



interSector Partners, L³C
What's *your* bottom line?

Who is the L³C Entrepreneur?

*The pioneers of
social enterprise's
revolutionary new suffix*

May 2010

interSector Partners, L³C
Longmont, Colorado

*Caryn Capriccioso
Rick Zwetsch
Erin Shaver*



FOREWORD

Colorado State Affairs Committee Chairwoman Nancy Todd:

“My head says ‘no,’ but my heart says ‘yes.’”

State Representative Joe Miklosi:

“Go heart!”

It was a rare moment of levity during what was otherwise a string of very serious committee hearings on the low-profit limited liability company (L3C) business model and legislation in Colorado in early 2010. The entrepreneurs who testified on behalf of the legislation brought a high degree of passion, yet also solemnity to this issue—that bringing a new business model to Colorado to create new jobs and address significant social issues is both a wonderful opportunity and a critical need. After all the hearings concluded, I understood why.

My career includes 12 years of public policy, six years of business development and many years of nonprofit management experience spanning several states and many industries. During this time, I have seen the wall between the for-profit and not-for-profit sectors evaporate. Today, nonprofits utilize business practices to run more efficiently and for-profit entities use corporate social responsibility and treble bottom line as benchmarks to judge their ability to be good corporate neighbors and to actively solve problems in their communities. The L3C business model bridges these two sectors as the first legal double bottom line business structure in the United States.

I believe we are in an all-hands-on-deck situation when it comes to addressing pressing social issues, and the L3C caught my eye as an important tool that change agents, entrepreneurs and other stakeholders interested in practically solving problems could use to make a difference in our neighborhoods.

The Colorado L3C legislation was indefinitely postponed during the 2010 legislative session, but we will bring the legislation back in 2011 stronger and better. The process leading to this decision was one of discovery and inquiry by my fellow legislators and myself. As the prime sponsor of Colorado’s legislation, I learned a great deal about this emerging model with a primary focus on social profit, and I met many who embrace this model to create jobs and as a way to make the world a better place. Social entrepreneurs from across the state shared their inspiring ideas for doing well while also doing good. Many of them saw the L3C as a way to tie social good to business metrics. For some, it helped to address the often confusing question of whether to become a nonprofit or for-profit. And for several, the idea “simply resonated” with them and with their core beliefs.

I am now acutely aware that interest in and passion for the L3C is extremely high. I know that questions remain as to why social entrepreneurs need or desire this hybrid business structure. Opponents and proponents alike are engaged in spirited discussion ranging from motivations to transparency and from branding to financing. We haven’t yet answered, or perhaps even asked, all there is to ask.

With so many questions remaining, I was pleased to see that interSector Partners, L3C—a Vermont-registered L3C doing business in Colorado and a key advisor to my legislation—chose to invest its own time and financial resources to compile *Who is the L3C Entrepreneur: The pioneers of social enterprise’s revolutionary new suffix*. This paper will introduce you to some of the social entrepreneurs I met in Colorado and let you hear from many more across the country. The power of these stories cannot be denied.

If you are curious about the L3C, its opportunity, its challenges and the motivations behind its supporters, I encourage you to read the stories of these social innovators. I believe that you will be just as inspired as I was by their ideals (and ideas!), their struggles and their passion for social change—and perhaps more importantly, see why the L3C isn't just an emotional idea that tugs at the heart, but an intellectual, rational idea that speaks to the mind.

A handwritten signature in black ink that reads "Joe Miklosi". The signature is written in a cursive, slightly slanted style.

Joe Miklosi
Colorado State Representative
District 9

P.S. I could not have made a successful run at the L3C legislation without the many, many entrepreneurs, nonprofit leaders, foundation executives and others who supported the L3C legislation in Colorado through testimony, support letters, meeting with me and sharing my passion with their colleagues.

In particular, I'd like to thank those who attended meetings and/or testified at committee hearings on the L3C including: Caryn Capriccioso, Ernie Duff, Pete Gingrass, M.L. Hanson, Lon Howell, Dallas Pederson, Greg Romberg, Rebecca Saltman, Erin Shaver, Rob Smith, Katie Taft, Martha Vail, Mary Joe Weston and give a special thanks to Rick Zwetsch who spent countless hours sharing his knowledge and understanding of the L3C and serving as my expert witness during the legislative hearings.

CHAPTERS

Introduction.....	5
Who We Are	5
Why We Did This	5
What This Paper Is (And Is Not)	5
Thank you	5
Main Findings.....	6
A Quick Definition	6
First, the Back Story	6
Passion, Passion, Passion	7
Why L3C? Why Now?.....	9
Humble Beginnings.....	10
Filing the Paperwork.....	11
Getting Funded—or Trying Anyway	12
“Nobody Knows What the Hell it is”	14
Concerns: Yes, There Are Many	16
What is Social Purpose?	16
Why Low-profit?.....	16
Misinformation Abounds.....	17
The Great Unknown.....	18
What’s Next?	18
Further Legislation.....	18
Spread the Love	19
Vision for the Future: Closing Thoughts	21
Appendix A: Featured Entrepreneurs	24
Appendix B: Further Reading.....	29

INTRODUCTION

Who We Are

We are interSector Partners, L3C, 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

The notion of this white paper was hatched in late 2009. As consultants, it's the nature of our business to spend a fair amount of time talking with people about their businesses and organizations and the concepts and challenges they face. Early on ***we noticed we were spending a lot of our time talking about this new business structure we had adopted, the L3C.*** When we calculated our time, it was nearly 200 hours in the second half of 2009 that we spent discussing, answering questions, and brainstorming ideas on the subject. People contacted us from far and wide; not just from our home state of Colorado, but also from New York, Texas, California, Missouri, New Mexico, Virginia, Michigan and beyond. ***There was a very genuine and real interest brewing and we could feel it.***

What This Paper Is

We surveyed, interviewed and chatted with dozens of L3C entrepreneurs to put together this paper. All in total, ***we garnered feedback from over 50 individuals from over a dozen states, including detailed phone interviews with nearly 20 entrepreneurs.*** While the L3C inherently is a simple concept, there seems to be much confusion and misinformation among people we encounter in person and online. By shedding light on the wealth of stories, ideas and business concepts—and the entrepreneurs behind them—***we hope to help 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.

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 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 flaws, challenges, issues and concerns over the L3C are raised in this paper, we did not speak to 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. They saw this paper as an opportunity 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 also thank Erin Shaver, a colleague and friend of interSector, who spent countless hours conducting interviews, compiling stories and crafting much of what you read in this white paper.

Thank you to all of you who contributed!

MAIN FINDINGS

A QUICK DEFINITION

For the purposes of this paper, the **L3C entrepreneur will be defined as someone who has started an L3C, wants to or is considering starting one, or someone who spends time and energy advocating for the L3C** through legal counsel, financial counsel, journalism, politics or some other means.

FIRST, THE BACK STORY

The low-profit limited liability company (L3C) was founded by Robert Lang and first passed into law on April 30, 2008, in Vermont. The L3C is built upon the existing and well-established limited liability company (LLC) business structure and serves as somewhat of a hybrid between LLCs and 501(c)(3) nonprofit organizations. 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.**

As of the writing of this paper, **five U.S. states had legislation that allowed the filing of a business as an L3C: Vermont, Michigan, Utah, Wyoming and Illinois**, as well as the Crow Indian Nation and the Oglala Sioux Tribe. However the L3C is legal in all 50 states in the same manner that a Delaware Corporation can be used anywhere in the U.S., so L3C businesses hail from far and wide. At least a dozen other states have had L3C bills in process in their respective state legislatures sometime in 2009 or 2010. Federal legislation is currently in the works that was first introduced in late 2008 in a Senate Finance Committee. The legislation would clarify the role of L3Cs and their eligibility for 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.**

As of spring 2010 there were more than 175 businesses registered as L3Cs in the United States: roughly 100 in Vermont; over 40 in Michigan; and a handful each in Utah, Illinois and Wyoming. A quick survey of these businesses reveals a variety of different fields:

- Farming and agriculture
- Real estate/housing
- Environmental services
- Healthcare
- Low-income assistance
- Journalism and publishing
- Sports and recreation organizations
- Entertainment industry
- Food industry
- Socially responsible consulting
- Education
- Marketing and event planning
- Construction services
- Arts and preservation organizations
- Financial and legal services
- Travel and tourism

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

- Some exist as arms to help support the missions of existing 501(c)(3) nonprofits or LLCs
- A few are converted from LLCs or LLPs
- Many others are just standalone, start-up organizations

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, their owners decided they made more sense as an L3C.

For instance, there is Jennifer Towery, a newspaper editor in Peoria, IL, who is trying to **turn her struggling corporate-owned city newspaper** into a community-owned L3C. Or there is Christopher

Washington, an entrepreneur in Washington, DC who has formed an **online aggregator of socially conscious merchandise** from around the world (which he describes as a “sustainable Amazon.com”). And then there is Greg Truex, who is **refurbishing foreclosed homes** in Michigan and offering them to low-income families on an affordable rent-to-own basis.

- Other L3C business ideas **are much more complicated; they are working to create models to facilitate the integration of various sectors and resolve complicated social problems.** These L3Cs exist as businesses in previously untapped spaces—working between the sectors to try and bring a variety of stakeholders together. Some of the areas these organizations are working within include urban agriculture, food distribution, waste reduction, low-income job opportunities, economic 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.**

For instance, there is Eric Lombardi, who is working to develop an L3C compost facility as part of the 501(c)(3) nonprofit he heads with the hope of **building a profitable zero-waste city model** in Boulder, CO. Or there is Michael Moreland, who is working to **create affordable innovations in the field of global development** through his Atlanta-based L3C and its parent LLC. And then there is Brendan McCrann, who has created an L3C in Denver **to build integrated community based models** focused on urban agriculture production, waste reduction and job creation.

These are merely a fraction of the wide spectrum of ideas, fields and structures being created as L3Cs. According to Marc Lane, a Chicago attorney who has provided legal counsel to help launch at least 50 L3Cs (including the first one, Robert Lang’s L3C Advisors, L3C), it’s because **the L3C provides a space for innovation and new approaches that existing business and nonprofit models do not:**

I think that’s a reflection of the opportunity; it’s there to be shaped. It invites creativity and innovation in deal design and entity design. When you talk to clients about the various ways businesses can be structured, that very conversation sparks reactions in clients. The L3C empowers the client to re-imagine the venture beyond the constraints of the typical corporation, partnership or LLC.

PASSION, PASSION, PASSION

A common thread woven through our conversations with various L3C entrepreneurs is a very high level of enthusiasm and engagement for their business idea and for the L3C. While passion is certainly an expected sentiment at the launch of new businesses, the L3C entrepreneurs seem to take it a step further. **They find the L3C opportunity, in short, to be revolutionary.** Some of the most commonly held values include:

- A deep belief in **embracing a double (or triple) bottom line** concept—economic, social and ecological value
- A core value that **one can make money and solve social problems** at the same time
- A desire to be a part of **pioneering new and ground-breaking movements**
- A belief that the L3C has the chance to **ameliorate social problems** that aren’t currently being solved
- A desire to see the **for-profit and nonprofit sectors come together** in greater harmony
- An interest in seeing the **nonprofit sector become more sustainable** and a belief that the L3C can help
- An appreciation of the branding opportunities of the L3C in that the **social responsibility concept is part of their business name** and known from the outset

We wanted to make a statement of what we were all about as a company. We liked the fact that L3C was part of our title. We are telling people within our title and within our branding that we have a social mission.

—John Rosser, DVK L3C; Miami, FL

Whether we want to pursue PRI or not, we believe in business models that embrace sound, for-profit business practices along with a social bottom line. It allows us to **promote and pioneer a new, progressive form of business** that, in my opinion, addresses a lot of the inadequacies of nonprofit sector.

—Brendan McCrann, Future Pointe, L3C; Denver

The L3C happened to fit on a very deep level; I took a look at the L3C, did some research and said, ‘wow, that’s what we’ve always intended to be.’ Believe it or not, we were not that aware of some of the more tangible benefits of the L3C; it simply resonated with us.

—Ted Barber, Prosperity Candle, L3C; Northampton, MA

The **prospect of securing foundation funding** is a secondary (yet also very significant) motivation for the L3C entrepreneur. Very simply and ideally, they feel that if a foundation that shares their mission can take on some of the risk, they can better attract investments from private sector investors, who might otherwise shy away from social enterprise projects because the financial return is too low. 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 program-related investments (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

The problem for me with the investor approach is the ownership of value systems I created. When you have investors involved in the company, they really want to **get their money back and that’s often a bigger driver than the integrity of the value system.** With an L3C I have the option of talking to nonprofits and foundations and low price loans and that I think would be a better funding mechanism for us.

—Kathryn Alexander, Ethical Impact L3C; Boulder, CO

Our initial capitalization is going to be 18 million dollars. When the L3C showed up and I realized the capability in attracting market investments and being able to pay it a reasonable return using a tranching strategy, it just seemed perfect.

—Rob Bryan, 3Degrees Marine, L3C; Louisville, CO

The for-profit is for profit. **We want a paper that is for journalism. It’s more than semantics; it’s everything.** And we think there is interest in this community—the desire and the backing and money—not to buy the paper as it is now, but with the potential of a much better product. But we have to have that [new funding] model; we have to have something to offer them and some guarantee that we can do this.

—Jennifer Towery, Peoria Journal Star; Peoria, IL

WHY L3C? WHY NOW?

One of the greatest arguments against the L3C is that it is unnecessary. Yet in talking to L3C entrepreneurs, many feel that their particular business concept fits best—and perhaps only—as an L3C.

They do not want to be a traditional, for-profit company because their business idea is essentially a socially minded one first. **They don't ever want to lose that mission-first mantra** and feel like as an LLC or small corporation, or something else like that, they may eventually be persuaded into a mindset of profit first, social responsibility second. They also don't believe they could generate high enough returns to satisfy the expectations of mainstream venture capitalists if operating as a traditional business and think it would be a harder sell to get foundations to look at their portfolio.

*We could have formed an LLC and in fact the L3C is a type of LLC, but the mission of the organization really is primary. **We want to make sure after all these years our enterprise doesn't turn into another business enterprise.***

—John Plunkett, Civic Staffing L3C; Chicago

It's baked into the statute by law that it's mission first. And we won't be subject to a few members or a few investors deciding to change the focus.

—Rob Bryan, 3Degrees Marine, L3C; Louisville, CO

They do not want to be a traditional, 501(c)(3) nonprofit because they do not want to be constrained by the strict compliance of the 501(c)(3) world. While most of their businesses and business ideas have a very nonprofit slant in terms of mission, **these entrepreneurs do believe they can turn a fair profit**—enough that if a foundation took on some of the risk, private investors would be able to see a near market-rate return. Quite a few have background in the nonprofit sector and see the vulnerability and challenges facing that sector—particularly the constraints facing social enterprises under that model. Frankly, they do not think they could raise enough money as a 501(c)(3)—especially in the current economic climate—to survive.

Replacing community infrastructure is expensive; we're talking millions of dollars here to replace the infrastructure to create a sustainable community. LLC or 501(c)(3)—neither one of those would raise enough money to replace the status quo.

—Eric Lombardi, Eco-Cycle; Boulder, CO

*I was just curious how news organizations could possible mutate into nonprofits and was thinking pretty heavily about this when I came across the idea of the L3C. I have always been interested in social enterprise and I thought, 'here is an idea that makes sense.' **The thing about the news is that it's never had a business model.** The news was written to be wrapped around the advertising. Because there's never been a business model that works, **there is an incredible opportunity to create a business model now.***

—Sally Duros, journalist; Chicago

To be sustainable, most L3C entrepreneurs believe that their particular business venture needs a mixture of funding from more than one sector, and could, in turn, offer something back economically and socially to both sectors. In fact, **quite a few claim that their business would not have existed at all if the L3C structure did not exist.** Others feel it might have eventually existed as an LLC, nonprofit or something else, but probably not right now and certainly with a completely different business model and approach. As such, some legislators who have been proponents of L3C

legislation (like our own Rep. Miklosi in Colorado) have framed it as a “jobs bill”—pointing out the very likely fact that **these businesses have been created strictly because of the L3C opportunity.**

Many entrepreneurs, such as Michael Moreland in Atlanta and Ron Hays in Salem, Oregon, have created (or are in the process of creating) **L3Cs as arms of existing LLCs or nonprofits.** Moreland’s company, SEEDR L3C, was created to help bridge the gap between the various sectors in which their for-profit global development company, SEEC, Inc., works within. Hays’ L3C (or several possible L3Cs) will serve as an arm to support the nonprofit food bank he heads. For both of these entrepreneurs, the L3C was created strictly to fill a niche that isn’t currently being met and **did not make sense as a another LLC or 501(c)(3):**

When we decided to form this company, we decided to pool our technological assets together for global development and the L3C just kind of made sense. Within this one project we have academia, for-profit, nonprofit and the government and bringing them all together is the L3C.

—Michael Moreland, SEEDR L3C; Atlanta

*The L3C is really a social entrepreneurship organization and forming it under a typical 501(c)(3) it would still be subject to the 501(c)(3) governance, which creates some interesting dilemmas. **There are a lot of constraints within a 501(c)(3), particularly when they age, that limit their ability to make change and do social entrepreneurship.** One of the things that attracts me to the L3C is its ability to make those kind of substantial changes in the social environment, plus the sustainability model that it offers itself that is not based on one provision of services or philanthropy.*

—Ron Hays, Marion-Polk Food Share; Salem, OR

Many L3C entrepreneurs said they often **hear the argument that the L3C is unnecessary because it is so similar to an LLC;** that all of the things they plan to do with an L3C they could have done with an LLC. Technically, many admit the argument is based in truth. But they also see it as a shortsighted stance—one that does not account for the fact that an increasing recognition of L3Cs has the ability to augment social enterprise in a way that (so far) nothing else has:

Factually, it’s absolutely true that we can use the LLC—and we have for years used the LLC—to receive program-related investments. There is substantial legal authority that one can do that. But that denies the reality on the ground about what an L3C actually does to enhance the cause of the social enterprise. When you talk about an L3C, there is now a growing recognition among the financial community as to what that is. When the business happens to have that L3C suffix in its name, there is recognition of what it is and what it represents.

—Marc Lane, Marc J. Lane Advisors, L3C; Chicago

HUMBLE BEGINNINGS

Most L3C entrepreneurs we spoke with have either recently formed their businesses or are in the process of forming them now. Their businesses ranged from a couple of partners to more than five. **Many L3C entrepreneurs come from a mix of the nonprofit and for-profit sectors.** For some, the L3C is their main career, for others it’s a side project—so side that they might have a couple more L3Cs in mind down the road.

Since the L3C did not legally exist until 2008, most L3C entrepreneurs first learned about the concept in either 2008 or 2009. Many did indicate, however, that they have been involved in social enterprise for several more years. How they got started:

- **Internet searches, online news and social media were very common methods by which entrepreneurs first learned of the L3C concept**—anything from a random Internet search, to finding an L3C feed on Twitter, to reading a news or journal article about the L3C. Others named specific Internet sites where they get information on the L3C. The two that came up most often were L3C founder Robert Lang’s Americans for Community Development (americansforcommunitydevelopment.org) and the L3C Connect group on LinkedIn.com.
- **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.
- Lastly, **word-of-mouth or reference from consulting firms, accountants or lawyers, or through academic settings** were also key ways entrepreneurs came in contact with the L3C concept.

For some, who had spent years researching social enterprise either through a practical application or in academic settings, **the L3C—or some sort of business concept like it—was something they had been waiting on for some time.** Several of these respondents compared and contrasted the L3C with double bottom line social enterprise models already established in other countries—especially the Community Interest Company (CIC), a nonprofit/for-profit hybrid founded in the United Kingdom:

*I feel like the United States is both good and bad at being responsive in its policy, because here there have been a million different tricks for nonprofits—such as fully owning for-profits, or having partnerships, all of these things people have been doing on a grassroots level—to get the same result the L3C offers. The L3C, I think, is in response to that. **So when the L3C came out it was like, ‘It’s about time.’***

—Michael Moreland, SEEDR L3C; Atlanta

*The CIC is very interesting; they have five years of history ahead of us. **We have to learn from them because they’re stumbling right now.** I think people are starting to talk about the differences in their approach and the L3C approach and the fact that England is starting to look at the L3C approach.*

—Eric Lombardi, Eco-Cycle; Boulder, CO

FILING THE PAPERWORK

Entrepreneurs in the U.S. wishing to start an L3C or transfer an existing business to an L3C **must file 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. Most L3C entrepreneurs that we spoke with are currently filed in Vermont. Being the first state to approve legislation, many consider Vermont to have the most simple and streamlined process for registration. Several others are filed in Wyoming, Michigan, Utah and Illinois—the four other states that have more recently adopted L3C legislation.

For many L3C entrepreneurs, **filing in another state is not ideal, but is also seen as necessary evil to move forward** with this new business model. A few did express a slight concern over reciprocity in their filing state, should they get into any kind of lawsuit in their home state. Overall, most do not want to wait for legislation to come to their own state, although **some would consider moving to their own state should it pass legislation in the future:**

It's an irritation and it's an additional small expense [to file in Vermont] but it's not major. It would be nicer to have it all in the states, and Colorado may get around to that. But I need to move forward because I really need to fund this and it wasn't worth waiting another year or two for it to come here.

—Kathryn Alexander, Ethical Impact L3C; Boulder, CO

It's not ideal but it's so common; the obvious one is Delaware. I would rather save the extra annual charges to do business in my state, and I know that there is legislation that is in process, but there is no indication that it will happen any time soon.

—Ted Barber, Prosperity Candle, L3C; Northampton, MA

Many said that despite the out-of-state issues, the **process was not all that complicated** or cumbersome. Most were starting new businesses (whether they were stand-alone or as an arm of an existing organization), and there was also at least one conversion from an LLC. Yet several espoused the sentiment that while the process was fairly simple, **there was 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:

In any level of business dealing with the secretary of state is frustrating. It's hard to get answers and now we are dealing with a new topic that maybe hasn't reached every level of their organization.

—Brendan McCrann, Future Pointe, L3C; Denver

Because we are an L3C, we weren't able to get a lot of the free pro bono labor that a nonprofit might get, so we had to do all that research and what not by ourselves. It actually really slowed us down and caused a high level of anxiety because we did not have that access to expertise. Thankfully there is a good network of L3C partners and companies [such as on LinkedIn and Twitter] that actively want to share their information so we were able to bounce ideas off different people and get the information we needed.

—Christopher Washington, SOLVE L3C; Washington, D.C.

GETTING FUNDED—OR TRYING ANYWAY

As most L3Cs are fairly new, **many L3C entrepreneurs are still funding their operations like a traditional business**—a combination of personal and private business investments plus the sale of social enterprise product or services. Others are essentially still in the planning phases—literally “writing ideas up on a white board” and still building business models as you read this—and have secured no funding other than personal investments. Quite a few haven't taken the step to even approach foundations or investors yet.

Yet foundation funding is definitely on their minds, and some are optimistic it will happen in the near future. They are hopeful that if they can pitch their business to a likeminded foundation, whose mission is focused in the field in which their business operates, they can obtain a program-related investment from the foundation. **The foundation would forego market rate returns (which are allocated to the private sector players)**, but actually still benefit because they get a small return—instead of no return, as typically seen when making grants into nonprofits and charities. **The cycle is completed when the foundation's investment is repaid allowing it to invest again** in other socially responsible ventures or in more traditional nonprofit projects.

Marty Campbell, western region philanthropic director at Foundation Source, which has over 900 foundation clients nationwide, said there is certainly **growing awareness of L3Cs and PRIs in the**

foundation community but still a very limited understanding. Campbell was not familiar with any foundation in their portfolio that had funded an L3C. In addition, she did not think that the L3C designation necessarily enhanced the qualification of an investment for PRI eligibility:

Several of our clients are very interested in social enterprise, PRIs and equity investments but few have actually taken action to utilize these other tools and fund social enterprises. The primary stated benefit of an L3C by some proponents as I have understood it is that it helps to qualify investments for a PRI but that has not panned out necessarily in practice. The charitable purpose of the L3C still needs to be verified and remains as a source of ambiguity in IRS regulations for PRIs.

Part of the challenge, many said, is that **the way the current laws are set up for foundations to make PRI are not necessarily friendly toward L3Cs.** Because the IRS has not ruled in any way about foundations funding L3Cs through PRI, the foundation and L3C must get an opinion of counsel (from an attorney) or a private letter ruling (from the IRS) in order to legally enter into a funding relationship. That, they conclude, makes the process somewhat cumbersome and less desirable for foundations to want to get involved:

*Right now the way the law is set up, if a foundation wants to make an investment and call it PRI they can do it, but **they risk the IRS coming back and saying the investment doesn't meet the requirements** and the foundation gets penalized or even loses nonprofit status. So what entities tend to do is get a letter ruling from the IRS before they make PRI. They have to pay for the letter ruling and it takes a lot of time.*

—Mary Joe Weston, Simplicity Law; Denver

While large national foundations seem to have the most awareness regarding L3Cs, **some entrepreneurs feel the best shot for foundation program-related investments would actually be at more local levels.** They see less red tape and possibly more long-term partnership potential at the local and smaller family foundations:

We were talking more with bigger national foundations, but we're changing that strategy. This year, we're going to be focusing more local, [where] there is less bureaucracy. If a family foundation wants to do something they just get their one lawyer and accountant on board—not an entire room of lawyers and accountants and having to navigate that.

—Christopher Washington, SOLVE L3C; Washington, D.C.

*At the small family foundations, there is less awareness, but I think there is more openness. Our feeling has been that, at that level, if we can become insiders and be part of the discussions with boards, that we can sell this—that the reward will outweigh the risk. **At that smaller level, in my mind, is where PRIs are going to first appear.***

—Brendan McCrann, Future Pointe, L3C; Denver

Marc Lane, who said he has talked with numerous foundations around the country about the L3C, agrees that there is little awareness at the smaller levels of the foundation community but definitely interest once it is explained. As the subject becomes more widespread, he said, some foundations at all levels will more eagerly get involved and others will still stay away:

Different foundations have different ways of handling the opportunity. Some will shy away from it and say, 'We don't need to do that.' There could be entrenched bureaucracies or a resistance

to change that will lead to the conclusion that they don't want to get into program-related investing. That's ok, because plenty are saying this is really something interesting.

—Marc Lane, Marc J. Lane Advisors, L3C; Chicago

Many L3C entrepreneurs indicated they had experienced positive talks with foundations about future L3C funding, including through such means as PRI, donor-advised funds and grants. **And a couple of entrepreneurs had received foundation funding**, proving that some foundations have taken the plunge to invest in an L3C. One funder was a community foundation in one of the largest U.S. cities; the other was the largest foundation in assets in the U.S. Interestingly, each of these L3C funding instances came not in the form of PRI—which has dominated the L3C funding conversation—but instead as grants.

Michael Moreland's company, SEEDR L3C, has received a 12-month grant from the Bill & Melinda Gates Foundation to redesign and reengineer cold-chain containers used in global and domestic vaccine and disease-monitoring programs. **The grant was made directly to the L3C as an expenditure responsibility grant**, which is a grant awarded to an organization that is not IRS-classified as a charity and requires extra reporting to the IRS:

It has been a learning experience for us and the foundation we received funding from. The whole process was brand new to everybody—everybody throwing their ideas in a pile and trying to figure out what was going to be good enough. I don't know what the result will be, but other grantmakers I have spoken with are also open to it.

John Plunkett also secured foundation funding last year for his company, Civic Staffing L3C. In his case, the Chicago Community Trust awarded **an unrestricted grant to the L3C's nonprofit parent organization, Harborquest, with the transparent idea that it would be used to create its L3C arm**. The funder has a long relationship with the nonprofit and a history of working with social enterprises. Since Harborquest has managed a successful social enterprise for many years and reinvested the Trust's money many times over, Plunkett hopes his company can be a pioneer in helping demonstrate to foundations the success of funding an L3C:

Over the years we've turned the Chicago Community Trust's initial funding over almost 700 times. We've taken what was a series of grants back then that amounted to \$300,000 and over the years we've used it to generate almost a quarter of a billion in earned income. We have been running five different social enterprises and have 40 years of history, so we will probably be able to get to scale faster than start-ups who have less experience in this area.

“NOBODY KNOWS WHAT THE HELL IT IS”

Despite some small successes in working with foundations, L3C entrepreneurs said that overall **there is 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: “Nobody knows what the hell it is.” As such, several L3C owners have given talks at local workshops or universities or written journal articles advocating for the L3C in their respective fields. Many espoused the sentiment that **one of their biggest responsibilities aside from pursuing the success of their own business is to help advocate for the L3C paradigm as a whole**:

We have to not only know what our business is, but then also know the sector and be able to explain why this was a good opportunity for us over anything else.

—Christopher Washington, SOLVE L3C; Washington, D.C.

I don't think there is much understanding. I think there's a lot of educational work to do. I think even within the social enterprise community there is not a lot of awareness.

—John Rosser, DVK L3C; Miami

For some L3C entrepreneurs, this lack of awareness made it difficult to find lawyers or accountants to aid them in forming their businesses. Several social enterprise lawyers and CPAs we spoke with corroborated this sentiment. **Not only is there a lack of awareness in the legal and accounting communities, there are also a lot of skeptics**, which generates a challenge for L3C entrepreneurs to find good counsel and assistance in structuring and creating their businesses:

I am finding that most Massachusetts lawyers are not that familiar with it. We're literally minutes from the Vermont border, and on the main trade route between Vermont and Massachusetts, and no firms I have spoken to have registered an L3C. When I tell them this is something I am interested in, they have to go research it first—and many have then counseled against it.

—Ted Barber, Prosperity Candle, L3C; Northampton, MA

I'd say your general practitioner hasn't even heard of the L3C yet; most lawyers don't know anything about it. There is a small group that knows a lot about it and there isn't much in between.

—Bruce Campbell, Campbell Law Group; Boulder, CO

I think there are a lot of naysayers in the legal arena, but I think that's shortsighted. It's not serving the needs of the community. The traditional entities don't make it that easy to highlight or brand an entity with a social mission. And if we want to help people grow their business and promote a social mission and investment in that social mission, we should want to make that easier for them.

—Mary Joe Weston, Simplicity Law; Denver

L3C entrepreneurs said they tend to find the **most awareness and interest in the L3C from people who they would describe as early- to mid-career**. Many also self-identify as being in this category. Several said the older businesspeople they have come across have tended to focus more on their experiences rather than embracing new ideas, at least initially:

In the circles I run in, it's mostly entrepreneurs between the ages of 25 to 35. We are all very aware of the L3C and eager to implement and want to pioneer this. To be perfectly honest, I am finding it difficult to explain the paradigm shift to folks who come from a different generation of business owners or managers.

—Brendan McCrann, Future Pointe, L3C; Denver

I'm 56, and the majority of my contemporaries have no idea what an L3C is. When I talk to people in the business and entrepreneur community, many of them are just so entrenched in the KISS ['Keep it simple, Stupid'] concept that they turn off anytime there is anything out of the ordinary.

—Rob Bryan, 3Degrees Marine, L3C; Louisville, CO

CONCERNS: YES, THERE ARE MANY

While their passion as L3C entrepreneurs is palpable and infectious, **there are definitely several common concerns** that consistently wove through our conversations. These concerns are based more on the big-picture surrounding the L3C structure and concept as a whole; specific concerns over next steps will be addressed in the next section. Some of those big-picture concerns included:

- Wanting **clear metrics to define the social purpose** of an L3C
- Wanting to **better define (or get rid of) the term low-profit**
- Being concerned over **misinformation**
- Fear over being an **early adopter of something so new**

What is Social Purpose?

One of the key areas of concern for some L3C entrepreneurs is **a lack of 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. Yet because they worry that the L3C may be falsely labeled as a watered-down or phony nonprofit, entrepreneurs are eager to figure out a way to evidence their double bottom line. In a simple sense, they said, the business world proves its worth in profits and assets. The nonprofit world measures in outcomes and numbers served. **L3Cs have to find a mixed form of evaluation metrics in order to advance the business form and prove its worth on both scales:**

*As the conversation evolves, our sense is that there needs to be a lot done and said relative to social purpose. **The lack of definition and the lack of accountability that surrounds that idea right now is perhaps the greatest weakness of the entire movement...** If you're part of a collaborative or a movement of this magnitude it's important we're all evaluating ourselves by some similar metrics.*

—Brendan McCrann, Future Pointe, L3C; Denver

They're going to have to look at some way to monitor this and I think a big part of that is looking at metrics. That's a big debate in this space right now—what is value? And as we expand our value proposition we have to look at, what is economic value? What is environmental value? What is social value? And can we prove it? Can we demonstrate it?

—Michael Moreland, SEEDR L3C; Atlanta

Why Low-Profit?

On the other end of the spectrum, defining the “low-profit” portion of the name low-profit limited liability company is a source of concern. While there are many areas in which L3C entrepreneurs agree and seem harmonious toward the movement, the **low-profit term has evolved into more of a sticking point**. Many suggest that profit is the wrong term altogether; that if the mission is truly first, **the L3C should define itself more by that social benefit than whether it turns a high or low profit**. They also worry that the low-profit term will turn off private investors; they feel that if the company is successfully performing social good—and can measure that—that its profits should not be an issue. Others feel quite oppositely; that the low-profit term is what makes the L3C distinctive and perhaps gives it more integrity:

*I am afraid that when we think of low profits it's like, 'sorry, I don't even want to go there.' Business is hard enough without feeling you have that kind of limited range. I think if we had an L3C that is making zillions of dollars and doing great social good we should be extremely proud. **I think if the issue is social benefit, you should prove your social benefit.***

—Kathryn Alexander, Ethical Impact L3C; Boulder, CO

To me, low profit means low impact. And I don't want to have a low impact; I want to have a tremendous impact. I want to create a profitable company that turns around and shares those profits to realize its social mission. So I've never felt comfortable with low-profit in the L3C name because who wants to invest in a low-profit company? To me, it's a name that makes the nonprofit sector more comfortable. **I'd prefer the L3C to be called an 'sLLC'—social limited liability company.**

—Ted Barber, Prosperity Candle, L3C; Northampton, MA

I believe strongly at this point that it actually defines us as different from anybody else and that's what we have to do to protect our credibility. In my mind, by putting that scarlet letter on us that says 'low-profit,' we are willingly identifying ourselves as something that a lot of capitalists don't want to be, and that's fine.

—Eric Lombardi, Eco-Cycle; Boulder, CO

Misinformation Abounds

The prevalence of misinformation is another area of concern for L3C entrepreneurs. They worry that there is a lot of room for falsifying information on the Internet (whether intentional or not), which makes it hard to validate what is true and false—a big concern for such a new and sometimes misunderstood movement. While many note that recent articles in the *Nonprofit Times* and at www.fastcompany.com and www.entrepreneur.com have helped clarify information in the business press, and that L3C founder Robert Lang's website Americans for Community Development (www.americansforcommunitydevelopment.org) is a good resource, they still worry that **the wrong information is too prevalent in other locations on the Web:**

*With the advent of instantaneous information, **it's easy for the wrong information to get out.** Not too long ago when the IRS wrote a letter that wasn't very favorable on the L3C, the word out was the L3C is over. There is starting to be a movement of people saying that is not true, but there wasn't any one place really that came out with an official statement and said, 'this is what is going on.' And I think that [we need to have] one organization that is doing that.*

—Christopher Washington, SOLVE L3C; Washington, D.C.

I think the L3C is so revolutionary and potentially so threatening to capitalism that it will definitely get attacked. [So] I would like to see a small consortium of maybe five foundations to create an L3C oversight committee so they represent the voice of the foundation world and have L3C attorneys create a legal advisory team. That way when Time Magazine and the big media finds us there are some official spokespeople they can go to and get the story straight, from a lawyer or foundation person, rather than somebody off the street who really doesn't get it.

—Eric Lombardi, Eco-Cycle; Boulder, CO

Yet although he's seen as one of the chief authorities in the L3C movement, Marc Lane said **he doesn't believe the movement needs a more authoritative voice.** He thinks that since the L3C is a private sector solution, the marketplace should govern the dissemination of information—not any one person or organization:

I am not a believer in managing information. If the L3C isn't about transparency and accountability, what is it about? I think we all benefit when there is a free exchange of information.

—Marc Lane, Marc J. Lane Advisors, L3C; Chicago

The Great Unknown

Another big picture concern of L3C entrepreneurs is simply that the concept is so new. Having only been adopted in a few states—the longest being just two years—they worry a bit about being on the first wave of the movement. **They wonder if the L3C will really become a mainstream solution**, or if it will turn out to be a trend that evolves and gives way to different, better models after a few years:

The fact that it's unknown, being a little bit of a trailblazer is a scary prospect for any of us. I think there are going to be differences of opinion by well meaning people and educated people on how it should be used—on when the L3C organization is appropriate and when it isn't. I think all of those issues will take time to vet.

—Greg Truex, Evangelin Development, L3C; Muskegon, MI

Sometimes I worry that it is a fad; that maybe it's just a phase we're going through and that some other structure that is really the way to go will come out a few years later. And we're left as an early adopter of the L3C wanting to develop it and the community has moved on. This is not so much a concern for SEEDR, but for the sector.

—Michael Moreland, SEEDR L3C, Atlanta

Because it is so new, **some also wonder if a lack of models—particularly for sustainability—will hurt some of the early L3Cs**. Do most L3Cs have a long-term financial sustainability plan? Will they truly be able to function simultaneously in the for-profit and nonprofit funding landscapes? Or will some of the early L3Cs fall apart after a few years, and hurt the movement's credibility?

*I think the biggest challenge is you have a lot of people who don't have a sustainability model in place. In other words, they want this nimbleness, they want this social enterprise, they want to do this business, but how are they going to keep it alive? How are they going to make it work? **Just getting program-related investments doesn't necessarily mean it's going to be sustainable...** If you come in from the social services model, I think that raises some challenges if you don't have a good business model.*

—Ron Hays, Marion-Polk Food Share; Salem, OR

WHAT'S NEXT?

Many L3C entrepreneurs feel that any legislation or attention directed toward the L3C is a major accomplishment. They are proud of the momentum that has been increasing in the past year and are hopeful that it will continue to build. As legislation continues to come together in various states and the spotlight shines brighter on the L3C, the more optimistic their outlook. That said, most of these entrepreneurs also see some **key, tangible steps that need to be taken** in the next couple of years to **make the movement even more viable and widespread**.

Further Legislation

Many L3C entrepreneurs said that while they are happy to see L3C legislation in several states, they really think **more widespread legislation**, be it state-by-state in all 50 states or at the federal level, **is necessary to make the L3C be seen 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. While some have plowed forward anyway, others are waiting on such legislation to proceed with their L3C business idea:

We need to hear from the IRS. There needs to be some very specific language that addresses the L3C and I think that with some specific language and criteria from the IRS, the foundation

community can then engage in another level of conversation with L3Cs. I think the reality that L3Cs are only supported presently in a handful of states is a problem. **We need to see access to L3Cs across the board before I think it will be seen as really credible.**

—Brendan McCrann, Future Pointe, L3C; Denver

The most important next step is at the federal legislative level. The L3C will remain just an LLC with a charitable mission until the federal government and IRS acknowledge the demand for new social enterprise structures and the value hybrid business models bring, and begins to take action developing the right safeguards, reporting requirements, etc. to enable this other sector to emerge.

—Michael Moreland, SEEDR L3C; Atlanta

We are waiting for federal legislation. **I am reluctant to push any newspaper to be an L3C without clear ruling from the IRS that it won't be a problem.**

—Jennifer Towery, Peoria Journal Star; Peoria, IL

Several attorneys have seen the latest summary of the proposed federal L3C bill and are hopeful that the bill is making progress; although it's anyone's guess how long it might take to get through Congress. The current version of the bill, they said, is an improvement over previous incarnations and would help turn the legal tide toward the L3C. The main objective of the proposed legislation is to facilitate PRIs by private foundations to L3Cs, in part by amending section 4944(c) of the Code:

*The current draft I have seen is that there would be a presumption if you're an L3C, a program-related investment would be valid. And that would help a lot. **I think the biggest hurdle right now is from a PRI standpoint—the L3C doesn't necessarily help** and legally doesn't make it any more likely that you're going to be able to attain PRI... I think lawyers who have studied it are skeptical at best but I think that would change if there was some federal legislation that truly gave the L3C an advantage with respect to facilitating PRI investments.*

—Bruce Campbell, Campbell Law Group; Boulder, CO

The current version will provide for an expedited review process by the IRS should an L3C or other social-purpose business wish to have any purported PRIs it receives confirmed to be PRIs. Today if a private letter ruling is sought, the process needs to be initiated by the foundation, not the business, and if there are three or four foundations looking to invest in the same business, each has to go out and get a private letter ruling. With this legislation, one ruling can be done by the business itself and all foundations would have the right to rely on it. I think is a much more efficient, cost-effective and rational way of handling it.

—Marc Lane, Marc J. Lane Advisors, L3C; Chicago

Spread the Love

L3C entrepreneurs also hope for more education and especially more leadership from leading foundations to expand education about L3Cs. Several said that, ultimately, **they think foundation support or lack thereof will either make or break the L3C.** Some mentioned that if the biggest foundations in the country—the ones truly viewed as “thought leaders”—came out in favor of the L3C, the tide would surely shift behind it. In late 2009, the Bill & Melinda Gates Foundation announced that it would be placing more emphasis on PRI investments in the coming years. By extension, many think this indicates opening a door to L3Cs, but **no major foundation has made a truly public and overt endorsement of the L3C model so far:**

*The foundations need to get behind it. It's up to the foundations to find great projects and start to think differently a little bit. **I think that is where the L3C will either win or lose—it will be on the floor of the foundations...** It's my hope that foundations begin to realize how it's going to maximize their money and create more social good rather than constant depletion of their resources. What we're talking about is replenishing what they already have, which is a major idea shift.*

—Christopher Washington, SOLVE L3C; Washington, D.C.

I think the Gates Foundation stepping forward, the Susan Buffet Foundation stepping forward and other major foundations moving into program-related investments and L3Cs—all of that lets it be known that 'it's safe to come into the water.' When you have thought leaders acting in a visible way, you achieve a tipping point and that is exactly the phenomenon that will be occurring and, in fact, is already starting to occur.

—Marc Lane, Marc J. Lane Advisors, L3C; Chicago

Several others go further to add that it's not just the foundations that should educate themselves and others, **it's also the business and nonprofit sectors that need to understand and embrace the concept.** The L3C entrepreneurs hope these sectors will realize how the L3C might help them become better social investors and achieve their missions. That said, the entrepreneurs also recognize that such a process may take time and there also may be some very strong levels of resistance:

*It's going to take grantmakers stepping up and taking the time to understand what the structure is, what they can get out of it, and how it can support their mission. It's going to take some real creativity from the entrepreneur standpoint to get some compelling, very scalable and very successful business models. It's going to take the cooperation of the nonprofit sector who has got to see the L3C as sort of a partner in crime and not a competitor for grant dollars. **It's going to take everybody to step up to see the benefit of an entity that can operate like this.***

—Michael Moreland, SEEDR L3C; Atlanta

Nonprofits are feeling threatened by this because they think it's going to draw foundation money away from them. I think their fear is legitimate, but what they have to do is understand is that **it's not a threat, but an opportunity.** I am a nonprofit and I see it as an opportunity; another tool. Eco-Cycle is not going to become an L3C; we're going to stay as a nonprofit but we're going to create an L3C as another tool to support our mission.

—Eric Lombardi, Eco-Cycle; Boulder, CO

To me, the key to success in the whole L3C concept rests with the **ability to get outside investors into deals that have social missions;** where going in, the outside investor understands clearly it may not be as profitable as a straight-up business deal, but knows that hopefully they will get a decent return on investment and know that they will be doing a lot more in terms of having a social impact that's favorable to society.

—John Plunkett, Civic Staffing L3C; Chicago

Several suggested that in order to really improve education on the L3C and change the conversation to something more concrete, **there have to be more working, scalable models in place to show that the concept really works.** Unfortunately, building models takes longitudinal data, and that takes time:

The concept is good but there aren't any good working models out there right now. There have to be good models put together that are working models. I think it's too early to tell. It's sort of like the LLC was 20 years ago and now we have good models out there.

—Ron Hays, Marion-Polk Food Share; Salem, OR

There is now growing awareness, interest and use of PRIs—even though the tool has already been available and used for two to three decades—in large part due to more examples, practice and familiarity with PRIs in the field and due to recent research, reports, conferences and networks. If the field is interested in expanding awareness by funders of the L3C as an option to achieve social impact then more information about current practices, a clear rationale for the use of this too, and practical resources would be helpful.

—Marty Campbell, Foundation Source; San Francisco

VISION FOR THE FUTURE: CLOSING THOUGHTS

Many L3C entrepreneurs have **an idealist vision for what the L3C can ultimately be**, if these challenges and hurdles can be addressed. First and foremost, **they want to see the nonprofit and for-profit worlds continue to converge**. For some, that means they want the L3C to essentially become a “fourth sector”—to follow in the path of the public sector (government), the private sector (business) and the nonprofit sector (sometimes called the third sector). For others, they see the L3C as **somehow serving as a bridge or liaison** between the three other aforementioned traditional structures that helps them better work together and essentially speak the same language:

I would like to break down traditional walls between nonprofits and for-profits and see how those business forms can work together on a shared set of problems. The success story is if [the L3C] helps to break down some of the unnecessary barriers between nonprofit and for-profit entities.

—Bruce Campbell, Bruce Campbell Associates; Boulder, CO

I call [the L3C] the fourth way. The three primary ways change happens in the world is through government, for-profits, or nonprofits. Well, I think the fourth one is a low-profit market approach.

—Eric Lombardi, Eco-Cycle; Boulder, CO

Many L3C entrepreneurs come from at least a partial nonprofit background and have a very strong emotional pull to that sector. Many indicate that their vision for the L3C is that it **ultimately helps the charitable world**, which they note has suffered greatly during the recent economic crisis. They want to see the nonprofit sector as a whole become more sustainable and truly believe that the L3C is one of the best solutions that has been proposed to help it get there:

I think personally the nonprofit sector has everything stacked against it. It's a wonder it has survived at all given the requirements to stay afloat. My hope is that the L3C allows for nonprofit solutions to evolve and to become more sustainable.

—Brendan McCrann, Future Pointe, L3C; Denver

Several L3C entrepreneurs we spoke with mentioned the origins of the LLC; they hope that the L3C is on a path to become as widespread and accepted as the LLC. Quite a few compared its rise now to where the LLC was 30 years ago. The LLC was first officially adopted in Wyoming in 1977 and spread throughout the country in the years that followed:

*I am sure there was opposition to the LLC at first. And now for small businesses, LLC is the entity of choice. When someone comes to me with a small business, there aren't a lot of reasons not to be an LLC. I think once the L3C really establishes itself in the mainstay it would **nice to see a significant percentage of these small businesses becoming L3Cs and not LLCs.***

—Mary Joe Weston, Simplicity Law; Denver

In conclusion, L3C entrepreneurs **truly see the L3C as a new and transformative model** that could **redefine how business works and how nonprofits work**; that could help **disentangle social problems** that don't seem to be resolving themselves in our current structures; that could **save some industries**; 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.**

It may take a few years to see whether the passion and enthusiasm for the L3C that began brewing between 2008 and 2010 ultimately leads to a viable new business structure. **It will take some time to see if foundation and private-investment support for these vehicles will ultimately come forth, and if L3Cs can prove that the funding model they advocate truly works.** In the interim, this first wave of L3C entrepreneurs will continue working to develop their businesses in the hope that they can spark a new form of lasting social change:

Today we have a brand-new designation and a brand new start. I could see it really developing to refine how PRI is applied, refining how we work with foundations, refining how we hire people for particular industries and creating a lot of job growth—support for social good that previous to this wasn't nurtured... It's a grassroots effort and something of a movement at the beginning and it takes time for it to build. The numbers of organizations will be measured in hundreds and not thousands for some time to come and that's probably how it should be.

—Greg Truex, Evangelin Development, L3C; Muskegon, MI

*It's making a statement to the public and the business community as a whole. **So many of our systems are broken and this is a real attempt to shift both the business model and the investing model.** Investors I think are starting to look for a social benefit to their investment payback as well. There is a certain group that is really looking at that so it makes a difference to them that the company they working with has that as part of their DNA.*

—Kathryn Alexander, Ethical Impact L3C; Boulder, CO

*Social enterprise is performing a function which otherwise would either be done by a charity (and they are faltering—100,000 of them shuttered last year) or by government (and obviously government has its own budget problems and other priorities)—or would not be addressed at all. So **the amelioration of social problems which otherwise might remain unaddressed can, over time, be achieved by L3Cs and other social enterprises.***

—Marc Lane, Marc J. Lane Advisors, L3C; Chicago

*The L3C is providing an opportunity for a lot of organizations to get out in front before the big decline in government and foundation support that's coming for social organizations. The nation has no choice but to get very focused in deficit reduction; states all over the country are going bankrupt and **there are going to be tremendous cuts and a shake-out for the not-for-profit and community-based organizations.** So if organizations can get out front and shift their organizations around and get other sources of funding by running a social enterprise, **there is a better long-term chance of sustaining and supporting their mission.***

—John Plunkett, Civic Staffing L3C; Chicago

*I do think L3Cs have a shot. They are going to be tested by the IRS but I think that it has the potential to be a game changer. Social enterprise is an idea that has been out there a long time and **it's the right time for people to start thinking about it.** I think the greed of the '90s and the last decade is kind of over—people are going to have to adjust their expectations. So if you can get a business started that will provide some return and also social good, I think people will be happy to have that. **I am an optimist that we are entering a gentler time.***

—Sally Duros, journalist, Chicago

Our business structures are fairly narrow; they don't necessarily account for the creativity that exists at the entrepreneurial level. So in this country we're celebrating entrepreneurship and small businesses as being the future of job creation and economic stability at the local level and there aren't enough options. There is not this middle road where people can get really creative about solving problems and being sustainable. **This is an organic process** and if it involves enough people in the conversation, then it really becomes an integrated option that addresses not just one or two or three possibilities around business but a whole array of considerations when it comes to the future.

—Brendan McCrann, Future Pointe, L3C; Denver

Appendix A

Featured Entrepreneurs

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

Marc Lane, JD

Marc J Lane Associates, L3C
Chicago, IL
www.marcjlane.com

Chicago-based attorney and financial advisor Marc J. Lane is the force behind L3C legislation in several states. He is an adjunct professor of law at Northwestern University School of Law, where he teaches the social enterprise course. He is the pioneer behind the Advocacy Investing® approach to mission-related investing (www.AdvocacyInvesting.com). Lane is also president and director of the Social Enterprise Alliance's Chicago chapter.

--

John Rosser

DVK L3C
Miami, FL
www.connectionmiami.com

DVK L3C is an experienced business conference and festival organizer in South Florida. Most recently, it organized the Social Venture Capital/Social Enterprise Conference in Miami (March 2010), which focused on spreading awareness of social venture capitalism with specific regard to the Latin American and Caribbean regions. Other previous festivals include the Gasparilla International Film Festival (over 6,000 attendees) and the MBAs for Asia/MBAs for Latin America (over 2,000 attendees), the largest international MBA job fair in the world.

--

Brendan McCrann

Future Pointe, L3C
Denver, CO

Future Pointe, L3C exists to demonstrate and support the impact of community development through building integrated community based models focused on urban agriculture production, waste reduction and job creation. Current projects in Denver and Colorado Springs are focused on three program areas including: employment opportunities for people at-risk, converting organic waste into compost, and using revenue to support pro-social initiatives including urban gardens constructed from recycled materials.

--

Ted Barber

Prosperity Candle, L3C
Northampton, MA
www.prosperitycandle.com

Prosperity Candle, L3C is social enterprise that enables thousands of enterprising women in places of conflict and distress to start thriving businesses linked to global markets. The company designs and sells high quality pillar candles handmade by women in regions where few others are able or willing to invest. In partnership with Women for Women International, Prosperity Candle is piloting its model for shared prosperity in Iraq. And in 2011, they plan to begin expanding to Rwanda, Afghanistan and Haiti. Prosperity Candle shares profits with every woman who makes high quality candles—not once a year as a charitable donation, but every quarter as an integral and valued partner.

--

Kathryn Alexander

Ethical Impact L3C

Boulder, CO

www.ethicalimpact.com

Ethical Impact L3C is the current expression of an organization founded by Kathryn Alexander that expands her work on culture, ethics and values. Through education (The Green Academy), consulting and certification (Forever Green) Ethical Impact strives to help values-based businesses better understand the profound impact beliefs have on the ability of the company to easily achieve its goals successfully and sustainably by becoming Deep Green. To acquire the benefits of sustainable business practices, requires significant changes in the company's relationship with nature and an integration of that understanding into every day business decisions. The Green Academy is focused on deepening and clarifying this shift. Forever Green certifications verify the application of this understanding and the consulting expertise provides support to integrate this new way of working with more effective business practices.

--

Rob Bryan

3Degrees Marine, L3C

Louisville, CO

www.3degreesmarine.com

3Degrees Marine, L3C supports and strengthens the community of nonprofit, nongovernmental organizations that are dedicated to the protection, conservation and restoration of our oceans by engaging people in sustainable scientific field research, education and conservation projects as volunteer research assistants, contributors and citizen scientists. 3Degrees Marine provides nonprofits in the ocean health community with tools and funding to facilitate their missions by designing, sustainably building and operating a new fleet of carbon neutral ocean research vessels designed for volunteer supported projects, and assist them with outreach and program execution. The immediate goal is an 80 percent reduction in carbon footprint and waste output over existing ocean research/exploration vessels.

--

Jennifer Towery

Peoria Journal Star

Peoria, IL

www.pjstar.com

The *Peoria Journal Star* is the major daily newspaper for Peoria, Illinois and its surrounding area. Jennifer Towery is an editor at the *Peoria Journal Star* and head of the Peoria Newspaper Guild, which

has been working with the union to turn the currently struggling corporate-owned publication into a community-owned L3C that values quality, objective local journalism over advertising or other financial interests.

--

John Plunkett

Civic Staffing L3C

(a subsidiary of Harborquest)

Chicago, IL

www.harborquest.com

Harborquest, Inc., a nationally recognized innovator of market-based anti-poverty strategies, now seeks to launch a triple-win L3C business venture. The new enterprise will benefit community-based training organizations working to alleviate poverty, Chicago-area businesses, and, most importantly, entry-level workers seeking a stable toehold in the radically changing labor market. This new subsidiary—Civic Staffing L3C—draws on the parent organization’s 40 years of experience in the workforce development and commercial staffing industries. The new company’s mission is to harness the power of the temporary staffing industry to combat urban poverty. Significantly, as the first L3C registered in Illinois, Civic Staffing is poised to become a prototype for other organizations looking to take successful social purpose business ventures to scale.

--

Eric Lombardi

Eco-Cycle, Inc.

(plans an L3C arm to develop compost facility)

Boulder, CO

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, received nearly 1 million visits in 2009, with 25% of those coming from outside the U.S.

--

Sally Duros

Independent journalist

Chicago, IL

www.sallyduros.com

Sally Duros has worked in newsrooms, city government, start-up businesses, and nonprofits. In 2009, her work advocating for the mission-based newsroom landed her on a committee formed by the Chicago Community Trust, some grassroots news organizations and other funders that ultimately decided to create a seed fund to finance Chicago new media start-ups. Recently she has been consulting on the future of news with legacy newsrooms moving online, as well as coaching long-time journalists on the job of being a nonprofit CEO. She devises strategies for positioning new newsrooms so that they can understand their place in the local news ecosystem and most effectively approach funders.

--

Michael Moreland

SEEDR L3C
(a subsidiary of SEEC, Inc.)
Atlanta, GA
www.seedrl3c.com

SEEDR L3C is a multidisciplinary technology and design firm bringing relevant, sustainable, and accessible innovation to the tools and strategies of global development. With partnerships spanning philanthropy, government, academia, and industry, SEEDR designs, engineers, and commercializes solutions in public health, infrastructure, and renewable energy, reinvesting the majority of the proceeds in its charitable mission. With a portfolio of revolutionary technologies, cross-sector partnerships, and a design methodology crafted for global development, SEEDR is forging a new way of developing and deploying technological innovation to transform challenges and empower communities around the world.

--

Ron Hays

Marion-Polk Food Share
(plans one or multiple L3C arms to support food bank)
Salem, OR
www.marionpolkfoodshare.org

For more than twenty years, nonprofit Marion-Polk Food Share (MPFS) has been leading the hunger relief efforts throughout Marion and Polk counties. MPFS acquires and distributes the bulk of emergency food for over 80 direct-service agencies that serve as the charitable food relief network in Marion and Polk counties. Marion-Polk Food Share strives to provide a consistent supply of healthy, nutritious core foods.

--

Christopher Washington

SOLVE L3C
Washington, D.C.
www.solve.coop

SOLVE (Solutions and Opportunities through Leadership, Vigor, and Entrepreneurship) L3C is the premier online aggregator of double and triple bottom line business merchandise from around the world. All of the merchandise it offers has a bottom line motivated equally by social impact as by profit. Its beta 2.0 website will be an interactive marketplace for both producers and purchasers, giving customers the choice of sustainable and fair-trade products that support and encourage the most social good at the best price.

--

Marty Campbell

Foundation Source
San Francisco, CA
www.foundationsource.org

Foundation Source is the nation's leading provider of support services for private foundations. The company's back-office, online and support services ease the burden, freeing foundations to focus

more on mission, strategy and family priorities and less on back-office administration and compliance tasks. The result: better run foundations with greater social impact. Foundation Source was recently named Philanthropic Group of the Year by the editors of Private Asset Management. Today, Foundation Source provides its full range of award-winning services to nearly 900 private foundations coast-to-coast representing over \$3.2 billion in foundation assets.

--

Mary Joe Weston

Simplicity Law, LLC

Denver, CO

www.simplicitylaw.com

Mary Joe Weston is a small business attorney at Simplicity Law, which focuses on providing low-cost and accessible law to individuals and businesses. Her past experience includes sales and marketing for the small business unit of a national telecommunications firm, as well as specialties in insurance and contract law as an attorney in San Francisco.

--

Bruce Campbell

Campbell Law Group

Boulder, CO

www.campbelllawgroup.com

Bruce founded and manages Campbell Law Group, a boutique corporate law firm. Prior to founding Campbell Law Group, he practiced at the international law firm of Hogan & Hartson. Bruce has represented clients in corporate transactions with an aggregate value in excess of \$4 billion, ranging from angel financings for start-ups to public offerings for multi-national companies. He is a member of a legislative drafting committee in Colorado that has considered proposed legislation for both L3Cs and For Benefit Corporations, and is an advisor to the Global Social and Sustainable Enterprise program at Colorado State University.

--

Greg Truex

Evangelin Development, L3C

Muskegon, MI

www.evangelin.org

Evangelin Development, L3C was formed to provide homeownership to low- to moderate- income families in Muskegon, MI. Evangelin's mission is to purchase and rehabilitate foreclosed or abandoned homes, get them to point-of-sale, and then make the homes available on a low-cost basis for low-income families. Evangelin also offers financial counseling and other relevant services. The end goal is for the dweller to buy the home on a rent-to-own basis and repay the initial investment.

Appendix B

Further Reading

The following resources can be downloaded in PDF format at:

www.interSectorL3C.com/l3c_entrepreneur_resources.html

- ABA Section of Taxation – Comments Concerning Proposed Additional Examples on Program-Related Investments
- Americans for Community Development L3C Overview
- Basic L3C Primer
- Capital with a Conscience
- Low-Profit Limited Liability Companies: An Unlikely Marriage of For-Profit Entities and Private Foundations
- Funding Philanthropy’s Sweet Spot
- How Public is Private Philanthropy
- L3Cs: The Hybrid Way to do Well by Doing Good
- News Strategies for Leveraging Foundation Assets
- Recent Legislation in Several States May Offer Opportunities for Investors to Partner with Tax-Exempt Private Foundations
- Philanthropic Facilitation Act of 2010 – Final Draft
- Program-related Investments – *Social Investments*
- PRIs – Do They Cost or do They Pay
- PRIs – A User-Friendly Guide
- 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
- The Family Foundation and the L3C
- Law and Choice of Entity on the Social Enterprise Frontier
- What is Ahead for Social Investment?

interSector Partners, L3C has worked diligently to ensure that all information in this paper is accurate as of the time of publication and consistent with standards of good practice in the communities within which we work. As research and practice advance, however, standards may change. For this reason it is recommended that readers evaluate the applicability of any stories, recommendations, quotes or information contained in this paper or the Web site link above in the light of their particular situations at any given time and the potential for changing standards.

This paper may address legal, accounting and financial matters, but does not in any way provide or constitute legal, accounting or financial advice or opinion. Many of the topics in this paper and at the Web site link above are related to and are potentially significant to tax exempt organizations and associations, and failure to act consistently with Internal Revenue Service rulings or guidance or other applicable law could result in taxability of revenues, loss of tax exempt status, or other potential unforeseen liability. It is strongly recommended that all readers consult their individual professional legal, accounting and financial advisors and take action only upon receipt of such advice. We disclaim any loss, either directly or indirectly, and assume no liability as a consequence of applying or relying on the information contained in this paper or at the links listed below.



interSector Partners, L³C

What's *your* bottom line?

1352 S. Sherman St.
Longmont, CO 80501-6520

www.interSectorL3C.com

Caryn Capriccioso, MNM

Principal Partner

land: 303.774.9746

air: 303.596.7112

e: caryn@interSectorL3C.com

www.interSectorL3C.com/caryn.html

Twitter: @caryncap

Rick Zwetsch

Principal Partner

land: 303.774.9745

air: 303.246.3733

e: rickz@interSectorL3C.com

www.interSectorL3C.com/rick.html

Twitter: @L3C_RickZ

interSector Partners, L³C was founded in early 2009 by principal partners Caryn Capriccioso and Rick Zwetsch as the first L³C doing business in Colorado.

The L³C is a new form of limited liability company (LLC) which combines the best features of an LLC with the social conscience of a nonprofit.

The firm's founders have spent a combined 50 years in their respective sectors with 30 of those years devoted to consulting with nonprofits, for-profits and government agencies. interSector Partners' social mission is providing inter-sector education and consulting services designed to help nonprofits become more sustainable, businesses become more socially responsible and governments to better support both sectors in the community.

Erin Shaver is a Denver-based journalist and freelance writer with experience in newspapers, magazines and in the nonprofit sector. A trusted colleague and friend of interSector, Shaver conducted and crafted most of the interviews and stories you read in this paper.

Learn more at erinshaver.wordpress.com

If you would like interSector Partners, L³C to share the stories and findings contained in this paper at your next conference or meeting, please contact us for further information about presentation options and availability.