwetsch—organized our business in Vermont in early 2009 and are proud to be advocates of the L3C. We provide a wide range of services for nonprofits, socially responsible businesses and social enterprises, including: strategic, business and funding/financing planning; marketing and business development consulting; technical assistance; trainings and workshops; facilitation; and L3C education and training.

## WHY WE DID THIS

When we first wrote on the subject of L3C entrepreneurs—their motivations, hopes, dreams and challenges—in 2010, there were just over 175 L3Cs in the U.S. As of fall 2012, that number had increased more than threefold with 645 L3Cs organized in nine U.S. states: Vermont, Michigan, Utah, Wyoming, Illinois, North Carolina, Louisiana, Maine and Rhode Island as well as the Crow Indian Nation and the Oglala Sioux Tribe.

The first version of our paper has been downloaded from [www.interSectorL3C.com](http://www.interSectorL3C.com) more than 700 times, shared broadly beyond direct downloads and cited as a primary source in several papers on the topics of the L3C, and alternative and hybrid business models.

We wondered how people found the paper, where they came from and why they were interested in the topic of alternative business structures and the entrepreneurs who lead them. A summary of this data provides a glimpse into our readers and those interested in the L3C:

*Most frequent referral sources include:*

- Google search
- Wikipedia
- interSector Partners, L3C Web site
- LinkedIn
- Colleagues
- Friends of interSector Partners, L3C

*The first version has been downloaded by folks in the following countries:*

- United States
- Canada
- Spain
- Switzerland
- United Kingdom
- China
- Australia
- Latvia

*The most frequent downloads came from the following U.S. states:*

- Colorado
- Illinois
- Michigan
- North Carolina
- Louisiana
- Georgia
- New York
- District of Columbia

*Frequent titles of those downloading the paper included:*

- Attorney
- CEO
- Consultant
- Director
- Entrepreneur
- Executive director
- Founder
- Owner
- Partner
- President
- Principal
- Professor
- Student

*Frequent reasons for downloading the paper included:*

- Interested in starting an L3C
- Heard a lot about the L3C or am just now hearing about the L3C and want to learn more
- Wondering if the L3C can work in my state
- Students and others in academia doing research
- Professional advisors doing research/researching for their clients
- Getting ready to start a business and want to explore all options
- Interested in the pros and cons
- Friend, colleague or adviser recommended I read the paper



# WHAT THIS PAPER IS

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# WHAT THIS PAPER IS NOT

## WHAT THIS PAPER IS

This paper is a follow-up to our 2010 paper, and serves as a discrete, separate document that can be read with or without knowledge of the first. With so many new L3Cs around the nation, we decided to take it a step further than merely updating facts and to talk with quite a few new people and businesses and get a feel for what it was like for them four full years after the L3C began. In total, we conducted detailed interviews with more than 25 entrepreneurs in a dozen states for this second publication. While we checked in with several people we talked to the first time around, this time we focused on hearing from new people, especially those in states where there are a lot of new L3Cs.

In two years' time, much has changed but some things have remained the same. Questions, concerns and confusion still abound, and some new issues and opportunities have also arisen. By shedding light on the wealth of stories, ideas and business concepts—and the entrepreneurs behind them—we hope to continue to elucidate the true meaning behind the L3C movement, told not from one or two points of view, but from dozens of entrepreneurs who are going forward with their business ideas all over the United States. This paper will attempt to build on the first one without being too repetitive for previous readers and also be accessible to newbies to the L3C movement.

## WHAT THIS PAPER IS NOT

This paper is not a scientifically valid survey of L3Cs. It is based on qualitative, anecdotal research only. It is not a quantitative analysis and should not substitute for such data. This paper is also not a technical paper explaining the legal intricacies and of the L3C or persuasive paper advocating for the L3C. Several individuals who have been entrenched in this movement for many years have articulated the technical merits and flaws very clearly. (For suggestions on detailed legal and technical analysis of the L3C, see Appendix B.) This paper also focuses mostly on L3C entrepreneurs, not its detractors. While several weaknesses, challenges, issues and concerns over the L3C are raised in this paper, we did not specifically interview those who have spoken out against the L3C. You may notice that interSector is not included in the body of the paper. Although we have plenty to say about the L3C, our goal here is to share other's stories.



**THANK  
YOU**

This paper would not have been possible without the generosity of the entrepreneurs and advisors who gave of their valuable time to share their stories—especially those who contributed for a second time. They saw this paper as an opportunity to continue to contribute to a body of knowledge around the movement toward socially responsible business and openly, honestly shared their stories with us so that we could share them with you. Please take a moment to read more about these entrepreneurs and their businesses in Appendix A. We thank Erin Shaver, a colleague and friend of interSector, who once again spent countless hours conducting interviews, compiling stories and crafting much of what you read in this white paper. We also thank Mike Silvia who redesigned our business cards a couple of years back and was our first choice to handle the design work for the paper you're reading now.



# MAIN FINDINGS

## FIRST, THE BACK STORY

The low-profit limited liability company (L3C) was created by Robert Lang of Americans for Community Development and first passed into law on April 30, 2008, in Vermont. The L3C is built upon the existing limited liability company (LLC) business structure and it is designed to serve as a “hybrid” entity existing in the space between LLCs and 501(c)(3) nonprofit organizations. As such, it has been coined “the for-profit with a nonprofit soul”—it is a for-profit, social enterprise venture that under its state charter must have a primary goal of performing a socially beneficial purpose, not maximizing income. While still only available in several states, the L3C is legal in all 50 states in the same manner that a Delaware Corporation can be used anywhere in the U.S.

For the purposes of this paper, the L3C entrepreneur will be defined as someone who owns and runs an L3C, is planning to start one, or has worked to advocate for L3Cs through legal or political means. L3Cs entrepreneurs around the country hail from many fields and work in many different sectors and spaces; at the 2012 L3C Conference (organized and sponsored by Americans for Community Development), sessions included discussions on L3Cs in the arts, technology transfer, alternative energy development, healthcare, world sanitation, media/the news, economic development, and hunger/homelessness. The possibilities seem vast.

*The business owners we spoke with for this paper included those working in fields such as:*

- Education
- Technology/IT
- Environment/waste management
- Food systems
- Workforce development
- Socially-driven/nonprofit consulting
- International/humanitarian
- Industrial design

*Essentially, these businesses can be categorized in a few different ways:*

- Most are standalone, startup organizations
- Some exist as arms to help support the missions of existing 501(c)(3) nonprofits or LLCs, whether in an official legal manner or as an unaffiliated sister organization
- A few are converted from LLCs or LLPs or some other structure

*To classify them even more specifically:*

- Some of these organizations have simple missions and might have previously existed as a nonprofit or a socially minded for-profit company (LLC or corporate structure) but due to a variety of idealistic and funding-oriented motivations, formed as an L3C. Many of these are simple service- or product-oriented organizations, although certainly not all.
- Other L3C business ideas are much more complicated; they are working to create models to facilitate the integration of various sectors and resolve complex social problems. These L3Cs exist as businesses in previously untapped spaces—working between the sectors or entities to try and bring a variety of stakeholders together. Some of the areas these organizations are working within include urban agriculture, food distribution, education, waste reduction, low-income job opportunities, economic and workforce development, and healthcare. Through the L3C, they are hoping to build new and replicable models that can be implemented in other communities all over the nation.

## MOTIVATIONS

Most L3C entrepreneurs have a high level of engagement for both their business mission and for the evolution of social enterprise, or the “fourth sector” (as it is often coined)—private, public and non-profit/charity being the other three. They find the L3C opportunity, or at least the concept behind it, to be revolutionary. While it’s hard to generalize the conversations completely, we were able to identify several common threads throughout many businesses, regions and sectors that encouraged entrepreneurs to become an L3C:



### VALUES

Many entrepreneurs believe deeply in the power of embracing a double (or triple) bottom line concept—economic, social and ecological/environmental value; they also hold a core value that one can make money and solve social problems at the same time

### BRANDING

From a marketing standpoint, they appreciate that social responsibility is inherent in their business name and identity and known to all from the outset

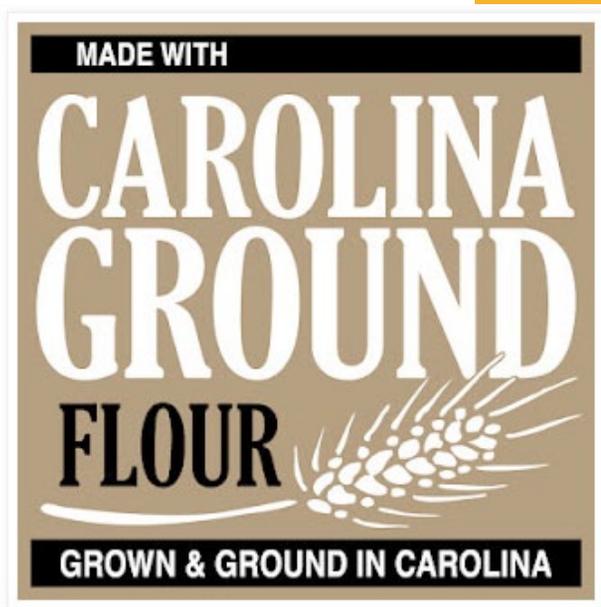
### FLEXIBLE CAPITAL

They believe in the need for flexible, nimble funding streams that can come from a variety of sources and feel the L3C is a step in that direction; they want access to foundation funding, namely program-related investments (PRI) and feel they could, in turn, help foundations by giving them a return on said investment

### FIDUCIARY RESPONSIBILITY

They believe it’s important to legally state that their first obligation is their identified social purpose, not maximizing profit or shareholder value; they worry that a corporate social responsibility commitment might change over time with different investors or leadership and that the L3C **legally and officially takes this a necessary step further**

So who are these businesses? Let’s take a look.



## CAROLINA GROUND, L3C

There is Carolina Ground, L3C, which is working toward bringing locally sourced, whole grain bread back to the Carolina region. Jennifer Lapidus, founder and general manager, worked for years as a baker and saw the price of grains increase exponentially in the region due to global events and the effects of the commodity index. In creating an intermediary between local farmers, millers and bakers, Lapidus is trying to close the gap between these entities to keep costs down and bring more local bread back to the region. While she sat down with students from several local universities (such as Wake Forest, Duke, etc.) and examined numerous business models, she kept coming back to the L3C, which had just passed in North Carolina when she founded Carolina Ground in 2010:

**“ We want this to be a vehicle for the farmer and baker and it’s not in and of itself there to make profit. Profit is good, and staying in the black is necessary, but the reality is we have tight margins and we’re trying to help the farmer and baker. Being an L3C, that is our mission: to change the buying practices of our bakers and to hopefully hone the skills of our growers so the two can meet in a place where it works for both of them. Choosing L3C was a very conscious decision for us, not because I thought everyone will support us, but because it just spoke to the heart of what we wanted to do.**

**– JENNIFER LAPIDUS, CAROLINA GROUND, L3C; ASHEVILLE, NC**

**”**



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# PARADIGM PROJECT, L3C

There's Paradigm Project, an international humanitarian project that develops and sells efficiency stoves and water filtration products in the most destitute areas of the developing world, financed through the international carbon offset markets. For Neil Bellefeuille, CEO, it was just a few years ago that he was sitting in marketing board rooms of Fortune 500 companies. Then, along with several partners, he started to stew on the idea of a part nonprofit/part for-profit international business model for helping the poor:

“

*Our purpose was really to build a business that was halfway between a for-profit and a nonprofit and the L3C structure helped create conversation around that. The only downside we have found for our purposes, with some investors, is the fact that because it is in between a for-profit and nonprofit it's difficult to understand what to do with it, how to look at it, and how to evaluate it. It's not charity and it's not full profit-seeking capital placement and therefore it's kind of this third strange thing and many don't know how to evaluate.*

*But the purpose is really to make that thinking happen, though, you know?*

*– NEIL BELLEFEUILLE, PARADIGM PROJECT, L3C; COLORADO SPRINGS, CO*

”



# HIGH DESERT FOODS, L3C

Then there is High Desert Foods, an organic fine foods business in southwestern Colorado that is looking to scale an ongoing sustainable farm operation with value-added products that create year-round organic farming jobs that are not dependent on the seasonality of farm operations. Bill Manning, owner, explains that although they have operated a similar business for years as a traditional for-profit, starting an L3C was an easy decision:

“

**From my standpoint, the L3C blended together the desire to support socially conscious values along with sustainable revenue producing stream, and it just made perfect sense. We’ve always had that desire to be socially contributing to the stability of the economy in this area and were originally just constrained by more established legal operating structures. What we are trying to do is facilitate a new food system. I think an L3C is a great tool to have in your toolbox for imagining how you are going to do this.**

– BILL MANNING, HIGH DESERT FOODS, L3C; DOLORES, CO

”

For some businesses, the structure being new and flexible allowed for creativity in the way they structure their company and, hopefully, in the way that can create change. For those in subsectors trying to solve social and societal problems—such as changing waste management systems or improving education in communities with failing schools—they felt that they really needed a new structure that focused first and foremost on social impact.



## DEDICATED TO MAKE A CHANGE, L3C

For example Gail Wolkoff, director of Dedicated to Make a Change, which works with Michigan teens through a variety of service learning projects, and Ramier Shaik, who runs TechJOYnT, a hands-on afterschool science and technology academy in Oklahoma City, each say having a new structure was a big part of why they started their respective businesses:

“

*To my core I believe learning is the most important thing in your life and our state is doing an excellent job making it so adolescents and teenagers are not interested in learning. I wanted a model that gave me the flexibility to do what needed to be done for the youth. The L3C gave me the freedom to work with youth and figure out what exactly needs to be done. It gave me what I believe to be essential to creating a change.*

– GAIL WOLKOFF, DEDICATED TO MAKE A CHANGE, L3C; YPSILANTI, MI

”

# TECHJOYNT, L3C



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*We want to be the YMCA of technology, meaning if people want to go play basketball, there is a hoop there for them. For learning, there is really not [an afterschool] place where you can go and acquire state-of-the art skills. I really wanted something in between nonprofits and for-profits and I was thinking if there was a mixed model where I could take advantage of grants it would work out very well. I'm not trying to make tons of money; just trying to do something that I enjoy. In the education business, to make it work, I have to create and chip away at a new business model.*

– RAMIER SHAIK, TECHJOYNT, L3C; OKLAHOMA CITY, OK

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# BECOMING AN L3C

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**Many L3C entrepreneurs come from a mix of the nonprofit and for-profit sectors...**

## BECOMING AN L3C

Most L3C entrepreneurs we spoke with formed their businesses between 2009 and 2011, with the majority in 2010. Their businesses ranged from just a single person working on the L3C as a side project to a full-functioning business with 15 employees. Most work on their business full-time, or are soon converting to full-time. Many L3C entrepreneurs come from a mix of the nonprofit and for-profit sectors, with a healthy mix of those with corporate experience versus those with activist backgrounds. Many others worked hands-on for years in their respective industries.

Since the L3C did not legally exist until 2008, most L3C entrepreneurs first learned about the concept between the years of 2009 to 2011. How they got started:

- **Internet searches, online news and social media** were common methods by which entrepreneurs first learned of the L3C concept—anything from a random Internet search, to finding an L3C feed on Twitter or Facebook, to reading a news or journal article about the L3C. Others named specific Internet sites where they get information on the L3C. The site that came up most often was the L3C Connect group on LinkedIn.com, which had nearly 1,900 members as of fall 2012
- **Hearing or reading** about the L3C when it arrived in their state was another way entrepreneurs learned of the structure. This was especially true of L3Cs in states that had more recently passed legislation.

- **Conferences and workshops** were another common way entrepreneurs first came in touch with the L3C concept—with many mentioning the Social Enterprise Alliance (national summit and local chapter events) as their top conference or workshop resource on the L3C. Others also mentioned Slow Money conferences, small business conferences or Americans for Community Development’s L3C conference (2012 was its second year).
- **Word-of-mouth or references from consulting firms, accountants, or lawyers, or through academic settings**, were other key ways entrepreneurs came in contact with the L3C concept.

Some had been involved in social enterprise from a theoretical or academic perspective for many years, while others literally happened upon the L3C when it came to their state. For Chris Miller, founder of The Mission Center, L3C, which provides HR, accounting and insurance assistance to nonprofits, working in academia at a major university with a big entrepreneurship center (in his case The Skandalaris Center for Entrepreneurial Studies at Washington University) cued him into the L3C well before he started his company:

**“** *We’re in a bit of a unique situation. I first became involved with the L3C movement because of my work at the entrepreneurship center at the university. I was privileged to be able to spend three years at a university learning about L3Cs before I went out and launched one.*

– CHRIS MILLER, THE MISSION CENTER, L3C;  
ST. LOUIS, MO

**”**

Erika McNamara, an attorney in Ann Arbor, Mich., who is the founder of the Michigan L3C Association, came into the movement from the opposite approach—literally starting her research on L3Cs at the same time she was in the process of helping to form one:

**“** *I had a client and she really wanted to open her own business that was like a nonprofit. I explained to her all the different components of a nonprofit and then I explained the structure of an LLC and she was like, ‘OK, that’s interesting, but isn’t there something in between?’ So I went to the handy dandy Internet and I started looking around and lo and behold, I found the L3C. I also found out that Michigan had it—this was in 2010. I didn’t really know much about it but I was willing to work with her and figure out what had to be done. So basically, I found it by accident.*

– ERIKA MCNAMARA, MCNAMARA LAW;  
ANN ARBOR, MI

**”**

# FILING THE PAPERWORK

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## FILING THE PAPERWORK

For the most part, the process is still relatively simple, entrepreneurs say: those wishing to start an L3C or convert an existing business to an L3C, must organize in a handful of states or Indian territories and, if doing business in a different state, must file in their own state as a foreign entity. This process incurs a small fee and requires the business to have a registered agent in the filing state.

When we wrote our first whitepaper in 2010, the entrepreneurs we spoke with were mostly organized in Vermont and operating in other areas all over the country. In the two years since, several more states have joined the fray, and thus, in 2012 there were also far more businesses operating in their home state:

**“ It just so happened at the time we started—we knew we wanted to serve nonprofits—but we were originally going to be an LLC. Then the concept of L3Cs was introduced to the state of Michigan, and it matched our organizational goals precisely. We are the first L3C in the state of Michigan. Someone must have been looking out for us up there. ”**

– KATHLEEN NORTON-SCHOCK, ARDENTCAUSE, L3C; DETROIT, MI

Most said the process was not all that complicated or cumbersome; in fact, several described it as incredibly simple—likely because becoming an L3C does not require any sort of review or approval procedure to be classified as an L3C. In fact, in many states, the paperwork is completely the same as one would use to form an LLC but with an addendum to explain the charitable purpose.

Yet despite the simplicity, several reported that there was still not a lot of knowledge or guidance at the secretary of state office they dealt with (especially in states that have more recently adopted legislation), nor was there a lot of support to guide them through the process:

***For me it was really easy to become an L3C. All I had to do was to explain it to the secretary of state, who didn't know what it was. There was no place to define yourself as a mission-driven business, and there was nothing to any degree stamped as L3C 'accepted or not accepted.' I don't know if that is different in other states.***

– JENNIFER LAPIDUS, CAROLINA GROUND, L3C; ASHEVILLE, NC

***To be frank, the attorney general's office is using the exact same paperwork that they submit to 501(c)(3)s—there was really nothing on the paperwork that speaks specifically to the L3C.***

***The cover letter explained that, ok you filed as an L3C you have to do this additional paperwork, but when you get into the details on the paperwork it speaks entirely to the 501(c)(3) so a lot of the points are not necessary. There were places on the application we just left blank or didn't really relate to our current business model. Our state hasn't really customized the paperwork for the L3C community.***

– AMBER GRIBBEN, URBAN WORM GIRL, L3C; CHICAGO, IL

Having to file in another state was not as much of a concern this time because more businesses we spoke to operate in the state they filed in. However, those that did need to file in a different state did their research and said they selected a state that they either had connections to, were geographically near, or felt had the most streamlined process. With legislation in place for over four years, Vermont still seemed to be the state that many out-of-state filers gravitated to if no personal connections or regional proximity came into play:



***We spent a lot of time deliberating on which one and it just came down that Vermont was pretty organized and to register was just easier. We tried to do it in Utah; we tried to do it in***

***Michigan. I used to go to school in Michigan and I go back there quite a bit but theirs was just so convoluted. With Utah we were thinking, let's pick somewhere close geographically. But we called the state and people there didn't know much about it. So by the time we did all of our research and looked at the benefits or values of registering in any of the available states, it just made sense to do it in Vermont. It was simple, straightforward and cost-effective.***

– STEVAN SIMICH, TACT, L3C; LONGMONT, CO

While the actual act of filing doesn't incur much expense or complications, several entrepreneurs said they found the process of obtaining legal help and TA in the area of creating L3Cs to be quite difficult and costly. This was especially true of those looking to develop more complex funding arrangements. Being that many entrepreneurs are still in the often-financially-strapped startup phase, it is an extra challenge:

***For those of us who are newly implementing this, it's unduly expensive. As with other existing corporate structures you can turn to your attorney and say, let's just build on the boilerplate of existing operating agreements and so forth and so on and keep the cost contained. You have to build these things from scratch right now.***

– BILL MANNING, HIGH DESERT FOODS, L3C; DOLORES, CO

***I find it really concerning and problematic that the best technical assistance anyone can get is so expensive. What small entrepreneur like me can afford to pay \$400 an hour? Wisdom is becoming increasingly proprietary. In a social enterprise space things are supposed to be open source.***

– PRISCILLA MENDENHALL, CROSSINGS KITCHEN; TUCSON, AZ

Another change in the two years since our last white paper is the issue of reporting. As mentioned previously, most L3C states do not require much in the way of filing or reporting. Illinois, however, is one state that requires a bit more. For example, its Charitable Trust Act states that any entity, irrespective of form, that holds assets for charitable purposes must report annually to the attorney general. This includes L3Cs. While that reporting is not as expansive as an audit, it is still extra requirement on part of entrepreneurs organizing L3Cs in Illinois:

***Illinois is a little bit different in that our attorney general, in accepting the L3C model at the state level, mandated that there is additional filing for L3Cs that is much more full disclosure. Illinois is a pretty infamous state, maybe is the best way to say it; we've had a lot of corruption so our attorney general is pretty aggressive in that way and didn't want to open the door to more abuse in accepting the L3C model.***

--AMBER GRIBBEN, URBAN WORM GIRL, L3C; CHICAGO, IL

Marc Lane, attorney, entrepreneur and advocate, says that the Illinois reporting has not been a negative issue so far with his L3C clients, which he estimates to be at around 100. He actually feels like it could be a slight advantage for Illinois L3Cs to have more requirements put on them in this early stage of the L3C movement:

***It has not been problematic nor difficult; in fact, since Illinois L3Cs are subject to the Charitable Trust Act, I think it gives them something of an advantage that they can say their organizations are subject to attorney general scrutiny just as nonprofits are. That tends to bring down some defenses. Some will disagree with me on the grounds of laissez-faire—that it's a for-profit entity, and we ought not to be involved—but there is not any burden associated with this. The attorney general has better things to do than look at charities that are for-profit. But I think it could give an advantage in the respect of dealing with foundations.***

– MARC LANE, MARC J. LANE ASSOCIATES; CHICAGO, IL

# A BIT MORE ON STRUCTURE

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## A BIT MORE ON STRUCTURE

Most of the organizations we spoke with were startups, with single owners or a pair of partners/founders. Several contracted for staff work, while others had hired a few employees. Most were fully operational. While many were standalone organizations in their current incarnation, several were connected to existing nonprofits or for-profit organizations, operating essentially as an L3C arm. Others were not legally connected to these existing agencies but loosely associated, or had formed solid working partnerships at the nonprofit level.

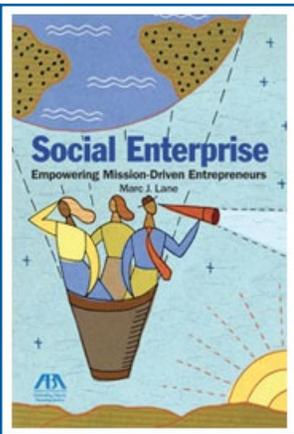
Several entrepreneurs said they observed in the first wave of L3Cs (2008 to 2010 or so) there were more straight startups that seemed to have no connection to existing agencies, which some found surprising. As the designation has evolved slightly, there have been more instances of interconnectedness between L3Cs and existing 501(c)(3) nonprofits, foundations or for-profit businesses:



“ *Right now it's [still] a lot of first-time business owners, which is interesting. I do think that when the L3C was first created they didn't anticipate that. They expected a lot of foundation and nonprofits to create their own L3Cs to give PRIs to as part of a bigger picture project and I think they were surprised and maybe even somewhat threatened by the small, scrappy little guys that popped up trying to start some kind of little venture on their own.*

– JAMIE JOHNSON, VERDE, L3C; CHICAGO, IL

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Social Enterprise: Empowering Mission-Driven Entrepreneurs, Marc J. Lane, ABA Book Publishing, 2011.

*I'm starting to see increasing embracing of the form by major nonprofits. Early on, I saw a lot of social entrepreneurs as kind of a startup situation. Now that continues, but we are seeing significant nonprofits using it as for-profit subsidiaries to isolate activities for asset protection purposes. So I think there is a greater buy-in in the established nonprofit community... As we see more and more organize for reasons other than capital formation, those latter are looking at other funding approaches or bootstrapping it, or they may be serial entrepreneurs with multiple companies. It's increasingly a less monolithic universe than we might have originally expected.*

– MARC LANE, MARC J. LANE ASSOCIATES, L3C; CHICAGO, IL

foundation (which has pledged to match private investments) and the university's existing Innovation Center, which already includes MSU Technologies and its Business-Connect program:

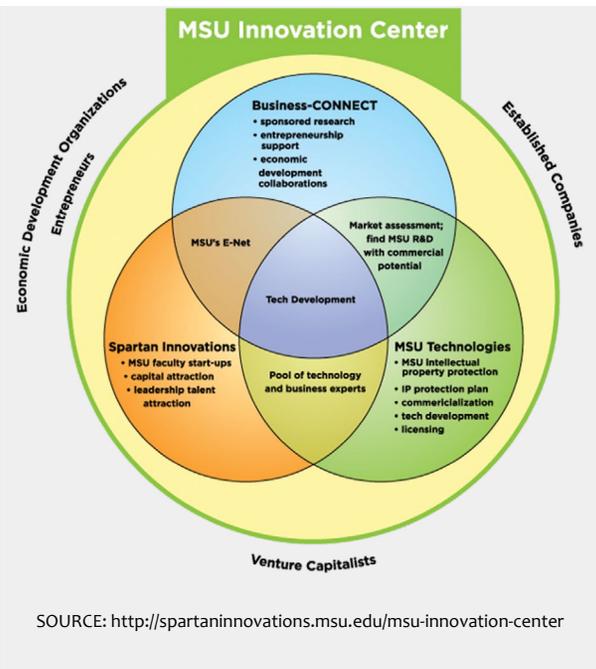
*Given what we do [the L3C] makes perfect sense. We need to be able to access grant dollars toward supporting entrepreneurship and education. But on the other hand, we're generating new for-profit companies, and the organization itself will likely generate a level of profit at some point in time... This structure will be flexible enough to go in a couple of different directions.*

–BRIAN ABRAHAM, SPARTAN INNOVATIONS, L3C; EAST LANSING, MI

### BUT WHY NOT A NONPROFIT OR LLC?

One of the biggest critiques of the L3C remains that the format is unnecessary. Part of the strength of this criticism is in the fact that it's factually true; one can form the exact same social enterprises you read about here in existing formats, most commonly either as a 501(c)(3) nonprofit organization or as traditional LLCs.

So what are the main reasons these entrepreneurs did not become nonprofits? One, they believe that their business could be a long-term, self-sustaining enterprise that could work to generate some level of profit efficiently and not require much use of fundraising, grantwriting or other charitable funding models. Quite frankly, they do not think they could raise enough money as a 501(c)(3)—especially in the current economic climate—to survive. As referenced in the foreword, thousands of nonprofits have shuttered in the past couple of years due to the changing economy and numerous factors that have hampered charitable giving and fundraising. With increasing competition for resources and dollars, these entrepreneurs are looking to create mission-driven models that don't rely almost solely on charity:



Foundations and nonprofits are beginning to form L3C arms as part of a new mixed-model approach to furthering their mission. For example, Michigan State University has recently formed Spartan Innovations, a \$2 million L3C arm for its foundation. The L3C subsidiary is chartered with turning university innovations, ideas and technology into viable startup businesses and will work closely with the

*I want to assure the financial sustainability for what I am creating over a period time including when I leave the organization. The L3C, if structured properly and if revenue streams are generated properly and the folks I'm working with end up being investors in it, it's going to have a longer shelf life [than a nonprofit].*

–PRISCILLA MENDENHALL, CROSSINGS KITCHEN; TUCSON, AZ

*I've worked with nonprofits and I'm trying very hard to get us out of the donation model. Profits are good because it empowers an organization to have the freedom and flexibility to do things that they might not be able to otherwise. The conversation of, 'Oh I'm rich and can donate my money'— it's not sustainable. I think nonprofits are a misnomer because it sets the stage for them to not be successful and you are set in the grant cycle, hat in hand just to keep your lights on.*

–STEVEN SIMICH, TACT, L3C; LONGMONT, CO

Two, they are in an industry/field that requires them to make quick business decisions to keep up with competitors and stay cutting edge in the field, which they didn't feel fit with the slower-moving pace of a nonprofit that must, for example, bring all decisions to a board of directors and meet strict compliance requirements:

*I felt like it was important to be a for-profit business instead of a not-for-profit. Developing so many new products I felt like the nonprofit would become too cumbersome. So I wanted to avoid that so I could be flexible and nimble in the market. It makes so much sense; this business structure is just something that you need being a social entrepreneur.*

–TIPPY TIPPENS, MATTER INC.; NEW ORLEANS, LA

*If we were a nonprofit my decisions would have to be taken to my board of directors for approval. As a startup, where things are changing daily, if not an hourly basis, for me as the L3C owner to make decisions quickly without board approval has been critical in our development.*

– CHRIS MILLER, THE MISSION CENTER, L3C; ST. LOUIS, MO

*If we were a 501(c)(3) we couldn't be quite as competitive as a privately owned company should be. There would be more board reporting, a lot more paperwork involved, and the ability to get funding would be a little bit different. So we became an L3C because we thought at least it would give us the opportunity to speed along, as technology companies often have to, and also be really clear to the world who we are.*

– KATHLEEN NORTON-SCHOCK, ARDENTCAUSE, L3C; DETROIT, MI

For the most part, these businesses felt that even as an LLC, they might be at the whim of investors or other partners that might try to change the mission of the business over time. They also appreciate that investors know who they are from the outset.

*Being a traditional business didn't necessarily speak to me because the business bottom line is profit and that is where everything in the business comes out to. So I was really attracted to the hybrid model—the way you could operate like a business profitably and quickly make transitions—but the same time you could say, 'I am mission-focused; I am concerned about the environment and I will not make a profit at the sacrifice of the environment.'*

– JAMIE JOHNSON, VERDE, L3C; CHICAGO, IL



Tippy Tippens, Matter Inc. | Verde Sustainable Solutions, L3C

*If I were an LLC and got traditional investors, I feel like I would have a harder time explaining who I am. As an L3C, I come into a room with enough of a mystery that people are going to treat me one of three ways: they'll say, oh I know about this and this is great, or I know nothing about this but I want to learn, or they'll say, I'm just not interested. It's like its own weeding process. So I know when I get to the point where I'm getting investors, which I'm confident I will, they are already going to know what Dedicated to Make a Change is about as a company.*

–GAIL WOLKOFF, DEDICATED TO MAKE A CHANGE, L3C; YPSILANTI, MI

Some organizations said they would have had to create multiple businesses—or perhaps couldn't have formed at all—without something like the L3C as an option.



*We would have probably created two businesses—a for-profit and a nonprofit—to be able to do the things we wanted to do. This allowed us to do it all. And then very importantly, it also just distinguishes us, to say we took all these things into consideration. This legal structure allows us to do that; it's a part of our brand. It reflects that we're more than just an LLC, that we're intenteive, I guess you could say.*

– STEVAN SIMICH, TACT, L3C; LONGMONT, CO



*There are six siblings in our family. Three were adamantly opposed to a learning center concept organized as a nonprofit. Three of us loved the idea of making an organization that was mission driven. Like I tell everyone—an L3C is the best of both worlds. We can preserve the integrity of the family farm and also have a broad reaching mission that drives our actions.*

– MARY COLBORN, ALLEGAN FARM & LEARNING CENTER, L3C; ALLEGAN, MI

For the states that have seen L3C legislation fail in the past few years—our home state of Colorado among them—however, the argument that the L3C is unnecessary has been one of the overriding reasons. For Pouria Paknejad, an attorney who worked to bring L3C legislation to Arizona in 2011 (it passed in the Senate but was ultimately killed in the House) that sentiment still seemed to outweigh the arguments of many professionals who spoke out in support:

*[The bill] had gone through four out of six necessary steps to pass and I was very, very upset when it didn't—it was a shameful defeat almost. I think if there is one thing the L3C movement can improve upon, it's explaining to people what the benefit is over traditional LLCs and traditional 501(c)(3)s. I think we understand the process better now and understand our mandate to try to explain to the legislators how it works a little bit better.*

– POURIA PAKNEJAD, VESCIO LAW FIRM; GLENDALE, AZ

## OTHER NEW ALTERNATIVE STRUCTURES

One major change to the L3C landscape in the past two years is the fact that other new alternative business structures have emerged and added to the social enterprise landscape. These structures include benefit corporations (in 10 states—California, Hawaii, Illinois, Louisiana, Maryland, Massachusetts, New Jersey, New York, Vermont and Virginia), benefit LLCs (Maryland), flexible purpose corporations (California) and social purpose organizations (Washington). Quick definitions:

- **Benefit corporation** - variance on corporate structure which mandates that companies and their boards take into account public benefits that impact society and the environment when making decisions; required to undergo third-party audit
- **Benefit LLC** - essentially the same as benefit corporations but within the LLC structure; available only in Maryland
- **Flexible purpose corporation** - variance on corporate structure that mandates companies must specify at least one “special purpose”—addressing environmental sustainability, for example, etc.; available only in California
- **Social purpose organization** - essentially the same as a benefit corporation; available only in Washington

(We will not spend extensive time analyzing the technical differences or pros and cons of each entity here—just their basic premise and impact on L3Cs.)

Benefit corporations have, by a large margin, taken most of the mind share thus far. First passed in Maryland in the spring of 2010, they came along about two years after the L3C and differ in that they are based on the corporate structure, not the limited liability structure. Like the L3C, legislation is slowly spreading around the country with pockets of higher enthusiasm and momentum. Vermont was the first state to offer both L3Cs and benefit corporations.

Amy Kincaid registered her Maryland-based consulting company, Change Matters, as a Benefit LLC— Maryland is the only state that allows for such a structure—rather than an L3C. The main reasons, she said, were because the L3C was not available in Maryland and because she doesn’t see her business ever needing a corporate structure:

***Our state was the first to have the benefit corporation. It was being considered at the same time as the L3C, I do think legislators have generally a limited capacity for this kind of legislation that seem like they are doing the same thing. California [which passed benefit corporations and flexible purpose corporations the same day] would be the exception to the rule. In our state I think there is a little more coverage and national level energy around the benefit idea versus the L3C.***

– AMY KINCAID, CHANGE MATTERS, BLLC; BALTIMORE, MD

One key issue with benefit corporations is they are NOT the same thing as B Corps, although the terms are often interchanged and confused. As one entrepreneur put it: “From a marketing standpoint, people cannot seem to distinguish the two.” While both were founded by B Labs, B Corp is a paid, third-party certification process that has been around since 2007—not a legal structure. Any business can apply to be a B Corp as long as it meets their standards; in fact, some L3Cs we interviewed for this paper were also certified B Corps:

***Benefit corporations and Certified B Corporations are often, and understandably, confused. Both are sometimes called B Corps. They share much in common and have a few important differences. Certified B Corporation is a certification conferred by the nonprofit B Labs. Benefit corporation is a legal status administered by the state.***

– JEFF HASKELL, FOUNDATION SOURCE; NEW YORK, NY

***In general, people don't seem to understand the difference between benefit corporations and B Corps. There is definitely a bunch of confusion out there. On average, I have to distinguish the two about five times a week.***

– KYLE WESTAWAY, WESTAWAY LAW; NEW YORK, NY

Expectedly, regional pockets where benefit corporation legislation has passed see more awareness. Given that California and New York, two of the three most populous—and often societally dominant—states in the U.S. have benefit corporation status, there is a sense by some that benefit corporations may have a marketing edge in the next couple of years, at least in some respects. It helps, some say, that the movement is also connected to some very large, well-known companies. For example, outdoor clothing outfitter Patagonia became the first benefit corporation in California earlier this year and many established, well-known companies are certified B Corps:

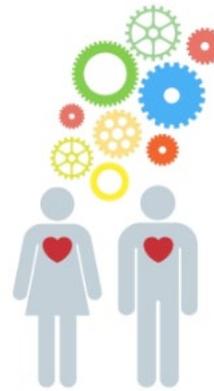
***Benefit corporations started as a project of B Labs, and B Labs has done an extraordinary job of creating this active membership and communication strategies around the membership they have. Their membership includes pretty exciting companies that anyone would know, like Method, Honest, Seventh Generation... I'm not sure that is prescriptive to L3Cs; they are tied more to service businesses and smaller businesses and geographically local business. That movement would have a different asset and a different message than B Labs. It would take a different communication strategy I think.***

– AMY KINCAID, CHANGE MATTERS, BLLC; BALTIMORE, MD

***People are more cognizant around here of B Corps than they are of L3Cs. I don't know what it is about the B Corp movement that got people's attention, but I've noticed a lot more recognition here for B Corps than L3Cs.***

–POURIA PAKNEJAD, VESCIO LAW FIRM; GLENDALE, AZ

While many see clear differences between L3Cs and benefit corporations, one entrepreneur we spoke with actually switched from an L3C to benefit corporation before the publication of this paper. Tippy Tippens, founder of Matter Inc., an industrial design firm in New Orleans, said she initially formed an L3C because it spoke to the fundamentals of what kind of business she wanted to have. When benefit corporations came to Louisiana in August 2012, she decided to make a switch, partially because she felt benefit corporations had more defined requirements (such as the mandate that benefit corporations undergo a third-party audit):



***I do think it will be good when the L3C has a little bit more definition. I actually included some of the B Corp bylaws in my articles of incorporation [when it was an L3C] because that was my way of saying that these are the things I want to do. I bank with a local bank, pay people fair wages, use sustainable materials, buy things that are regionally and locally sourced, etc... I think having those quantifiers is beneficial.***

–TIPPY TIPPENS, MATTER INC.; NEW ORLEANS, LA

Of course, others point out that while L3Cs don't currently undergo the same assessments and measurements as benefit corporations, they actually take the social enterprise concept the furthest legally than any other structure:

The baseline, from an academic perspective, is the real game changer for the L3C versus all these other structures is the change in fiduciary responsibility. That is the true innovation. The L3C is the structure that goes the furthest and truly changes the nature of operating a for-profit benefit company. Amending your governance documents is, again, important but it's not actually creating a legal requirement on the part of your operators or board. The theory is the L3C, with the codification of state law, takes it a step further.

–CHRIS MILLER, THE MISSION CENTER, L3C; ST. LOUIS, MO

# AWARENESS: MANY HATS, MANY DIFFERENT TALES

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## AWARENESS:

### MANY HATS, MANY DIFFERENT TALES

There have been dozens of mainstream media articles about L3Cs in the past couple of years; outlets like the New York Times, Fast Company and Forbes—as well as countless Internet blogs—have brought the L3C concept forth to the average consumer. There have been periods of heightened buzz and periods of relative quiet. Still, lack of awareness is a hurdle that nearly every L3C entrepreneur faces.

Two years ago, most L3C entrepreneurs that we spoke with felt there was little to no awareness of the L3C in their community—be it within their region or within their respective field. As one L3C entrepreneur succinctly put it in 2010: “Nobody knows what the hell it is.” Two years later, that sentiment isn’t quite as strong or wide reaching but there is still a lot of legwork to be done on the part of the entrepreneur:



“

I never met anybody else in southwest Colorado that had heard of an L3C, let alone move toward setting one up [when we first started]. So for us to initiate that and begin the conversation at the community level... that opened up a lot of discussion. Once we began to talk about it, some would have a light bulb moment, where they’d say, ‘Wow, what a good idea.’ So I see among probably half a dozen different groups or individuals [here] right now the idea is percolating.

– BILL MANNING, HIGH DESERT FOODS, L3C; DOLORES, CO

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*There is some awareness and I have noticed in the past few months there has certainly been a lot more. I actually get calls from people frequently, of ‘Hey, I want to learn more about the L3C, you’re one of the few we know of.’ I get a lot of requests for meetings: ‘We want to do an L3C too, tell us about it,’ whereas when I first started no one had heard about it at all. People now recognize it a lot more frequently.*

*--TIPPY TIPPENS, MATTER INC.; NEW ORLEANS, LA*



## Prosperity Candle

Gifts that change lives

*There has been some change in awareness over the past two years. More people know about the L3C or have heard about it. Not enough, certainly, but at least there appears to be progress. While I don’t feel it’s my responsibility to spread awareness, I do feel it is important to share our reasons for being an L3C, in part because it’s just nice to help out, but also because we’d love to see more people make the choice we did.*

*– TED BARBER, PROSPERITY CANDLE, L3C; NORTHAMPTON, MA*

There are distinct differences in awareness perception based on both geography and the specific subsectors entrepreneurs work within. Those whose businesses work deep within entrepreneurial and progressive spaces are, expectedly, seeing a greater sense of cognizance:

*I’m starting to see more people when I say, ‘Are you familiar with an L3C?’ They say that it’s not an issue for them. Part of that, I think, is the space in which I operate; TACT specifically works with impact organizations so these are people that are very much in the space of delivering goods and services to solve world problems and they are very familiar with this model. I think that makes a difference. Because of the space we’re working in, if people don’t get it, then on some levels it’s not a fit for us to work with them, honestly.*

*– STEVAN SIMICH, TACT, L3C; LONGMONT, CO*



*When people see the name of the company it’s a quick explanation... it’s a limited liability company with a social purpose. It’s a two-minute description of the purpose and why we chose that structure and everybody seems fine with it and understands. We move onto the business as opposed to really having to educate people.*

*– JAMES VANDER HULST, DISC L3C; GRAND RAPIDS, MI*

Those approaching the general public in states without legislation are, understandably, facing a lot more questions:



*Here, really nobody cared to know. I started out talking about L3Cs a lot but really most people don't have the appetite for it. It plays into a completely wrong conversation while I am trying to move forward, so right now I really don't mention the L3C. We are the first L3C operating here in Oklahoma, even now the way we are structured a lot of people don't recognize it.*

– RAMIER SHAIK, TECHJOYNT, L3C; OKLAHOMA CITY, OK

*People don't know what it is and [at first] I thought, 'Oh that is a great, we'll conjure up questions and we'll explain and we'll educate people.' The downside is I have definitely been treated as this clearing-house of information which I don't always feel qualified to be.*

– JENNIFER LAPIDUS, CAROLINA GROUND, L3C; ASHEVILLE, NC

In terms of marketing, there was a very mixed bag of responses when it comes to using the L3C term as part of their name, branding and website. Some use it on everything, others on virtually nothing, and to many others customize their use of the term based on their audience. For some business concepts, the structure and business explanation merge more seamlessly than others; for those that had a complicated business concept to explain, sometimes the L3C explanation sidetracked from their actual business description:

*I would go into a sales meeting and I would spend an hour explaining what an L3C was and minutes talking about our services. In that context, from a sales perspective, it was almost distracting.*

– CHRIS MILLER, THE MISSION CENTER, L3C; ST. LOUIS, MO

*I've been coached that when I am just having conversations with people, that I should not even say I'm an L3C. [That I should] just to say Ethical Impact because the curiosity about the L3C detracts from what it is I'm doing. I feel like I'm a standard bearer for the L3C, so I do like to have that conversation. However, if I'm trying to get a client, it's a distraction.*

– KATHRYN ALEXANDER, ETHICAL IMPACT, L3C; BOULDER, CO



*My website is [verdel3c.com](http://verdel3c.com) and I have been told to change that by multiple people. They claim, and rightfully so, that 99 percent of the people I meet that have any kind of interaction with my business, they don't know what the L3C is. I'd like to keep it, even if in some ways it hurts me, because I find that once I tell someone and educate them about the L3C it adds a layer of credibility to what I'm trying to do.*

*I don't go out and try to exclusively tell people about it as much as I used to, but now that I am reaching more people just in general it's being conveyed anyway.*

– JAMIE JOHNSON, VERDE, L3C; CHICAGO, IL



*We probably incorporate the L3C term more in our marketing materials and our PowerPoints and presentations and things like that. We've included it for different audiences when it feels applicable; we haven't emphasized it as much on the website and we do kind of fill in in-person when it feels appropriate. I do feel sometimes the term is so unknown to people that it's a bit confusing so it's easier to explain in*

*person. I think for the most part people have maybe heard of it here or there but are unfamiliar with what it implies.*

– AMBER GRIBBEN, URBAN WORM GIRL, L3C; CHICAGO, IL

For some entrepreneurs, finding lawyers or accountants to aid them in forming their businesses has been challenging. Not only is there a lack of awareness in the legal and accounting communities, there are also a lot of skeptics, but this challenge is also changing as more attorneys become knowledgeable on the subject matter:

*My perception is the attorneys who have an active interest in setting up and being involved in L3Cs are all concentrated in large urban areas in a specialized niche of legal work, which makes sense. But, geographically what that means in the mountain west [or other more rural places] is there is very little opportunity for people to stumble across an attorney who speaks to what these are or could help set one up.*

– BILL MANNING, HIGH DESERT FOODS, L3C; DOLORES, CO

*In addition to everything else that I'm doing to start my business, I'm going to have to educate the public about the L3C. Every lawyer or accountant I have mentioned it to draws an utter blank.*

– PRISCILLA MENDENHALL, CROSSINGS KITCHEN; TUCSON, AZ

Quite a few Bar Associations have come out against the L3C (again, our home state of Colorado among them). Some attorneys who work in the space say not is there a lack of awareness and/or support of L3Cs within the legal community, but also a great need to educate potential clients and entrepreneurs about L3Cs and other hybrid structures so they know what they are really getting into:



*In general, I still don't think there is a lot of knowledge in the legal community about what it is and those that do understand it—they don't see a need for it. They think, 'Hey, you can do the exact same thing with an LLC and the L3C doesn't really provide you with any added benefits,' other than maybe some branding benefits. And there are quite a few entrepreneurs I meet that are interested in the L3C that think it will do more for them than it really will.*

– RYAN HOWELL, RUBICON LAW; DENVER, CO

*I think right now I would just like to see more information readily available not only to people who have an L3C but people who are thinking about it. I field a call at least every week about someone thinking about doing it. People say, 'I cannot find enough information on this that is specific enough for me to understand and that's why I am calling you on the phone.'*

– ERIKA MCNAMARA, MCNAMARA LAW; ANN ARBOR, MI

## AGE-RELATED DIFFERENCES

L3C entrepreneurs said they tend to find the most awareness and interest in the L3C—and hybrid business structures as a whole—from people who they would describe as early- to mid-career or in their 20s or 30s. Several said the older generation of entrepreneurs they come across have tended to focus more on their experiences and the obstacles an L3C might present rather than a willingness to embrace new ideas, at least initially:



*I think for the most part the interest and enthusiasm and love for the idea of these forms are people in their 20s and 30s. There is this assumption that if they are going to start a business, it's going to be starting from balanced, triple bottom line perspective. It's not*

*that people in their 40s, 50s and 60s don't get it; there are other questions in play. You get a bunch of technical questions that are based on experience, but are further out from the impulse.*

– AMY KINCAID, CHANGE MATTERS, BLLC; BALTIMORE, MD

*There is a movement among Generations X, Y and possibly Z, when they become adults, to find something bigger and better to attach themselves to. Very few people want to work on an assembly line and, even more importantly, want to go work for companies that aren't doing something really good.*

– KATHLEEN NORTON-SCHOCK, ARDENTCAUSE, L3C; DETROIT, MI

*The L3C movement does allow a viable alternative vehicle for startups looking to do something positive in the world. I'm 30 years old so I am part of a newer generation of attorneys. The guys and gals our age are doing startups now that have a higher goal than just profit. And that is at the crux of what an L3C is; it seemed to mesh perfectly with modern of school of thought coming through in a lot of the younger professionals in this generation.*

– POURIA PAKNEJAD, VESCIO LAW FIRM; GLENDALE, AZ

More specifically, several commented that it's really part of a bigger picture investment strategy change. Several feel that older investors and business owners—even ones that are very philanthropic—have become accustomed to the longtime model of completely separating their profit-making investments from their charitable ones. Several feel that this habit is slowly starting to change; that the younger generations instead like a mixed-model that blends investing and giving:



*The L3C makes so much sense to us, that yes, you can make money and have profit while also at the same time—under the exact same structure and under the exact same mission—impact society. I don't know why, but it just makes more sense to millennials than other generations. Some investors say to me, 'I make money in my for-profit world so I can give a lot of money away.' For me, it's no, I can do both under a single entity—and it makes a whole lot more sense that I would be able to.*

– CHRIS MILLER, THE MISSION CENTER, L3C; ST. LOUIS, MO

***It's just so exciting to see the younger generation stepping forward and saying, 'Well, that's the old model, but check this out: I get to solve these things and hopefully grow a successful business and make a difference in the world' rather than the old model of, I'm just here to make a living or make a profit and then I'll donate my money on the side or volunteer on the weekends. It's like, why not do it all at the same time?***

– STEVEN SIMICH, TACT, L3C; LONGMONT, CO

For L3Cs and other hybrid structures to truly “take off,” so to speak, many feel that academia—particularly business and law schools—will need to play a central role. Many entrepreneurs speak at local universities and quite a few engage in speaking events at campuses and conferences all over the country with this goal in mind of advancing the movement:

***Sometimes you need to see the value in building the sector as a whole, not just the practice. I really do believe this is the future of business and if we are not equipping the next generation of lawyers to handle that, to have the tools to be able to think through this emergence, I think the sector as a whole is going to suffer. I'm really interested in empowering this next generation of lawyers to know what's going on at a high level.***

– KYLE WESTAWAY, WESTAWAY LAW; NEW YORK, NY

***On a regular basis I am being asked to speak to law schools and social entrepreneurship programs not just [here] at Washington University in St. Louis but at all the universities in the region to talk about the L3C business model. At this point, anyone who is teaching entrepreneurship but not discussing new legal structures like the L3C would be doing a disservice to his or her students. I'm regularly being asked to speak about L3C as well as benefit corporations and flexible purpose corporations.***

– CHRIS MILLER, THE MISSION CENTER, L3C; ST. LOUIS, MO

That said, the academic community is very far from embracing these models completely. Several entrepreneurs we spoke with have observed naysaying among academics not dissimilar to that in legal circles:

***It's totally fringe and most people in academia are skeptical. Even in the academic circles I run in, which probably has more fringe people, there is still a lot of skepticism about emerging legal structures. There are just a lot of unanswered questions about it so there is a lot of push back—that it could be done in another legal structure; then why do we need this new legal structure?; and that it's just confusing things. There are just a lot of questions and a fear of the unknown almost.***

– KYLE WESTAWAY, WESTAWAY LAW; NEW YORK, NY

## REGIONAL POCKETS

Nearly half (over 40 percent) of all the L3Cs in the country are registered in Michigan and Illinois, and many of those businesses operate within their home state, making the Great Lakes region somewhat of a recent hotbed for L3Cs and social enterprise. One of the reasons for that, some say, are the shrinking job opportunities in certain parts of the country, especially in cities like Detroit, which has seen disproportionately difficult economic times compared to other American cities. A qualified and educated yet unemployed workforce sometimes opens the door for entrepreneurial creativity:



*This model fits really well in parts of the country that are trying to reimagine what it's like to have people working again, basically the whole Detroit rust belt area. The same with New Orleans and with a lot of other areas that are having to reimagine what life is like without a corporation funding you.*

–GAIL WOLKOFF, DEDICATED TO MAKE A CHANGE, L3C; YPSILANTI, MI

*Part of our raison d'être is to help Michigan as well. We've had a brain drain in the state; a lot of our young people have moved away which is just an absolute shame. Because of the automotive industry, we also have a plethora of engineering talent and people who are oriented to engineering have moved here over the years. Their children also have a predilection for engineering. So put those things together and put that with the fact that the economy went in the toilet from 2008 to 2010, people with a lot of skills were looking around, and the next thing you know those people are moving into entrepreneurial ventures.*

–KATHLEEN NORTON-SCHOCK, ARDENTCAUSE, L3C; DETROIT, MI



*At Michigan State University, the town [of East Lansing] and the state of Michigan itself there is a lot of momentum to be innovative, to start new companies, and to get the economy further down the road. There is a lot of activity and its refreshing to see this many people and this many groups want to do the right thing.*

–BRIAN ABRAHAM, SPARTAN INNOVATIONS, L3C; EAST LANSING, MI

Illinois and Michigan also have the most developed networking groups for L3C entrepreneurs in the country. The Michigan group was formed by Erika McNamara and her client Gail Wolkoff in 2011. Since nonprofits and regular for-profit businesses have associations, they figured, why not something separate that addresses the wants and needs and opportunities of Michigan's L3Cs?

*We formed the Michigan L3C Association to just get a lot of us together to brainstorm and to learn what we're doing and also to give us the brand—that we are social entrepreneurs and what that means to be a social entrepreneur. It also defines that and gets that definition out. One of the things we have been talking about is we're new enough that people are still starting to learn about it, but instead of having the negative define us, we want to define what it means to be social entrepreneurs. We wanted to take ownership for it.*

–GAIL WOLKOFF, DEDICATED TO MAKE A CHANGE, L3C; YPSILANTI, MI

## Social Entrepreneurs of Michigan United!

In order to form the group, McNamara went to the Michigan secretary of state website and gathered data the old fashioned way—literally collecting the names, registered agents and contact info one-by-one—and placed the data in an Excel spreadsheet. The group ([www.mil3ca.com](http://www.mil3ca.com)) now meets several times a year:

*Once I started contacting people there was a response of people who were interested in getting together. At the first meeting I thought no one was going to come and there were 10 people there. It wasn't really central to anybody but me. Our last meeting was held at an L3C office; there were 10 people there and they were different people. To me, that's success. Not only have I reached out, I get new people every time. My network grows exponentially every time.*

–ERIKA MCNAMARA, MCNAMARA LAW; ANN ARBOR, MI

In Illinois, the group is less official but generated even greater turnout, at least initially. It was started in 2011 by Jamie Johnson, an L3C entrepreneur in Chicago, who wanted a central resource for finding information about local L3Cs—mostly with the idea of shopping from them. He said the first meeting attracted 60 to 70 people. While things tapered off slightly, he hopes to keep building and growing the organization:

***I just think there is a lot of value. Initially when I started doing it I needed accounting and advertising and marketing help and I tend to want to work with L3Cs. There is not necessarily an L3C in every category, but if there was, I want to work with them. So it was for my own personal business services and, likewise, I would be able to help them if they needed any type of environmental consulting or technology or what not.***

– JAMIE JOHNSON, VERDE, L3C; CHICAGO, IL

Illinois earlier this year began a Social Innovation, Entrepreneurship, and Enterprise Task Force at the state level that is looking for actionable recommendations on how to further social enterprise in the state. The goal is to make Illinois a center for social innovation and Marc Lane is chairing the task force:

***Conceptually a follow-up to the L3C law, it's looking to make Illinois a hub of social innovation and will bring together all of the relevant stakeholder groups around the issues of social innovation. The important thing is getting everyone on the same page and we have a very inclusive process where we get the best ideas, structures and models, not only from other states but other countries.***

– MARC LANE, MARC J. LANE ASSOCIATES, L3C; CHICAGO, IL

Other nations that continue to serve as models for new legal structures in social enterprise include the U.K., which started community interest companies, or CICs, (its version of L3Cs) back in 2005. While that structure has had its ups and downs, many say there is a lot to learn from what is happening in social enterprise internationally:

***We ought to be hitching our wagon to the bigger social enterprise movement overseas. The U.K. is way ahead of us on this. Their public sector is completely engaged by the idea that social enterprise is a new way of providing community benefit. Our public sector hasn't had that light bulb go off yet. For social enterprise to get traction in America is tough. But that doesn't mean that it's not time for us to get our act together.***

– ERIC LOMBARDI, ECO-CYCLE; BOULDER, CO



# GETTING FUNDED— OR TRYING ANYWAY



As most L3Cs are still fairly new, many L3C entrepreneurs continue to fund their operations like a traditional business—a combination of personal and private business investments plus the sale of product or services. But, far more are deeper into the process than two years ago and, as such, the funding panorama and conversations surrounding it have become less about what is theoretically possible and more about what is actually happening.

The prospect of securing foundation funding continues to hold a strong interest for the L3C entrepreneur. Private foundations are required to spend a minimum of 5 percent of endowment assets annually in combined grants and administrative expenses. The other 95 percent is then typically held in managed accounts earning a return on investment. This 95 percent can be used toward something called program-related investments (PRI), which are investments made by foundations to support charitable activities that involve the potential return of capital within an established time frame.

The concept in its most simple sense is this: if a foundation that shares their mission can take on some of the risk, L3Cs can better attract investments from private sector investors, who might otherwise shy away from social enterprise projects because the perceived financial return is too low. The turnaround is that L3Cs would pay back the foundation, allowing the foundation to reinvest the money and, theoretically, re-use it in another philanthropic project. This access to alternative and flexible capital through tranching investments (or investments that return profits at different rates to each investor) is key to the success of their L3C:

- They want to have **access to foundation funding**, namely PRI and feel they could, in turn, help foundations by giving them a return on said investment
- They want to have **flexible, nimble funding streams** that can come from a variety of sources
- They deeply believe in **the need for new funding paradigms**, particularly for the line of work they do in the social sector
- They want to find **investors that value social change** as much as they do

It is a potentially complicated issue that sits right at the center of many L3C conversations. So far there have been few working examples of foundations making PRI– or any funding for that matter– to L3Cs, so some feel that the process of obtaining such has been much more slow and difficult a process than originally anticipated:

*I sent letters, emails and phone calls to probably close to 200 foundations and got absolutely no traction. I applied to different contests, things like that, no traction. I didn't even realize at that point that these things weren't happening widespread. I kind of jumped the gun on that and probably should have done some due diligence first.*

– JAMIE JOHNSON, VERDE, L3C; CHICAGO, IL

*We have not been able to access funding from foundations or charitable entities of any kind. We've made inquiries [and] talked at length with several family foundations. There is always curiosity, but generally people say they are not familiar with making PRIs or grants to any for-profit, L3C or otherwise. It's always a 'new idea' to them, and nothing happens from there, which is as much our lack of time, resources and expertise at raising capital of any kind than it is the idea of PRIs in L3Cs.*

– TED BARBER, PROSPERITY CANDLE, L3C; NORTHAMPTON, MA

While some L3Cs have attempted to secure PRI and not been able to access any; others didn't pursue that route at all from the beginning. For example, Carolina Ground, L3C, has done its fundraising through a variety of other means including a Western Carolina Slow Money investment (a local chapter of the national Slow Money investment group), “angel” investors and contests such as Kickstarter, an online “crowdfunding” platform for creative ideas. While interested in PRI, she found these other fundraising options more accessible and effective, at least for now:

*I was interested in the beginning about PRIs, I had just read Woody Tasch's 'Slow Money' and there is a statement about people investing in [food industry giant] Monsanto but giving to sustainable agriculture and that hit me, oh my gosh, yeah—these foundations need to be giving project related investments and it doesn't take away from grants. I love the concept. But in practice for us, I didn't pursue it initially... I love the idea of the PRIs and I do think that would really help. I feel like I want to know a little bit more about it, though, in terms of what they look like.*

– JENNIFER LAPIDUS, CAROLINA GROUND, L3C; ASHEVILLE, NC

Empowering women  
in places of conflict and distress



# ardent<sup>TM</sup> Cause

**Do Good.  
Do IT Better.**

For ardentCause, L3C, funding has come through local loans such as InvestDetroit, an economic development fund for startup for-profits and nonprofits in the city. They are also currently working with a local community development financial institution (CDFI) to obtain further funding, in the absence of widespread PRI:

*It's been interesting. I think the ability for foundations to give funds more quickly to an L3C versus for a 501(c)(3) versus an LLC hasn't really changed that much. Our hope is that some point in the future it will. And it's OK with us and we know part of the reason we became an L3C is because it underpins our identity... There are social entrepreneurship investors outside of the foundation world who would still like to invest in us and we'll probably be having that happen through a community development financial institution where the investor literally gives the money to a CDFI and the CDFI invests in us... It's a little bit different [than a PRI] but maybe a little bit faster.*

– KATHLEEN NORTON-SCHOCK, ARDENTCAUSE, L3C; DETROIT, MI

Other businesses have not yet pursued PRI because they either a) want to wait until they have a proven model or evidence; b) they don't actually need that level of funding yet (if at all); or c) they want to wait until PRI is closer to being more widespread before investing significant energy into it.

*One of my hopes or sort of subtle anticipations around L3Cs is that it would facilitate working with foundations in terms of funding and I haven't really been able to pursue that. I am right at the point now where I have enough to show-and-tell that I'm going to start trying to have some of those conversations. So we'll see whether that works or not.*

– KATHRYN ALEXANDER, ETHICAL IMPACT, L3C; BOULDER, CO



Credit: The Institute of Nautical Archaeology at TAMU”

*We've refined what we're doing a bit by adding some revenue streams that use the same resources and provide greater value to the nonprofits we'll serve. We have not made our offering yet. We will not 'try' to access PRIs until we know the answer is yes. A few no's will kill a project. We intend to make the project well known and well developed before asking for funding.*

–ROB BRYAN, WINDHORSE LIGHTSHIPS, L3C; LOUISVILLE, CO

While the examples are few and far between, some L3Cs have received foundation funding. DISC, L3C, a Michigan-based workforce development enterprise, has received funding from both the Ford Foundation and Kresge Foundation. Like Atlanta-based research and development company, SEEDR, L3C, which received Gates Foundation funding in 2010 (and we profiled in our first L3C white paper),

DISC's funding has come through expenditure responsibility grants, or a grants awarded to organizations that are not IRS-classified as a charity. These grants require extra reporting to the IRS.

At the time, expenditure responsibility grants were viewed as the best option for the foundations DISC worked with but there is definitely the possibility of PRI in the future:

*They weren't keying in on the L3C status, they were keying in on the work we were doing. And at the time, the Ford Foundation had used all its PRI funds and the expenditure responsibility grant was the best way to start. We have had some PRI conversations with some of the projects we've been working on, and one of the funders at the table is the California Endowment and they were looking at doing a PRI there. Kresge had mentioned that if the Endowment takes equity stake in one of the players, they might want to do something similar, so we could prove the concept of revenue generation through the model and being able to pay the foundation. But we're not there yet.*

– JAMES VANDER HULST, DISC, L3C; GRAND RAPIDS, MI

Vander Hulst says he's curious to see whether PRI might be available not only to L3Cs but to benefit corporations or other hybrid structures as well once some models are in place and more of those organizations start to proliferate—particularly in states without L3Cs statutes:

I think the California Endowment is very comfortable with PRIs but California doesn't have the L3C structure so it will be interesting if they will be open to doing PRIs with benefit corporations or other structures there, once they see those popping up.

According to a Council on Foundations study last year, 7 percent of foundations were making PRIs, up from only 1 percent just two years prior. While most foundations are still staying away, the tide is turning somewhat—at least in the area of information and interest on the subject. For foundations to actually make the leap, however, many say the ideas have to come from top-down leadership:

*I do think with the next generation of family foundation leaders, we won't be having a conversation of just having grants be the expression of what your foundation holds most dearly. I think it's going to be a much more sophisticated conversation about how to thoughtfully invest your 95 percent in ways that do align with your foundation mission. I think we're just at the beginning of something that is really going to shift. At least in the circles that I go to, there is more interest than there used to be.*

– BERIT ASHLA, FOUNDATION SOURCE; SAN FRANCISCO, CA

*My experience these last few years has been that most foundation leaders are not really aware of the 'hybrids' unless they have a champion within their organization who is passionate about them. Even still, I haven't seen much interest. I think it has just not received a tipping point inside our foundations. Keep in mind, it is more than just awareness of one or two people, it is structuring the conversation and approval process so that the Board of Directors 'get it.' The boards should be the target audience in ultimately changing the behavior of a foundation. Innovators on staff can only go so far.*

– STACY CALDWELL, TRUCKEE TAHOE COMMUNITY FOUNDATION;  
LAKE TAHOE, CA

*If you're not talking to the founder, or somebody at the top who can make innovative decisions, then what you're introducing is risk and hassle and potential embarrassment for this middle-level guy who has to figure out if he wants to do something outside his usual box with you. And he is likely wondering, 'Why would I get out of my normal box if my box is working fine?' There are challenges there. There are a few foundations like the Gates Foundation that could have major influence by proving that impact investing is a powerful model, but it's still really early on.*

– NEIL BELLEFEUILLE, PARADIGM PROJECT, L3C,  
COLORADO SPRINGS, CO

Many still feel it will be these large, “thought leader” foundations making the first moves—such as the Gates Foundation, which began a \$100 million impact capital fund a couple years ago. Some also think that very small family foundations which have the flexibility to make changes to their investing and grantmaking possibilities at a quicker pace could be an area of growth. Still, no major foundation has made a public or overt endorsement of L3Cs or investing in L3Cs thus far:

*While we still only have a minority of foundations doing PRI, there is a significant improvement in the numbers doing it and more important, we see the leaders doing it. Gates started doing it, and then Buffett, Kellogg, MacArthur and Kauffman. The larger foundations having led the way tends to encourage others to do the same. I think of the family foundations in particular—I would look at it as low-hanging fruit there—because the decision-making apparatus is so much more hospitable. They may have been founded by entrepreneurs in their own right that may ‘get it’ and may be ready to roll up their shirt sleeves and get involved. I see kind of a barbell approach. The big ones are doing it and the little ones are increasingly doing it and the middle ones will follow suit as education continues, it seems to me.*

– MARC LANE, MARC J. LANE ASSOCIATES, L3C;  
CHICAGO, IL

# 2010 Entrepreneurs: Where Are They Now?

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We have learned why and how L3Cs form, but how do they fare a couple years down the road? In our first paper, we talked to a dozen entrepreneurs who in 2010 were just starting an L3C or seriously considering starting one. While two years is not enough time to gather longitudinal data, here are a few updates. Of the dozen entrepreneurs:

- Over a half dozen are still going strong with the same organization and same mission, with one having a name change and a couple slightly evolving in scope
- Two appear to have shuttered their original L3Cs, but one has started a new one and both are still involved in social enterprise
- Three who considered starting L3Cs have not started them yet for various reasons

**Ted Barber is the founder of Prosperity Candle, L3C**, an employee-owned enterprise that works internationally with women in places of conflict and distress to start entrepreneurial businesses. In 2010, he had just formed his L3C and was starting operations. In the past two years the company has worked with 30 (mostly widowed) women in Iraq to start candle-making businesses and also added a new project to work with refugee women that have been resettled in Massachusetts. Barber says these days the L3C is no longer a side idea or project but his career—and what he “lives and breathes” 24/7—and he is still satisfied with the choice of that structure:

*We love being an L3C, and feel it continues to deeply resonate with who we are and, most importantly, where Prosperity Candle's priorities lie. I take great pride when speaking to potential investors and lenders in pointing out that our operating agreement states Prosperity Candle will always prioritize social benefits over profit, and that we do not have a specific exit strategy in mind because we are not doing this work to create an attractive acquisition or merger opportunity for another company.*



Their next big project is working in Haiti, and the company will work with a sister 501(c)(3) that they formed to enable donations and grants to support that project. While Barber still feels passionately about the structure, the road as a pioneer has not been easy, especially in terms of finding the right investors:

*I have been told by several people in traditional capital markets that if we converted to a regular LLC or other structure, investors would be more interested in supporting our company. This does not sway us in any way to make a switch, and is probably a valuable filter to ensure we attract the right kind of capital, but it is frustrating.*

**Rob Bryan's company Windhorse Lightships, L3C**, is working to build a community of people informed and educated about the health and state of the ocean. The business plan is to design and build an unprecedented carbon-neutral, sustainably-operated fleet of ocean research vessels for public involvement in data collection, exploration and conservation of the ocean ecosystem within a triple bottom line organization.



When we talked to him two years ago, the project was known as 3Degrees Marine and it was still in its infancy Bryan described their stage at the time as “still writing ideas on the white board.” After a name change and further development, the employee-owned L3C is still in the planning phases due to funding but inching closer to making the vision a reality:

*It's taken longer than I expected. We've refined what we're doing a bit by adding some revenue streams that use the same resources and provide greater value to the nonprofits we'll serve. My biggest concern is building a team before funding. It will be easy after funding of course. Everybody wants to work here if they get a paycheck. But if we wait to hire key people after funding it will be very difficult to discern who means it and will do it. We'll be swamped with applications and will have to hire someone to handle that.*



**Kathryn Alexander's company Ethical Impact, L3C**, is a Boulder, CO-based education and certification program that strives to help values-based businesses better understand the impact beliefs have on a company's ability to achieve its goals. In the past two years her company has worked to complete an assessments series for the

certification process. While Alexander's business is still an L3C, it is also a certified B Corp. She admits she is not married to one structure over the other and would consider switching if it helped with funding:

*I may actually do a benefit corporation, we'll see. The corporation is a more comfortable funding mechanism for most people; they understand it. The biggest issue with my business model is how to, from a more traditional funding aspect, get a return for those investors. People just understand how to fund corporations in a way they don't understand how to fund LLCs.*



**Eric Lombardi, also of Boulder, was working to develop an L3C compost facility with the hope of building a profitable zero-waste city model in Colorado.**

Two years ago, he had some investors lined up and was about to obtain the land, although he had not yet created the L3C arm to his longtime nonprofit, Eco-Cycle. They since lost the land they were looking at, so Lombardi has not officially started the business. When and if he does, he still hopes to form it as an L3C; in fact, he also has a second L3C business idea to create a compost collection service for Boulder's commercial sector:

I'm still thinking that [L3C is] the vehicle and, as a matter of fact, I now have two L3C projects in mind. I am totally committed to the idea of the hybrid business model. You hear people talking about conscious capitalism, and compassionate capitalism, and capitalism 2.0. A lot of people are willing to have the discussion about how capitalism is or is not serving us. I see social enterprise as a way of doing business in a new way and the L3C and the benefit corporation are the two leading candidates so far for social enterprise success.



# WHAT NEEDS TO HAPPEN? WHAT'S NEXT?

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A lot has evolved in the L3C landscape in just two years, but if there is any take-home message, it's this: there is still a long way to go. Most feel that any sort of movement toward solidifying social enterprise as a true fourth sector is still just in its beginning stages:

*It's only been... Vermont started in 2008. It's only 2012. That's only four years. In the lifetime of a business, that is a very, very small amount of time.*

– ERIKA MCNAMARA, MCNAMARA LAW; ANN ARBOR, MI

*Within the foundation, nonprofit, academic and professional communities, it's gaining traction... But I don't think we are there yet in terms of mainstream.*

– MARC LANE, MARC J. LANE ASSOCIATES; CHICAGO, IL

Entrepreneurs have cited several key areas that they feel could go a long way toward furthering the movement in the coming two years:

## DEFINING SOCIAL PURPOSE

One of the key areas of concern for some L3C entrepreneurs is a lack of universal or required metrics that an L3C can use to identify and measure its social purpose. This area is obviously a challenge, as evidenced by the wide array of business ideas that are being worked into L3Cs. These business owners did not want to be nonprofits, due to a variety of factors mentioned earlier, yet now they have to find a way to explain exactly what a for-profit, mission-driven business means and does—in a way that doesn't threaten the nonprofit sector, but attempts to help it.

While the factual definition is there, there is no specific requirement mandated by anyone to define what or how or how much an L3C must contribute socially. For some, that is both a source of opportunity and a cause for alarm:



**Until we define that social benefit metric I don't think the PRI money is going to come to us. I think the openness of the L3C structure is our greatest strength and our greatest weakness. I really would like to see some people step up and tackle these problems. We need to have this thing clarified.**

– ERIC LOMBARDI, ECO-CYCLE; BOULDER, CO

**We have to get past the 'buzz' stage about L3Cs and talk about impact they are having in our communities. I suspect that as long as there are no metrics, then the PRI deals will continue to be 'one-off' and relationship-based deals. Once we teach our social entrepreneurs to establish their metrics up front, then and only then are they speaking the language of foundations. Plus, ultimately it will be part of their brand recognition.**

– STACY CALDWELL, TAHOE TRUCKEE COMMUNITY FOUNDATION; LAKE TAHOE, CA

**If you form an L3C in almost any state, Utah and Wyoming at least, there are really no informational requirements, no oversight. If there were a little bit more requirements, more structure around the entities... for example, if you're an L3C you have to have THIS in your operating agreement, or every year you get an audit, or something like that. I think something a little bit more formal would make the entity more meaningful.**

– RYAN HOWELL, RUBICON LAW; DENVER, CO

In the past two years, there have been improvements in the area of metrics. Several entrepreneurs mentioned specific organizations that have been useful in helping develop them: some mentioned using metrics devised by the Gates Foundation; others are applying B Labs

Impact Assessment to their L3C; and some are using methods developed by Marc Lane or processes unique to their own organizations. In the absence of clear, universal metrics requirements required by the government or some other oversight agency, some entrepreneurs have made decisions to create their own systems:

**There certainly have been improvements in terms of social metrics. You don't measure activities or transactions, you measure outputs that are proxies for social impact and more and more donors and investors and regulators are expecting that kind of information and management is, too. Clearly, it's on a good path; it's important to do it in a customized way, so that the specific mission and stage of growth of an organization is taken into account, but I think there is increasing sensitivity to the importance of the issue.**

– MARC LANE, MARC J. LANE ASSOCIATES, L3C; CHICAGO, IL

**At the moment, the IRS has not mandated that the L3C community complete any additional filing or recording on how contributions are used or how their social good is defined, in a financial way. Even though the IRS has not asked us to do it, we've chosen to incorporate tracking into our bookkeeping just anticipating that at some point the L3C community will have a bit more stricter guidelines and it will be that much easier for us to make the transition.**

– AMBER GRIBBEN, URBAN WORM GIRL, L3C; CHICAGO, IL

**I think more structure within the L3C will encourage more people to take it on. Right now it's a little bit open ended, and I think some people have said, 'What is really the purpose of doing it?' and some people say, 'Oh, it's just a marketing benefit.' But I think it's important to go ahead and embrace it and help move it along.**

– TIPPY TIPPENS, MATTER INC.; NEW ORLEANS, LA

A few also still express concern over the term low-profit and what that ultimately means for L3Cs. While there is no actual defined limit to profit under the L3C structure, some feel the name might give investors a false impression out of the gate:

*It's my understanding there is no limit on profit. If I were doing the greatest thing in the world, 100% within my mission, if I was wildly profitable I don't think I would be regarded by the IRS or anyone else as concerning at this point. I do think the title low-profit is problematic in some ways. I think as a business trying to get investors to grow, they might see that 'low-profit' and think, 'That doesn't fit within my traditional metrics.'*

– JAMIE JOHNSON, VERDE, L3C, CHICAGO, IL

## LEGISLATIVE RAMIFICATIONS

Many entrepreneurs said that while they are happy to see L3C legislation in several states, they also think more widespread legislation, be it state-by-state in all 50 states or at the federal level, is necessary to make the L3C truly be viewed as a viable and solid choice for a business structure. Along those lines, they also think the IRS needs to make a ruling to let foundations know that L3Cs do indeed qualify for PRI.

One of the biggest sources of criticism toward the L3C is actually centered on the PRI aspect; some suspect that the initial conversations around the L3C idea focused on PRI too soon, making the L3C weak toward criticism because this concept hasn't played out so far:



THE MISSION CENTER, L3C

*For folks that are not actively involved or educated on the reality of what the L3C legally accomplishes the jury is still out because the argument early on was so focused on PRIs and capital. So the skepticism, I think, more lies in how the movement originally positioned the purpose of L3C, which was really around capital and around PRIs. Other things like branding, governance and fiduciary responsibility have been a more immediate impact.*

– CHRIS MILLER, THE MISSION CENTER, L3C; ST. LOUIS, MO

*Without the PRI I still see a lot of value. I think that early on people that communicated the value of the L3C initially might have missed the ability to convey that. They may have focused too much on PRI before it was actually available.*

– JAMIE JOHNSON, VERDE, L3C; CHICAGO, IL

*I see the biggest advantage of the L3C is to unlock PRIs and I don't think it has succeeded in that thus far. I think there is a lot of unintelligent naysaying out there, but I think one of the most developed critiques for sure is that it was set up to do this, and if we are to be honest with ourselves, it hasn't done it that well. It's not naysaying; it's stating the facts.*

– KYLE WESTAWAY, WESTAWAY LAW; NEW YORK, NY

## THE PHILANTHROPIC FACILITATION ACT,

introduced most recently in the U.S. House of Representatives in fall 2011, would allow L3Cs to secure an expedited ruling, like nonprofits, to which a number of foundations could rely. The idea would be not only to reduce time, expense and hassle from the entrepreneurs end, but perhaps, more importantly, open the door to foundations that might be concerned about investing in L3Cs. Sponsored by Illinois Republican Aaron Schock, it has bipartisan co-sponsorship from two New York and two Colorado representatives—Jared Polis (D-CO), Paul Tonko (D-NY), Maurice Hinchey (D-NY) and Cory Gardner (R-CO) (as of summer 2012). Most entrepreneurs were hopeful but tempered about the possibility of the legislation passing:

*I don't think it's a deal breaker for our success; we're pioneering and being successful without it. But would we be more successful with it? I think so. I think it's in all of our best interests that the more quickly we can get federal regulations put in place the better we all would be. If and when the legislation is passed, I can go to the IRS like a non-profit does and get a blanket approval that the charitable activities we operate are, in fact, eligible for PRI from any foundation who was formed for that exempt purpose. So I think it's critically important we do get the legislation passed.*

– CHRIS MILLER, THE MISSION CENTER, L3C; ST. LOUIS, MO

*It would greatly reduce time and expense associated with getting IRS blessings and I think it would eliminate one of the major bones of contention in the foundation community, that in order for them to invest in L3Cs using program related investments they may be incurring risks. I think also it will create a greater environment of transparency and accountability because the trade-off for volunteering compliance for the L3Cs will be reporting on social outcomes and I think we will thereby be able to see specifically how L3cs are performing. I don't want to paint this as a prerequisite to any specific success for the L3C. It would be helpful, I'd like to see it happen, there are lots of things happening in its absence.*

– MARC LANE, MARC J. LANE ASSOCIATES, L3C; CHICAGO, IL

*Right now, the point of the legislation is that the IRS makes one determination and multiple foundations rely on this determination made by a competent party, so they don't have to incur the inefficiencies and expense of each one pumping out money to hire counsel to determine whether each one passes the test. If, in fact, this proposal for the Philanthropic Facilitation Act actually were to be enacted, I think it would be fantastic. But until that happens, people have to be wary because there is no iron-clad, gold-stamp guarantee that just because it's an L3C means PRI is valid. You can't assume that. You have to analyze an L3C just like you analyze any other PRI and either it'll pass the test or it won't.*

– JEFF HASKELL, FOUNDATION SOURCE; NEW YORK, NY

In April 2012, the Treasury Department and the IRS released a Notice of proposed rulemaking providing Examples of Program Related Investments. According to Federal Register Vol. 77, No. 76, this document contained proposed regulations that provide guidance to private foundations on program-related investments. These proposed regulations provide a series of new examples illustrating investments that qualify as program-related investments. In addition to private foundations, these proposed regulations affect foundation managers who participate in the making of program related investments.

Though the bulletin did not mention L3Cs or any specific entity by name, the update, the first in 40 years of PRI regulations, would “facilitate the ability of foundations to determine whether investment qualifies as a PRI, reducing the transaction costs, conserving a foundation’s resources for additional charitable activity, and increasing capital flows for charities and social enterprises that can create jobs and generate impact.”

Another impact on the L3C could be the JOBS Act, which went into law in April. Part III of the act includes new exemptions for crowdfunding sites such as Funding Launchpad, First Funder or Impact Trader; potentially making it easier for small and medium size companies to raise financial capital. This could be big for L3Cs, as there would be a clearer path—in theory—on how to engage with investors and offer a return on their investment. The Securities and Exchange Commission is currently reviewing these capabilities.

## **MORE WORKING MODELS/SUCCESS STORIES**

For the L3Cs that are working actively to create complex structures merging multiple funding streams and working across sectors, there is definitely still a need to push even further beyond the theory stage and get more into the practice stage. The sector needs proven models that work, they say, and while progress has certainly been made in two years, these sorts of models and success stories take time—

and a lot of creativity and ability to navigate the unknown:

***I think most of us who are actively implementing the L3C in the business world and trying to connect with nonprofits—we are making it up as we go along. I mean, where is the model you can turn to and say, ‘Oh there is a how-to-do-it manual’? I don’t know it. I don’t see reference to it on the L3C network on LinkedIn. I can see there is a lot of momentum to be supportive of L3Cs, but in terms of where the rubber meets the road there is really very little that has been actually established and is functional.***

—BILL MANNING, HIGH DESERT FOODS, L3C; DOLORES, CO

***I think for L3Cs to work there need to be a lot of examples of philanthropic and private capital and there just needs to be a number of success stories in order for it to be relevant. From an investor’s point of view, there are no precedents. Until you see some success stories there is always going to be a push toward something that is known.***

— KYLE WESTAWAY, WESTAWAY LAW; NEW YORK, NY

***I hope there are more success stories, thousands and thousands of small businesses that are L3Cs that are success stories. I think that is what will drive the movement further, as opposed to a few very well-funded success stories. I think it’s the little guy that’s going to push this forward.***

— JAMIE JOHNSON, VERDE, L3C; CHICAGO, IL

## MORE EDUCATION—STILL... AND A MORE COHESIVE MOVEMENT

Some feel the L3C still hasn't gotten where it should be—or could be by 2012. This sentiment comes forth in a couple different ways: some don't think the brand or idea has been marketed or advertised to the outside community to the degree that it could or will be; others don't feel that the community within the L3C movement is as strong or connected as it should be.

*The trajectory it should have taken it hasn't yet taken. Advertising is so powerful in this day and age and it's so accessible. It would only make sense for us to get the word out about L3Cs through advertising, not because we want to garner support for it necessarily, but because we want to garner some mind share and brand recognition for the L3C. You really need to let this caged bird fly to realize its potential.*

–POURIA PAKNEJAD; VESCIO LAW FIRM; GLENDALE, AZ



*I don't think the level of the dialogue is happening. I don't think we're getting really good debates going. I am part of a number of social change groups online and when we tackle an issue, you will get a flurry of emails where everybody is launching into opinions and facts and at the end of two weeks or so, you feel confident that your community is up to the same level. I don't see that*

*happening in the L3C community. We just haven't created enough of a cyber-community around this idea yet.*

– ERIC LOMBARDI, ECO-CYCLE; BOULDER, CO

*There is part of me that hoped it would be a stronger community in some sense. Even if we have very different business models and industries, can we form a more cohesive group and really complement one another? I don't know if people are advertising or using the L3C momentum in that way. I feel like we are all trying to do our own little thing.*

– AMBER GRIBBEN, URBAN WORM GIRL, L3C; CHICAGO, IL

A new concern that we didn't see in 2010 was regarding the other new alternative business structures, particularly benefit corporations. While most entrepreneurs feel that the new structures each have a place in society and are ultimately “on the same team” philosophically, there is concern that different legal structures beginning at the same time will cause public confusion and compete with each other for attention and mind share. Some suggested that the Social Enterprise Alliance could play a larger role in education and serve as an umbrella organization in this area. For most entrepreneurs, it was very important in the long run that these different movements find a way to work together:

*I have heard a lot of conflicts between the two entities and I don't understand that because the way I see it, there are times when an LLC is beneficial and times when a corporation is better. I'm not married to structure; I'm married to the principle behind the structure, which is operating in a way with a mission that makes the world a better place. Whatever gets me there is what I am married to. The L3C I enjoy and I hope to continue using it but I think all of us need to be flexible and able to change, too.*

– JAMIE JOHNSON, VERDE, L3C; CHICAGO, IL



*I think it would be helpful to play nice; there's no need to feel threatened by the other forms and no reason not to support the additional options. Also, there is a bunch of pride involved around people that helped create and advocate for one particular legal structure.... and that pride tends to blind [sometimes]. It probably hurts the sector if there is a bunch of fighting between opinions. I'd like to prevent that; there is room for all of them and at some point we'll have enough data to figure out which structures are actually useful, and which aren't.*

– KYLE WESTAWAY, WESTAWAY LAW;  
NEW YORK, NY

*I would like to see more partnership between the L3C movement and the benefit corporation movement. They really seem quite distinct; I realize that B Labs is pushing the benefit corporation and they are not part of the creators of the L3C, so maybe that is one of the reasons. But the two things are philosophically so aligned; it would be really nice to see a real movement toward creating a different kind of business atmosphere instead of two very different business forms that are just trying to be born.*

– KATHRYN ALEXANDER, ETHICAL IMPACT,  
L3C; BOULDER, CO

# VISION FOR THE FUTURE: CLOSING THOUGHTS



“ An L3C is a tool for the times we live in, we simply have to be patient and nurture it through these early growth stages...”

--Bill Manning, High Desert Foods, L3C; Dolores, CO

Many L3C entrepreneurs have an idealist vision for what the L3C can ultimately be, if these challenges and hurdles can be addressed. L3C entrepreneurs truly see the L3C as a new and transformative model that could redefine what it means to be a socially minded business; that could help sort out social problems that current structures aren't solving; and that could revolutionize socially responsible investing. These ideas might seem like a pipe dream to some, but for L3C entrepreneurs they are a shared vision that requires passion, smarts and most of all, perseverance. They realize there is a long road to get there, or that the road may in fact lead them astray, but these entrepreneurs are willing to give it a go just the same.

The idealism was not quite as palpable as it was in 2010; more entrepreneurs are dealing in practical matters now than theoretical ones, and have spent a couple years in the trenches trying to make their vision come alive. Still, for many, the same big picture sentiments about the L3C are true. Some even say they hope for a day when business structures such as the L3C or benefit corporations do not exist at all; they are not needed anymore because the concept of socially-motivated businesses has become completely mainstream:

*My vision would be that this social investment/impact investing sector becomes a true sector. I think the biggest challenge is that people right now have a very clear idea of how much and how to spend their philanthropic funds and same thing for their profit-seeking funds. The idea of a structure that achieves both—most people don't have a bucket of money set aside for that... Whether you need a certain structure to do it or not is very debatable. But I think the need right now for the L3C and the benefit corporation is that we have a very nascent industry sector that hasn't yet been well defined. So creating entities that specifically serve that sector is a good thing because it forces recognition and discussion and action.*

– NEIL BELLEFEUILLE, PARADIGM PROJECT, L3C; COLORADO SPRINGS, CO



*A big debate I've been involved with around the impact world is, what is the future of all this? And really the future is that they don't exist anymore. We have these legal entities now, but ideally, most either by choice or by being forced to do so because of consumer demand, organizations become this. And corporate social responsibility departments within big for-profit companies sort of go away. So on some levels, I'd love to see that there is no such thing as an L3C or a B Corp in the future because everybody 'just is.'*

– STEVAN SIMICH, TACT, L3C; LONGMONT, CO

Despite the bumps in the road for some, and the long-term viability still up in the air, there is still a strong sense that it is important to dive in. Many championed the idea of being a pioneer. While the unknown is, of course, a source of fear especially in a challenging economic period, these entrepreneurs feel it's important to take this on, attempt to figure it out, and hopefully make it easier for the next generation of social entrepreneurs down the road:

*I think the biggest opportunity is really giving, whether it's for-profit companies or larger foundations, a vehicle where they can make a return. We have to figure out how to present that to them. That's the opportunity we have. The challenge is that there is not a lot of data or information as to how to do it. So in a sense we're all pioneers trying to figure out what that magic formula is—not that there is just one for the industry. So that is the challenge as an existing L3C; to grapple with that in a meaningful way. I'm the type that will just dive in and figure it out on the way down.*

– JAMES VANDER HULST, DISC, L3C; GRAND RAPIDS, MI

*We want it to be easier for those that come after us. We don't want them to have to struggle like we have; we want to be the pioneers that have created the capital funds, the relationships the networks to facilitate a much easier entrance into the markets for those that follow us. We want to move knowledge forward and leave the world in a better place for the students following.*

– CHRIS MILLER, THE MISSION CENTER, L3C; ST. LOUIS, MO

*Maybe we are in a messy period now. I think this is a little messy. That doesn't mean there's not value in diving into the muck and sorting it out. It's clear there is energy. It's clear there is a need that is not quite being met and there are a bunch of us who are in that mix trying to sort it out and come up with structures that support the actual businesses and enterprises that are developing. It's clear there are a number of people who want to connect in this kind of economical... I don't know what it is—it's not really a sector. It's kind of like lateral, right? It goes across different industries and includes tax-exempt entities and taxable entities. You can't put it in one box.*

– AMY KINCAID, CHANGE MATTERS, BLLC; BALTIMORE, MD

*With the L3C at such an early stage of development, why would I want to put any significant effort behind it? In the larger context of the socioeconomic change swirling around us in these unsettled times, I am reminded of the view that when an idea emerges whose time has come, it will do so in various places and in different forms. An L3C is a tool for the times we live in, we simply have to be patient and nurture it through these early growth stages. There are always a few who are willing to explore the edges of the familiar in the world we live in, and from this place the spark of new insights emerge that can serve us all well. I have been fortunate to have a front row seat to several very different events that have had a transformative effect at a significant scale. From that vantage point, it makes perfect sense to me to put the effort into something that fundamentally seems like a good idea and see what comes of it.*

–BILL MANNING, HIGH DESERT FOODS, L3C; DOLORES, CO

# APPENDIX A

## Featured Entrepreneurs

The following social entrepreneurs and their social venture businesses were referred to in this paper (in order of quoted appearance):

### JENNIFER LAPIDUS

Carolina Ground, L3C  
Asheville, NC

[ncobfp.blogspot.com](http://ncobfp.blogspot.com)

Carolina Ground, L3C, aims to link farmers, bakers and millers in North Carolina with the goal of providing a viable market for local organic hard and soft wheat and other small grains. Under the auspices of the Carolina Farm Stewardship Association, this initiative is part of the North Carolina Organic Bread Flour Project. Fostering the relationship between the grower, miller and baker the project aims to provide a tangible level of security and sustainability for all three while bringing local bread to consumers.

### NEIL BELLEFEUILLE

The Paradigm Project, L3C  
Colorado Springs, CO

[www.theparadigmproject.org](http://www.theparadigmproject.org)

The Paradigm Project, L3C, was launched in 2009 as a vehicle for sustainable change with the overarching goal to empower developing world communities with project ownership and a path to determining their own future rather than relying on handouts to keep them going. The first model was an efficient stove project, launched in Kenya in 2009, that has led to a reduction in emissions, deforestation, created jobs, and saved money and time for local families. With significant success there, recognition by the Clinton Global Initiative and demand for many more projects in other countries, The Paradigm Project is now beginning to develop projects all around the world to change the lives of poor communities in meaningful, lasting ways. The company was recently named a finalist for BusinessWeek's Most Promising Social Entrepreneur 2012.

## **BILL MANNING**

High Desert Foods, L3C  
Dolores, CO

[www.highdesertfoods.com](http://www.highdesertfoods.com)

High Desert Foods is helping to create a community food system that reconnects us to a time when food production was part of the fabric of our communities, a way of nourishing life but also a ritual that nurtured hearts and minds. We are committed to making healthy, fresh, home-grown food more accessible to local families and small businesses with ease, consistency, and quality. We work across the wide spectrum of our bioregion to connect small scale farms, ranchers and artisanal producers with our larger community. We produce all organic jarred fruits, sauces and other products start with the fresh produce we grow ourselves in Southwestern Colorado's high desert. High Desert Foods' products are made in small, hand crafted batches at our kitchens in Dolores, CO.

## **GAIL WOLKOFF**

Dedicated to Make a Change, L3C  
Ypsilanti, MI

[www.dedicatetomakeachange.com](http://www.dedicatetomakeachange.com)

The mission of Dedicated to Make a Change is to connect youth age 12 to 18 with the world to promote peace, greater understanding and a love of learning. As an all-inclusive youth organization, we provide a learning environment for youth to examine and learn about issues such as justice, diversity and social responsibility through action.

## **RAMIER SHAIK**

TechJOYnT, L3C  
Oklahoma City, OK

[www.techjoynt.org](http://www.techjoynt.org)

TechJOYnT (pronounced as TECHJOINT) is a hands-on afterschool program fostering innovation and creativity at an early age through science, technology, engineering, arts, and math (STEAM) camps. TechJOYnt uses robotics to entice young minds and to help them discover their natural abilities, creativity and strengths. Students work with instructors, volunteers and family members to open their minds to new experiences. Many of the volunteers bring real world skills from Oklahoma's finest colleges in the fields of robotics and engineering.

## **CHRIS MILLER**

The Mission Center, L3C  
St Louis, MO

[www.missioncenterl3c.com](http://www.missioncenterl3c.com)

The Mission Center, L3C, works to educate nonprofit professionals, board members and donors to create more efficient, effective and sustainable organizations. We provide educational programs, coaching and professional services that maximize the sector's use of staff and financial resources in order to create the greatest social impact. The Mission Center provides a host of scalable services including consulting and social enterprise development.

## **ERIKA MCNAMARA**

McNamara Law

Ann Arbor, MI

[www.erikamcnamaralaw.com](http://www.erikamcnamaralaw.com)

Erika McNamara brings a singular blend of empathy and awareness for client wants, desires and requirements to her practice of the law, which includes assisting in estate plans, elder care, corporate law and corporate set-up, nonprofit law, family law and immigration law. Erika is the founder of the Michigan L3C Association.

## **KATHLEEN NORTON-SCHOCK**

ardentCause, L3C

Detroit, MI

[www.ardentcause.com](http://www.ardentcause.com)

ardentCause, L3C exclusively serves the nonprofit industry. Despite scarce resources, and facing big challenges, those who “do good” can accomplish even more with the right technology tools and technology assistance. ardentCause delivers software solutions and services to both foundations and the charitable organizations they fund to help them make the most accurate decisions, efficiently grow, build capacity, and fulfill their missions. The company was named one of the top 11 Detroit tech startups of 2011 by the Huffington Post.

## **AMBER GRIBBEN**

Urban Worm Girl, L3C

Chicago, IL

[www.urbanwormgirl.com](http://www.urbanwormgirl.com)

Urban Worm Girl, L3C, has been an industry leader in community-based vermicomposting since 2008. We have been introducing this innovative sustainability practice to the Chicago area through educational programming, residential and commercial worm compost bin installations, classroom education and school bin installations, and public outreach campaigns. Through our efforts, and the efforts of our clients, hundreds of tons of waste have been diverted from the commercial waste stream and converted into nutrient-rich soil with the help from a few hungry worms.

## **MARY COLBORN**

Allegan Farm & Learning Center, L3C

Allegan, MI

[www.honorhealnurture.com](http://www.honorhealnurture.com)

Allegan Farm & Learning Center is a historic (circa 1870) family farm that is being renovated into a community center that will host live workshops on food preservation; nutrition; animal husbandry; historic farm life; sustainable farm and garden practices and more. Plans include offering day and weekend long workshops for cancer and diabetes patients; school bus tours; and model practices for more sustainable living, including composting, rain catchment and passive solar. Youth who work the farm through our job training program will learn marketing, gardening and leadership skills while earning high school credit.

## **STEVAN SIMICH**

TACT, L3C  
Longmont, CO  
[tactl3c.com](http://tactl3c.com)

TACT, L3C is a Colorado-based consulting firm that works with global impact to accelerate client's creativity, innovation and scale. TACT understands what it means to be impact focused and we blend a keen strategic focus with technology to bring your solutions to the next level. TACT has experience in supporting organizations with a double and triple bottom line, proven technologies that deliver efficient value, and works to build strong, lasting and trusted relationships.

## **PRISCILLA MENDENHALL**

Crossings Kitchen  
Tucson, AZ

Crossings Kitchen is being incubated as a restaurant/cafe providing basic culinary training and life skills development to women at risk.

## **MARC LANE**

Marc J Lane Associates, L3C  
Chicago, IL  
[www.MarcJLane.com](http://www.MarcJLane.com)

Marc J. Lane, a nationally recognized business and tax attorney, is an expert on entrepreneurship and entrepreneurial finance, and an influential advocate of best corporate governance practices. By appointment of Gov. Pat Quinn, he is chairman of the State of Illinois' Task Force on Social Innovation, Entrepreneurship, and Enterprise. Marc is an innovator in helping social enterprises and social entrepreneurs leverage capital to maximize financial results while driving positive social change, and teaches Social Enterprise at Northwestern University School of Law. Marc has drafted and successfully championed L3C laws throughout the nation and is the author of 34 books.

## **JAMIE JOHNSON**

Verde Sustainable Solutions, L3C  
Chicago, IL  
[www.verdel3c.org](http://www.verdel3c.org)

Verde Sustainable Solutions, L3C, is built around the idea that people look at energy efficiency in the wrong light. Our platform helps consumers and business alike understand the cost that lighting and appliances will cost to operate, and help them make better decision for their pocketbook and our planet. Verde uses technology and private sector products to help solve today's environmental problems.

## **BRIAN ABRAHAM**

Spartan Innovations, L3C  
East Lansing, MI  
[www.spartaninnovations.msu.edu](http://www.spartaninnovations.msu.edu)

Spartan Innovations, L3C, is focused on helping to turn MSU innovations—ideas, technologies, creative activities— into successful Michigan businesses. We provide five key resources to support the launch of more MSU start-ups: university-wide entrepreneurship education; student stipends to support participation in hands-on new business learning situations; CEO mentors-in-residence to help manage new business start-up projects; access to a network of external new venture investors; and gap funding to support the earliest stages of MSU technology development.

## **TIPPY TIPPENS**

**MATTER Inc.**

(converted from L3C to benefit corporation Aug. 1, 2012)

New Orleans, LA

[www.matternola.com](http://www.matternola.com)

Eco-intelligence, creativity and innovative philanthropy unite at MATTER Inc., an industrial design and consulting studio based in New Orleans uniquely focused on raising awareness and funding initiatives that advance social change. A portion of all proceeds flow to causes that impact the health, happiness and sustainability of our communities both locally and for neighbors around the world. MATTER Inc. makes the world a better place by creating products and collaborations that matter. The company was named one of 19 most promising New Orleans startups at BigIdea NOEW2012.

## **POURIA PAKNEJAD**

**Vescio Law Firm, P.C.**

Glendale, AZ

[www.vesciolaw.com](http://www.vesciolaw.com)

Pouria Paknejad is a Civil Litigation, Business Law, and Family Law attorney with Vescio Law Firm. He holds memberships to the State Bar of Arizona, American Bar Association, North Phoenix Bar Association, and the Lorna E. Lockwood American Inn of Court. In 2011, Pouria worked closely with Senator Adam Driggs (R-AZ) to introduce SB1503 before the Fiftieth Arizona Legislature. SB1503 would have allowed a special designation for mission-based companies. He successfully argued in favor of the measure before the Senate Committee on Commerce and Energy, but the bill stagnated in the House Commerce Committee.

## **AMY KINCAID**

**Change Matters, Benefit LLC**

Baltimore, MD

[changematters.com](http://changematters.com)

ChangeMatters, Benefit LLC, is registered in the state of Maryland. A social enterprise consultancy, we encourage common good enterprise by working with entrepreneurs, executives, advisors, funders, and investors involved in tax-exempt social enterprises and not-just-for-profit socially-responsible businesses.

## **JEFF HASKELL**

**BERIT ASHLA**

**Foundation Source**

San Francisco, CA

New York, NY

[www.foundationsource.com](http://www.foundationsource.com)

Foundation Source is the nation's largest provider of management and advisory services for private foundations, running more than 1,000 private foundations nationwide, ranging from \$250,000 to \$250 million in assets.

## **KYLE WESTAWAY**

**Westaway Law**

New York, NY

[www.kylewestaway.com](http://www.kylewestaway.com)

Kyle is the founding partner at Westaway Law, an innovative New York City law firm that counsels social entrepreneurs. He lectures on social entrepreneurship at Harvard Law School and Stanford Law School and writes for Triple Pundit, Social Earth, Law for Change and SoCentlaw. He sits on the board of Explore, a charter school in Brooklyn, and The Adventure Project, a nonprofit that seeks to add venture capital to social entrepreneurs in the developing world.

## **TED BARBER**

Prosperity Candle, L3C  
Northampton, MA

[www.prosperitycandle.com](http://www.prosperitycandle.com)

Prosperity Candle, L3C's mission is to empower thousands of enterprising women in places like Afghanistan, Haiti, Iraq and Rwanda who are rebuilding their lives with determination, by partnering with them to provide the right tools and resources to start a thriving business. Through our model of Shared Prosperity in which every entrepreneur participates in the success of our company, each woman we work with has the opportunity to earn above a living wage, grow her candle business, and provide employment and leadership in her community.

## **JAMES VANDER HULST**

DISC, L3C  
Grand Rapids, MI

[www.disc-l3c.com](http://www.disc-l3c.com)

DISC: Disruptive Innovations for Social Change is a think tank, incubator and implementer focused on innovative practice that helps workers, employers and communities succeed by applying the principles of disruptive innovation to create lasting change. Our work helps workers gain economic self-sufficiency for themselves and their families; employers retain an engaged and skilled workforce; public agencies and nonprofits get better outcomes from programs that advance economic independence; and community colleges add students and build closer ties to area businesses. We apply business practices to achieve goals that communities define as vital to their well-being.

## **KATHRYN ALEXANDER**

Ethical Impact, L3C  
Boulder, CO

[www.ethicalimpact.com](http://www.ethicalimpact.com)

Ethical Impact, L3C, provides support, consulting, auditing and the Forever Green™ certification process to companies implementing sustainable business practices. Our values-based approach prevents inadvertent green washing, drives sustainability into our clients DNA, and ensures that they can get the cascade of financial benefits that come from deep green business practices. Our Forever Green™ certification process crosses industries, and works with all types and sizes of companies. By providing a transparent marker about your progress on the journey and opening your eyes to the wisdom of working with natural laws, you will not be caught greenwashing!

## **RYAN HOWELL**

RUBICON Law  
Concurr, L3C

Denver, CO

[www.rubiconlaw.com](http://www.rubiconlaw.com)

[www.concurr.org](http://www.concurr.org)

RUBICON Law is a Denver-based law firm that provides legal counsel to innovative companies throughout the United States. RUBICON offers its clients a comprehensive set of legal services across several areas, including, business formations, raising capital, licensing, IP protection, mergers and acquisitions, restructurings, employment issues, governance, contracts, and special projects. RUBICON is known for its flexible billing arrangements, use of technology, and more broadly its commitment to reinventing the traditional law firm.

Concurr, L3C, is an experiment in open source legal knowledge management. Concurr believes that open sourcing legal knowledge will lead to improvements in access, quality and costs. The business is currently on hiatus.

## **ERIC LOMBARDI**

Eco-Cycle, Inc.

(plans an L3C arm to develop compost facility)

Boulder, CO

[www.ecocycle.org](http://www.ecocycle.org)

Eco-Cycle Inc. is the largest community recycling social enterprise in the U.S. Founded in 1976, Eco-Cycle currently has a staff of 66 with a payroll over \$2.5 million. Its mission has expanded beyond pioneering recycling and is now “Working to Build a Zero Waste Community.” Eco-Cycle is partnering with individuals, schools, businesses, governments and event organizers to make Boulder, Colorado, a model Zero Waste community for the world. The Eco-Cycle International Program is its consulting service, and its website, [www.ecocycle.org](http://www.ecocycle.org), received nearly 1 million visits in 2009, with 25% of those coming from outside the U.S.

## **ROB BRYAN**

Windhorse Lightships, L3C

Louisville, CO

[www.windhorselightships.com](http://www.windhorselightships.com)

Windhorse Lightships’ mission is to awaken and engage the citizen scientist, philanthropist, volunteer, explorer and adventurer in all of us; to harness that power and those resources for the preservation of marine biodiversity to ensure future survival of the human race; to support and strengthen the community of 501(c)(3) nonprofit organizations that are dedicated to the protection, conservation and restoration of biodiversity of our oceans.

## **STACY CALDWELL**

Tahoe Truckee Community Foundation

Lake Tahoe, CA

[www.ttcf.net](http://www.ttcf.net)

Tahoe Truckee Community Foundation connects people and opportunities, generating resources to build a more caring, creative, and effective community in the Lake Tahoe area. Caldwell is also the former president of Dallas Social Venture Partners.

# APPENDIX B

## Further Reading

The following resources can be downloaded in PDF format at: [www.interSectorL3C.com/l3c\\_entrepreneur\\_resources.html](http://www.interSectorL3C.com/l3c_entrepreneur_resources.html):

[ABA Section of Taxation – Comments Concerning Proposed Additional Examples on Program-Related Investments](#)

[Adding Another Trick to Your Bag of Tricks](#)

[Americans for Community Development L3C Overview](#)

[Attorneys Responding to Criticism of L3C](#)

[Basic L3C Primer](#)

[Capital with a Conscience](#)

[Citizen Media Law Project Legal Guide: Low-Profit Limited Liability Company](#)

[Enlightened Capitalism and L3Cs](#)

[Fifty State Series - L3C and B Corp Legislation Table - UPDATED March 5, 2012](#)

[Finding Philanthropy's Sweet Spot](#)

[How Public is Private Philanthropy?](#)

[IRS Proposed Rules REG-144267-11\\_20120418  
Council on Foundations Comments on Proposed REG-144267-11,  
Examples of Program-Related Investments](#)

[L3C: Will New Business Entity Attract Foundation Investment?](#)

[L3Cs: The Hybrid Way to do Well by Doing Good - FastCompany.com](#)

[L3C or B Corporation: Which Legal Structure Best Promotes the Growth of Social Enterprise?](#)

[Law and Choice of Entity on the Social Enterprise Frontier](#)

[Low-Profit Limited Liability Companies: An Unlikely Marriage of For-Profit Entities and Private Foundations](#)

[Negating the Problem of Having “Two Masters”: A Framework for L3C Fiduciary Duties and Accountability](#)

[New Strategies for Leveraging Foundation Assets](#)

[OLR Research Report - Low Profit Limited Liability Companies or L3Cs \(October 7, 2011\)](#)

[Philanthropic Facilitation Act of 2010](#)

[Philanthropic Facilitation Act of 2011 - H.R. 3420](#)

[Program Related Investments – Social Investments](#)

[PRIs – Do They Cost or do They Pay](#)

[PRIs – A User-Friendly Guide](#)

[Recent Legislation in Several States May Offer Opportunities for Investors to Partner with Tax-Exempt Private Foundations](#)

[Reevaluating the L3C: Mistaken Assumptions and Potential Solutions](#)

[Should We Consider a PRI? Basic program-related investment criteria for foundations and nonprofit organizations](#)

[The L3C: A new business model for socially responsible investing](#)

[The New Double Bottom Line - Entrepreneur.com](#)

[The Family Foundation and the L3C](#)

[Using New Hybrid Legal Forms: Three Case Studies, Four Important Questions, and a Bunch of Analysis](#)

[Vermont’s Social Hybrid Pioneers: Early Observations and Questions to Ponder](#)

[What is Ahead for Social Investment?](#)

[What is the L3C?](#)



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If you've not yet read our first paper:

**Who is the L3C Entrepreneur?**

The pioneers of social enterprise's revolutionary new suffix

Please visit: [http://www.intersectorl3c.com/download\\_l3c\\_paper.html](http://www.intersectorl3c.com/download_l3c_paper.html)

If you have comments about this paper or suggestions for future papers, please visit:

<http://www.surveygizmo.com/s3/1043803/comments>

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**“Without deviation from the norm, progress is not possible.”**

**– Frank Zappa**

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