



## What is the L<sup>3</sup>C?

The creator of the L<sup>3</sup>C, Robert Lang, calls it the “for profit with the nonprofit soul.” It operates in the space between the nonprofit and the pure for profit organization to perform a social mission. A type of LLC, the L<sup>3</sup>C (Low-Profit Limited Liability Company), is able to bring together a mix of foundations, trusts, Donor Advised Funds, endowments, pension plans, individuals, corporations, nonprofits & governmental entities and others in order to achieve social objectives while operating according to for-profit metrics. Just like any LLC, an L<sup>3</sup>C has the liability protection of a corporation and the flexibility of a partnership.

## WHAT IS THE L<sup>3</sup>C?

The L<sup>3</sup>C (Low-profit Limited Liability Company) is not a nonprofit. It is a for profit venture that under its state charter must have a primary goal of performing a socially beneficial purpose not maximizing income. The legislation was specifically written to dovetail with the federal IRS regulations relevant to Program Related Investments (PRIs) by foundations. The L<sup>3</sup>C facilitates PRI investment without the need for IRS private letter rulings. It also facilitates layered investing with the PRI usually taking first risk position thereby taking much of the risk out of the venture for other investors in more secure positions. In some cases various government grants or investment by nonprofits other than foundations can assume the first risk position. The rest of the investment levels become more attractive to commercial investment by improving the credit rating and thereby lowering the cost of capital. It is particularly favorable to equity investment. Because the foundations take the highest risk at little or no return, it essentially turns the venture capital model on its head and gives many social enterprises a low enough cost of capital that they are able to be self sustainable.

It is the perfect vehicle for economic development, medical research, operation of social service agencies, museums, concert venues, housing and any other activity with both a charitable purpose and a revenue stream. It can be used to consolidate a group of activities some which will earn significant revenue with some that will earn very little and or even lose significant amounts of money and use the total revenue to keep the overall L<sup>3</sup>C revenue positive and achieve the social benefits.

The L<sup>3</sup>C is now legal in all 50 states as a result of legislation signed into law in Vermont in April 2008, Michigan in Jan. 2009, the Crow Indian Nation in January 2009, Wyoming in February 2009, Utah in March 2009, the Oglala Sioux in July 2009, Illinois in August 2009, Maine in April 2010, Louisiana in June 2010, North Carolina in August 2010, and Rhode Island in June 2011. An L<sup>3</sup>C from any of these states, like a Delaware corporation, can be used anywhere. The L<sup>3</sup>C bill is now active in the legislatures of many states.

About half of all L<sup>3</sup>Cs that have been formed were formed with no intention of asking foundations for PRIs, at least not in the initial stages. Probably more importantly than anything else, the L<sup>3</sup>C is a brand which signifies to the world that it is a for profit that puts mission before profit yet is self sustaining. As a brand it makes these concepts easy to grasp and thereby will be frequently used.

The L<sup>3</sup>C laws also create a template for the structure and are a protection against possible misuse by owners or management of the L<sup>3</sup>C.

The L<sup>3</sup>C was built on the llc structure in order to provide the flexibility of membership and organization needed to cover a wide variety of social enterprise situations while including the liability protection of a corporation. It is very easy for lawyers and laymen alike to grasp since it does not create a totally new structure but merely amends the definition section of the llc acts in most states. That leaves 15+ years of legislation and litigation that is behind the llc intact behind the L<sup>3</sup>C.