



## Flexible Ownership Attracts a Range of Investors

The goal of the L3C form is to bring together a mix of investment money from a variety of sources. This process starts with investments from Foundations known as Program Related Investments (PRIs). Foundations are required to spend at least five percent of their assets in a given fiscal year in order to maintain their tax-exempt status. They have two basic options for spending their money: they can make grants, where there is no financial return on the money, or they can make program-related investments (PRIs) investing in for-profit ventures and potentially earn a return.

But to qualify as a PRI, the investment must **relate to the Foundation's mission** and the risk/reward ratio must exceed that of a standard market-driven investment (ie, the risk must be higher, and the return lower). Surprisingly, the use of PRIs by Foundations is limited even with the potential to earn a small return. Because of burdensome and costly IRS requirements to verify PRIs, many foundations shy away from investing in for-profit ventures due to the uncertainty of whether they would qualify as PRIs.

Unlike the Limited Liability Corporation (LLC), the L3C is explicitly formed to further a socially beneficial mission. The L3C's operating agreement specifically outlines its PRI-qualified purpose. This should make it much easier for Foundations to make program related investments in social ventures while ensuring their tax-exempt status remains secure.

Like the LLC, the L3C is able to form **flexible partnerships** where ownership rights can be tailored to meet the requirements of each partner. This flexibility permits a tranching or layered investment and ownership structure. The Foundation's L3C membership stake provides for a very low rate of return and can be subordinate to the other investors. Because the Foundation can invest through PRIs at less than the market rate while embracing higher risk levels, this lowers the risk to other investors and increases their potential rate of return. So the remaining L3C memberships can then be marketed at risk/return profiles necessary to attract market driven investors.

The end result: the L3C is able to leverage Foundation PRIs to access a wide range of investment dollars through a flexible partnership structure. Additionally, profit and loss flow through the L3C to its members and are taxed according to each investor's

particular tax situation, making it easier for non-profits and for-profits to partner together.

Some examples of L3C entities that have been created or are in the process: carbon trading, alternative energy, food bank processing, social services, social benefit consulting and media, arts funding, job creation programs, economic development, housing for low income and aging populations, medical facilities, environmental remediation, and medical research.

## **L3C Advocacy**

The L3C concept was formed by Robert Lang, CEO of the Mary Elizabeth & Gordon B. Mannweiler Foundation, Inc. Marcus Owens, a tax attorney with Caplin & Drysdale (<http://www.capлиндrysdale.com/>) in Washington, DC, wrote the basic law. The Mary Elizabeth & Gordon B. Mannweiler Foundation has funded the Americans for Community Development (<http://americansforcommunitydevelopment.org/index.html>) whose purpose is to promote the L3C and the adoption of this new corporate form in all fifty states. Mr. Lang and others formed the first L3C, L3C Advisors, for the purpose of helping social ventures structure, organize & finance L3C's.

The L3C is still in "**proof of concept**" form, but will be put to the test this year. Because the first L3Cs were formed in 2008, this means 2009 will be the first year that the concept will be tested with the IRS. Hopefully, the IRS will readily accept Foundation investments in L3Cs as valid PRIs. Steve Gunderson, CEO of the Council on Foundations (<http://www.cof.org/>), which supports the L3C approach says "we're optimistic" that the IRS will also support this approach to PRI investing.

The economic realities of connecting social needs with capital markets is leading to innovations like the L3C form. As the problems that social ventures try to solve get bigger and more widespread, hopefully these types of innovations will keep pace.



My professional experience over the past 20 years has taken me from



Madison Avenue to Silicon Valley in various marketing research, marketing, business development and sales roles. I now work as a freelance environmental writer and researcher while pursuing an MBA in Sustainable Management at the Presidio Graduate School. I'm especially interested in the use of technology to address the issues of education, equality, environment, health, and economic

development. You can keep tabs on me at Triple Pundit and the NY Times Green Inc (<http://greeninc.blogs.nytimes.com/author/jim-witkin/>) blog, email me at [jameswitkin@gmail.com](mailto:jameswitkin@gmail.com), or find me typing away at the various coffee shops around Palo Alto.



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## 31 RESPONSES

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Matt West (<http://thegreenmarket.blogspot.com>) January 15, 2009 at 7:42 am (<http://www.triplepundit.com/2009/01/the-l3c-a-more-creative-capitalism/#comment-10228>)

The L3C form is a good example of Creative capitalism. But the fact that economic realities drive innovation does not have to mean rampant deregulation. Facile old paradigms are falling away as we strive to reconcile social responsibility and capital markets. As the owner and author of The Green Market (<http://thegreenmarket.blogspot.com> (<http://thegreenmarket.blogspot.com>)) I want to thank you for your efforts promoting Green in 2008 and I would like to support your ongoing efforts for 2009. As the economy is in a free fall, Green is entering a critical stage in its life cycle and now more than ever bloggers need to disseminate the facts about our environment and the role we can play in addressing these complex issues.

Best Regards,

SBC

Please consider adding my link to your blogroll.



Jeff Lopez August 13, 2009 at 2:08 pm (<http://www.triplepundit.com/2009/01/the-l3c-a-more-creative-capitalism/#comment-15314>)

Do you happen to know what states will allow or you can register as a L3C?



Jim Witkin (<http://www.triplepundit.com>) August 13, 2009 at 3:07 pm (<http://www.triplepundit.com/2009/01/the-l3c-a-more-creative-capitalism/#comment-15320>)

Jeff, the Americans for Community Development is the primary advocacy group for the L3C, and they have a legislative watch on their website that shows the status of the L3C in various states:

<http://americansforcommunitydevelopment.org/legislativewatch.html>  
(<http://americansforcommunitydevelopment.org/legislativewatch.html>)



Hugh Simpson (<http://www.7thavendevlopment.com>) January 15, 2009 at 9:56 pm  
(<http://www.triplepundit.com/2009/01/the-l3c-a-more-creative-capitalism/#comment-10229>)

Yes, we are pursuing the LC3 form of Social Enterprise for our new dome kit manufacturing business we will be starting in the western NC mountains.

I'm thrilled to see that other organizations are pursuing this avenue too and that other states will consider this innovative form.

I think that the Obama Administration will be more open to the LC3 through the IRS than the Bush Administration.



blathra January 15, 2009 at 11:05 pm (<http://www.triplepundit.com/2009/01/the-l3c-a-more-creative-capitalism/#comment-10230>)

Hugh, I hope you are right about Obama's IRS embracing the L3C concept. Good luck with your venture.



david bruce January 17, 2009 at 10:20 pm (<http://www.triplepundit.com/2009/01/the-l3c-a-more-creative-capitalism/#comment-10231>)

The concept of the L3C is as Matt West points out, a good example of Creative Capitalism. L3C could also be nicely incorporated within another capitalization structure recently published here  
<http://www.triplepundit.com/pages/the-new-new-deal-a-cooperative-approach.php>  
(<http://www.triplepundit.com/pages/the-new-new-deal-a-cooperative-approach.php>).



kevin jones (<http://www.goodcap.net>) January 21, 2009 at 6:57 am  
(<http://www.triplepundit.com/2009/01/the-l3c-a-more-creative-capitalism/#comment-10232>)


I'm kind of interested in this concept. I'll be very interested when I see an LC3 results in a PRI that would not have happened otherwise. Between that time I will be open to more reasons to be interested, as they hit relevant milestones. If it can move money to mission in a real way, I'll be excited by it.



Allen Bromberger January 28, 2009 at 8:17 am (<http://www.triplepundit.com/2009/01/the-l3c-a-more-creative-capitalism/#comment-10233>)


Actually, you want to be careful with the L3C. If you are primarily seeking PRI's, an L3C might be useful. But

for almost any other purpose, it has significant drawbacks, including the fact that it is formed solely for the purpose of conducting low-profit activities. While it is indeed a creative idea, the L3C is really just a special-purpose vehicle not suitable for general use. You can do much the same thing by building a social purpose into your LLC operating agreement and customizing it to your specific needs and business model.

 Robert Lang March 11, 2009 at 9:59 am (<http://www.triplepundit.com/2009/01/the-l3c-a-more-creative-capitalism/#comment-10234>)

It is odd that Allen takes swipes at the L3C since he made positive contributions to its creation when I first started developing the idea. There is no one size fits all vehicle for anything but I do not understand his unexplained comment on significant drawbacks. It always bothers me when people throw out a negative like that without explanation. No, I would not advise using the L3C if high profit were your goal but I think if the last 10 years have taught us anything it should be that too much emphasis on profit is a recipe for disaster. We might consider the words of Peter Drucker who was a proponent of a balance life: "Suppliers and especially manufacturers have market power because they have information about a product or a service that the customer does not and cannot have, and does not need if he can trust the brand. This explains the profitability of brands." The L3C is a brand to let everyone know that you are about more than making money. It brings the metrics of a for profit to the social sector and you can make a lot of money, it is not forbidden. It just should not be your primary purpose.


What are the significant disadvantages, Allen, besides depriving lawyers of the income they receive from making custom operating agreements?

 Allen Bromberger March 11, 2009 at 7:51 pm (<http://www.triplepundit.com/2009/01/the-l3c-a-more-creative-capitalism/#comment-10235>)

Allen's response: I don't think I was taking a "swipe" at the L3C concept merely by pointing out that one needs to be careful to make sure that it fits what one needs before adopting the form. I'd say exactly the same thing about a nonprofit corporation or a business corporation. It's just common sense.

If you don't think that limiting the activities of a business form to "low profit" activities is a significant drawback, I'm not sure what to say. There are a lot of ways to incorporate social purposes into legal documents and to limit return on investment if that is your goal. I do it all the time. But writing it into the law is too inflexible and ties the hands of managers and makes it very difficult to raise capital other than PRI's from private foundations, of which there are precious few. That's a significant drawback in my view. I have done a lot of social enterprise deals and many of them involve creative approaches to embedding social purposes into a company's DNA, and we've done some very creative things with financing, too. We haven't used L3C's for any of this, and quite honestly, I don't see how we could. That's a significant drawback to me.

I am sure that if people look past the hype to evaluate the L3C on its own merits, they can draw their own conclusions about whether or not it is right form for them.

 Jason Bradfield March 15, 2009 at 8:47 pm (<http://www.triplepundit.com/2009/01>)

[/the-l3c-a-more-creative-capitalism/#comment-10236\)](#)

I have just learned about the L3C, so I am still trying to figure out its pluses and minuses. There seems to be substantial resistance to custom legal documents among entrepreneurs and investors. So although customized approaches make sense and have been successful they may be a hard sell to a wide swath of donors, investors, and entrepreneurs. The L3C addresses the need for a standard form that all parties can understand. That limits flexibility, but increases donor and investor confidence as well as reducing the costs associated with customization. It has drawbacks like any corporate form, but seems promising if for-profit investors can get a reasonable return on their risk capital.



GrannyPants (<http://grannypants.wordpress.com>) June 30, 2009 at 5:39 pm

(<http://www.triplepundit.com/2009/01/the-l3c-a-more-creative-capitalism/#comment-10237>)

The jury is still out, but it looks like a great possibility in a more altruistic time!

Pingback: Do L3Cs hold any promise for filmmakers? : DocumentaryTech  
(<http://documentarytech.com/?p=1524>)



robertlynschultz February 21, 2010 at 3:23 pm (<http://www.triplepundit.com/2009/01>

[/the-l3c-a-more-creative-capitalism/#comment-24959](#))

Interesting Read! Thank You.

I heard about this L3c concept a week ago, and I am thinking that this may be the way to go in establishing a program for homeless veterans ( WOLF Camp – ([http://robertlyn-schultz.newsvine.com/\\_news/2009/03/25/2600811-wolf-camp-with-pictures](http://robertlyn-schultz.newsvine.com/_news/2009/03/25/2600811-wolf-camp-with-pictures))[http://robertlyn-schultz.newsvine.com/\\_news/200](http://robertlyn-schultz.newsvine.com/_news/200) ([http://robertlyn-schultz.newsvine.com/\\_news/200](http://robertlyn-schultz.newsvine.com/_news/200))...) that I have been working on for the past two years (or so).



robertlynschultz February 21, 2010 at 11:23 pm (<http://www.triplepundit.com/2009/01>

[/the-l3c-a-more-creative-capitalism/#comment-39879](#))

Interesting Read! Thank You.

I heard about this L3c concept a week ago, and I am thinking that this may be the way to go in establishing a program for homeless veterans ( WOLF Camp – ([http://robertlyn-schultz.newsvine.com/\\_news/2009/03/25/2600811-wolf-camp-with-pictures](http://robertlyn-schultz.newsvine.com/_news/2009/03/25/2600811-wolf-camp-with-pictures))[http://robertlyn-schultz.newsvine.com/\\_news/200](http://robertlyn-schultz.newsvine.com/_news/200) ([http://robertlyn-schultz.newsvine.com/\\_news/200](http://robertlyn-schultz.newsvine.com/_news/200))...) that I have been working on for the past two years (or so).

Pingback: L3C and B-Corp « Sustainability Translations

(<http://balancedsol.wordpress.com/2010/03/03/l3c-and-b-corp/>)



Nancy Sherman September 30, 2010 at 7:34 am (<http://www.triplepundit.com/2009/01/the-l3c-a-more-creative-capitalism/#comment-63540>)

As the Executive Director of The Strategic Small Business Initiative, my organization helps small businesses grow through providing them resources such as training and education, networking opportunities, relationship building programs and FUN! As a for profit business it is difficult, in Michigan, to get funding support by the government, et al., even though the rhetoric states that the "State" is all for small business. Will the L3c help provide me with funding for growing this program? The bottom line is that with more successful businesses in Michigan, the more successful the economy becomes. Without support this dream is much more difficult to manifest.



Israel Quitcon Jr. March 16, 2011 at 7:37 pm (<http://www.triplepundit.com/2009/01/the-l3c-a-more-creative-capitalism/#comment-77819>)

The L3C concept is another response to the limited strategies for Social entrepreneurs in addressing the multiple complexities of our economic times. I am pursuing alternatives and with my Trio of programs I am developing, L3C, is another component in its coming to fruition. Thanks for the dialogue but let's be open-minded and diverse in resolving our National issues. Opposition is also good, it allows us to see what we may not want to at the time because our mission may blind us of possible stumbling blocks.



Carla McNeal March 28, 2011 at 9:10 pm (<http://www.triplepundit.com/2009/01/the-l3c-a-more-creative-capitalism/#comment-78168>)

This country is bankrupt people! I live in N.J. we have just laid off 125 police officers, and nearly one hundred teachers, and added furlough days twice a month. Instead of wasting money on this use the money to educate and protect our cities.



Nick Aster March 28, 2011 at 10:09 pm (<http://www.triplepundit.com/2009/01/the-l3c-a-more-creative-capitalism/#comment-78170>)

Hi Carla... did you actually read and understand the article? Or are you a robot?

Pingback: Brown Signs Law for B Corp's in California...Will Venture Capital Follow? | dwbdg [a "socent" index] (<http://dwbdg.wordpress.com/2011/10/14/brown-signs-law-for-b-corps-in-california-will-venture-capital-follow/>)



Pingback: Des de l'UpSocial: Proposta per promoure l'emprenedoria social « El Blog d'Emprenedoria Social a Catalunya (<http://emprenedoriasocial.wordpress.com/2011/12/26/des-de-lupsocial-proposta-per-promoure-lemprenedoria-social/>)



Clifford January 12, 2012 at 9:18 am (<http://www.triplepundit.com/2009/01/the-l3c-a-more-creative-capitalism/#comment-102049>)

Unfortunately, too many companies already low profit companies. Especially small businesses.

It seems to me that funding people to do what inspires them is a great idea. If they can make a profit doing it is even better. Putting the profits back into the enterprise so they can expand the number of people they can help is even better.

I do not see how deliberately limiting profits will help much of anyone.

Cliff



Sarahr January 20, 2012 at 2:16 pm (<http://www.triplepundit.com/2009/01/the-l3c-a-more-creative-capitalism/#comment-102186>)

It seems like when you do good, you almost automatically limit profit. If you are interested in changing the world you naturally put the money back to work so you can do more good. Don't you?

Pingback: The Gravitational Force of Social Entrepreneurship (<http://www.triplepundit.com/2012/03/gravitational-force-social-entrepreneurship/>)

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Pingback: L3C and B-Corp | Balanced Solutions (<http://balancedsol.com/l3c-and-b-corp/>)

Pingback: What Actually is the Fourth Sector...Exactly? | SocialEarth (<http://www.socialearth.org/what-actually-is-the-fourth-sector-exactly>)

Pingback: What is a Social Enterprise? | The Capacity Builder Network (<http://capbuildernetwork.com/what-is-a-social-enterprise/>)

Pingback: Slow Money National Gathering: Diversity in Food Financing  
(<http://www.triplepundit.com/2013/05/slow-money-national-gathering-diversity-food-financing/>)

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(<http://garynabhan.com/i/archives/2101>)

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