Our vision is simple yet ambitious: to create a new sector of the economy that uses the power of business to solve social and environmental problems.

— 2009 B Corporation Annual Report

As Jay Coen Gilbert, Bart Houlahan, and Andrew Kassoy— the three founders of B Lab— munched on Chinese food and gazed out of the Rockefeller Foundation’s 23rd-floor window at the expansive New York City skyline, they reflected on the genesis and trajectory of B Lab.

The three met at Stanford University in the late 1980s and had been friends for more than 20 years. Coen Gilbert and Houlahan had gone on to found and sell a $250 million athletic footwear and apparel company, and Kassoy had led a successful private equity career investing billions on Wall Street (see Exhibit 1). Now, in 2010, they were facing the biggest challenge of their lives: creating the infrastructure for a new sector of the economy that would use the power of private enterprise to create public benefit.

Coen Gilbert, Houlahan, and Kassoy believed that systemic change was needed to produce a more socially and environmentally beneficial economy. They founded B Lab, an independent 501(c)3 nonprofit, in June 2006, with the theory that three interrelated initiatives were necessary to accelerate growth of this new sector of the economy, which married the power of markets with the purpose of civil society. They saw these initiatives as follows:

1. Building a community of Certified B Corporations that met rigorous standards of social and environmental performance and that legally expanded their corporate responsibilities to include consideration of diverse stakeholder interests to help consumers, investors, employees, and policymakers tell the difference between “good companies” and just good marketing (www.bcorporation.net);

2. Advancing the public policies necessary to create the legal infrastructure (through a new corporate form called a Benefit Corporation—see Exhibit 2) and market incentives (tax, investment, and procurement preferences) to accelerate the growth of this new economy;

3. Developing the GIIRS rating system (Global Impact Investing Rating System) to help drive institutional investment capital beyond traditional socially responsible investing to the emerging asset class of “impact investments” (www.giirs.org).

There were signs of early traction.
B Lab had certified twice as many Benefit Corporations (B Corps) in the first half of 2010 as in the same period in 2009, with several of high-profile companies in the pipeline. These B Corps collectively saved more than $750,000 annually through service partners like Salesforce.com and NetSuite; and the Yale School of Management had introduced a loan forgiveness program for alumni who went to work for B Corps upon graduation. B Lab was getting strong media coverage across a broad spectrum of the press, and media partners like Ogden Publications, Care2.com, and Sustainable Industries were leveraging their media platforms and donating hundreds of thousands of dollars of ad inventory to carry the first national B Corp brand campaign to over 17 million values-minded consumers.

The first B Corp tax break passed in the city of Philadelphia, and conversations had been started in other cities and with several agencies of the federal government. Benefit Corp legislation was enacted in Vermont and Maryland and had been introduced in New York, New Jersey, and Pennsylvania, with interest from more than a dozen other states.

On the GIIRS side of the business, 25 leading emerging-market and U.S. impact investors like Acumen Fund, Root Capital, Renewal Partners, and RSF Social Finance had signed on to become GIIRS Pioneer Fund Managers, and large institutional players like Deloitte, Prudential, and USAID had joined the Rockefeller Foundation to make million-dollar investments in B Lab to accelerate GIIRS development.

Yet there were still many serious challenges that needed to be addressed.

First, despite the progress and attention, B Lab had still only certified 325 B Corps, which had combined revenues of less than $1.5 billion dollars (see Exhibit 3). What did B Lab need to do to accelerate adoption? Challenges included (a) a poor economic environment, (b) daunting legal requirements for certification, (c) lack of consumer awareness of the B Corp brand, (d) a thin business case for certification, and (e) limited bandwidth from prospect CEOs (often the only person who could pull the trigger on certification because of the legal requirements). Any of these issues, let alone all of them, provided a reason for even mission-aligned CEOs to say “not right now.” The founders knew that they needed to attract more well-known, larger, and consumer-goods companies to become B Corps to heighten the profile of the B Corp community. Could B Lab generate enough interest—among corporate executives, investors, and the public—in the B Corp concept to create a sustainable nonprofit, let alone spur a tipping point of momentum that would create a new sector of the economy?

Furthermore, significant support from these corporate executive, investor, and public stakeholders would be needed to pass Benefit Corp laws in each of the 50 U.S. state legislatures (since most American corporate law was legislated on a state by state basis—as opposed to federal legislation, which applied to all 50 states once enacted). Although Benefit Corp legislation had passed in two states, and tax incentives had passed in one city, the founders of B Lab were at the very beginning of their journey toward their own “Holy Grail”—federal tax advantages for B Corps relative to other corporate forms (e.g., C Corps). They could not foresee changing legislation at a national level until their community of B Corporations was more robust. However, they also feared that they needed greater credibility and tangible incentives—the very kind that national legislation would offer—in order to attract a broader range of large, profitable, and high-profile companies.

As Coen Gilbert, Houlahan, and Kassoy considered this chicken-and-egg problem in trying to create a value proposition—they saw the same challenge as they began thinking about building a community of GIIRS users among social investors and the companies that wanted those investors’ mission-aligned capital. The founders envisioned B Lab’s Global Impact Investing Rating System
(GIIRS) becoming the industry standard for social and environmental impact (just as S&P and Moody’s had become the industry standard for financial credit risk). But were the investment incentives for highly-rated GIIRS companies valuable enough to attract a community of mission-oriented entrepreneurs without national tax, investment, and procurement incentives?

On the policy front, successes could significantly accelerate the growth of the B Corp community and a larger movement, but policy work was a time-consuming and complicated process, and B Lab’s founders were not policy experts. The policy successes, not to mention potential failures, could prove to be a quagmire for top management’s time and energy.

The somewhat immodest tripartite objectives—growing the community of B Corporations, passing legislation to create a new corporate form and incentives for sustainable business, and developing and introducing GIIRS—represented B Lab’s mission, which the three co-founders and the organization’s 10 other employees were simultaneously attempting to drive with the limited resources of a nonprofit organization. But they wondered: Were they diffusing their energy across too many projects and thus diluting their overall impact?

Was B Lab’s tripartite strategy its secret sauce or its albatross?

The Founding of B Lab

There need to be standards around corporate responsibility. In a landscape in which every company now says they’re a responsible business, there is no way for consumers, investors, and other stakeholders to tell real responsible businesses apart from those businesses that just say they are. The dual focus of B Corp, which involves a change to [a business’s] bylaws and a comprehensive evaluation, is the best way to separate companies that really are responsible from ones that just pretend to be so.

— Jeffrey Hollender, Executive Chairperson and former CEO of Seventh Generation

The Genesis of the Idea

During their careers, Coen Gilbert, Houlahan, and Kassoy all experienced the challenges and satisfactions of being part of businesses that were both financially successful and socially responsible.

Houlahan said of AND 1, the basketball footwear and apparel company that he and Coen Gilbert co-founded in 1993:

We viewed ourselves in and of a community. That resulted in a pretty vibrant direct service program, including a charitable commitment of at least 5% of profits, which we always exceeded. We also tried to create a very familial environment where we put our employees first. We had eight dogs running through the office, kids roaming, and a full-court hoops court in the back of the office. In addition, we offered yoga classes every morning, childcare, and a kids’ room. We were just trying to create a place where people wanted to be.

Houlahan said the experience of maintaining such employee benefits and social programs taught him that “it’s really easy to be socially and environmentally responsible when there are seven of you, and it’s a heck of a lot harder when there are 250 of you. And it becomes even more acutely difficult when you take in outside capital.”
Simultaneously, while working in private equity, Kassoy became involved with a nonprofit called Echoing Green, eventually joining the board and becoming an involved mentor to several social entrepreneurs. He observed them each struggling with a version of the same question: “How do I scale what feels like it could have huge social impact? That requires capital—but how do I find the right kind of investors?” As Kassoy started spending more time with several of these entrepreneurs, he found that what began as a hobby was becoming a full-time job, and his day job did not feel as relevant. He realized that the primary issue that sparked his curiosity was, “How do you drive more capital to these kinds of enterprises?”

As Coen Gilbert recalled, “We had had some luck and some success in our first careers, which gave us the freedom to pursue whatever path we wanted for our second career. And we were pretty clear that our second career would be driven by one thing: How would we have the biggest impact?” Coen Gilbert, Houlahan, and Kassoy began discussing the ways to create that impact. The three were certain that business was the source of maximum impact. Houlahan recalled, “We realized two things. First, there’s a lever that could be pulled with business, and it has the potential for tremendous force. Second, the institutions that have been created to support business don’t necessarily allow you to pull those levers. You have certain legal and cultural restrictions to how you can run a business.” So, the three pondered the question: “There had to be a way that you could scale a business, raise outside capital, have a little liquidity, and still maintain mission.”

The Launch of B Lab

Starting in June 2006, the three founders spent the next year talking with social entrepreneurs, investors, and thought leaders about how best to harness their collective interests and skills into a high impact social enterprise. Out of these conversations, the group came to the conclusion that there were really three fundamental pieces of infrastructure needed in order to let that market work better.

First was a set of standards that could be used by consumers, investors, and policymakers. Until the general public could know and identify a “good business” through generally accepted standards, the three thought, “We’re really nowhere.” This was especially true “as people continue to use the words, ‘green, sustainable, responsible, charitable, local,’” they said. “The more we use them, the less they mean because there are no standards behind them.”

Second was to resolve the predicament that Houlahan described as “Boy, I feel like a square peg in a round hole.” He was referring to the tension that owners and leaders of companies might face between their legal fiduciary obligation to maximize shareholder value and their interest in maintaining a broader, social impact. Houlahan had experienced this conundrum first hand: “I helped build AND 1 with two purposes: not only to create private wealth, but also to create broader impact.” Yet he found it impossible to “scale and sell and still hold on to mission over time.” Thus, the founders envisioned a legal framework that allowed companies to authentically and tenaciously embrace sustainability and social enterprise as a competitive advantage instead of futilely attempting to fit it within a current corporate structure that did not embrace such ideas.

Finally, Coen Gilbert, Houlahan, and Kassoy sought to create a collective voice. They envisioned “a brand for good business that was an umbrella brand and that pulled together all the different movements.” From fair trade to clean tech, microfinance to green building, they viewed these movements as manifestations of the same intent: “using the power of business to create social and environmental change.”
Confident in the need for standards, a legal framework, and a community of like-minded leaders, Coen Gilbert, Houlahan, and Kassoy started to recruit leaders that others would want to follow. They felt it was important to represent a diverse range of industries, geographies, and impact areas. In addition, while other industry-specific or product-specific certifications tapped socially responsible sentiment, such as Fair Trade and the Forest Stewardship Council, there was no general certification for socially responsible businesses.

In reflecting on how they had convinced established companies to sign up to an untested certification scheme, Houlahan recounted:

We had a simple, singular message, which was about leadership. We said, “The reason why you started your business was to have impact and to provide a model for others to follow. We’re going to give you a platform to disseminate that model. We’re going to call it something. We’re going to bring together a community of likeminded entrepreneurs who are going to stand at your side.”

In June 2007, at the Business Alliance of Local Living Economies (BALLE) Conference, the founders announced the creation of B Lab and the first 19 Certified B Corporations (Exhibit 4). Thirteen of the initial B Corps joined them on stage at the announcement. Among them were consumer brands like Method Home Products and Seventh Generation, and B2B companies like New Leaf Paper and Give Something Back Business Products. The three founders were proud of both the diversity of the founding 19 companies—from new, edgy brands like Comet Skateboard to established firms such as King Arthur Flour, founded in 1790—and their similarities in terms of culture, mission, goals, and overall impact.

Houlahan recalled, “It’s kind of amazing, in retrospect, that anyone actually signed on to this. Our brand was meaningless; the only thing that mattered was being able to tell the story of who was a Certified B Corporation.” Kassoy was also particularly pleased with the co-existence of Method and Seventh Generation: “It was great to have two competitors standing up there, because it said, ‘There’s enough room in this space.’”

Becoming a B Corporation

Since those first 13 stood on stage, as of 2010 the firm had certified 325 companies from 55 industries in 31 states as B Corporations. Collectively, these businesses had $1.3 billion in revenues and $6.8 billion in investment assets.

Some B Corps were well known, such as Numi Organic Tea, VeeV (an increasingly trendy acai-liqueur), and Dankso (whose clogs were a favorite of nurses, chefs, and others who spent long days on their feet). Other companies were more obscure: Bamboo Sushi proclaimed itself the first certified, sustainable sushi restaurant in the world; TS Designs, a North Carolina T-shirt manufacturer and printer that went sustainable when the rest of the industry went South; Sunrise Community Banks, a family-owned Minnesota community bank working on sharia-compliant lending to the immigrant Somali population; SABEResPODER, a Los Angeles media company, backed by the U.S. Mexican consulate, which delivered educational resources to Spanish-speaking immigrant communities; Bikestation, which planned, designed, built, and operated bike-transit centers and other multi-modal

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*a* BALLE was a network representing 20,000 businesses across the country, all self-declared triple-bottom-line companies with a particular emphasis on rebuilding local communities; most BALLE members were small businesses.
facilities; Sustainable Harvest, responsible for importing 1 out of every 5 lbs. of organic, Fair Trade Certified coffee in the U.S.; Greyston Bakery, the iconic New York social enterprise that supplied Ben & Jerry’s with their brownies and said they “don’t hire people to bake brownies; they bake brownies to hire people.”

In order to be a Certified B Corp, a business was required to complete the following three steps:

1. **Complete the B Impact Assessment:** By completing the B Impact Assessment, a business learned how it measured against B Lab’s standard for social and environmental performance, which analyzed the impact of a company on all of its stakeholders (see Exhibit 5). The standards varied depending on the size (number of employees) and type of company (sector). Completing the assessment was free and usually took 60–90 minutes; over 1,300 corporate entities had completed this step by 2010. When the assessment was finished, the free online tool generated the business’s B Impact Report, which scored the company on sections that included Accountability, Employees, Consumers, Community, and Environment, and produced a composite score. If the composite score was above 80 (out of 200 points), the business could proceed to Step 2. The scores of each Certified B-Corporation were available on the B Lab website. The first version of the B Impact Assessment was reviewed by 600+ entrepreneurs, investors, thought leaders, and academics, all of whom had the opportunity to offer line-item critical feedback. The B Impact Ratings System was governed by an independent, nine person Standards Advisory Council (SAC). The SAC evaluated the collective feedback from the beta test, and incorporated the community’s input to ensure the application of best thinking and practices. The second version of the B Impact Assessment was instituted on January 1, 2010, and included Industry Addendums for Financial Services and Building.3

2. **Expand the Corporation’s Governance Requirements:** Businesses seeking B Corp certification were required to legally expand their governance obligations to incorporate stakeholder interests. For example, in becoming a B Corp, a business gained legal permission and protection—to officers and directors—to consider all stakeholders (not just shareholders), created additional rights for shareholders to hold directors and officers accountable to these interests, and limited these expanded rights to shareholders exclusively; non-shareholders were explicitly not empowered with a new right of action. These governance reforms allowed businesses to maintain their social and environmental values under new management, new investors, and new ownership. A major part of B Lab’s mission was assisting B Corp applicants with this process. For example, on the “Legal Roadmap” section of the B Corp website, potential B Corporations could select their corporate structure and state of incorporation, and find the steps and processes to become B Corps in their state of incorporation. Like the use of the B Impact Rating System, the downloadable B Corp legal framework was free. For companies in the 20 states that did not have a corporate statute that explicitly allowed directors to consider the interests of stakeholders (called a “constituency statute”), B Corp offered to collaborate to build the language of the companies’ legal framework into the Term Sheet for B Corp certification. For the 30 other states with constituency statutes, state-specific instructions detailing the steps and processes to become a B Corp were given. For example, in most states, institutionalizing the consideration of stakeholder interests required amending a company’s Articles of Incorporation. The major steps included in this were (a), getting amended articles approved by both the board of directors and shareholders (requiring either a majority or supermajority vote, depending on the state); and (b), filing amended articles with the secretary of state, coupled with a modest fee (usually less than $300). B Lab also made the legal framework public on its website and
regularly gave support to corporate leaders in its pitches to investors and their general councils to become a B Corp.

3. **Sign the Term Sheet and B Corp Declaration of Interdependence:** The term sheet (see Exhibit 6) described the documentation, audit, intellectual property requirements, and B Corp certification fees. It also included the B Corporation Declaration of Interdependence (see Exhibit 7), which marked the business’s commitment to the B Corp community’s shared mission. B Lab had already begun generating B Corp certification fees from the 325 Certified B Corps. As part of the B Corp term sheet, certified B Corps agreed to pay B Lab annual certification fees based on a tiered fee structure. For instance, (a) companies with less than $2 million in annual revenue paid $500; (b) companies with sales of $2 million and less than $5 million paid $1,000; (c) companies with sales of $5 million and less than $10 million paid $2,500; (d) companies with sales of $10 million and less than $20 million paid $5,000; (e) companies with sales of at least $20 million and less than $100 million paid $10,000; and (f) companies with annual sales of $100 million or more paid $25,000. These numbers represented reduced fees that the B Lab founders introduced in December 2009 after a successful fundraising year. They believed that significantly reduced certification fees—and a strengthening economy—would catalyze B Lab’s next phase of growth and move it to sustainability more quickly through certification fees of a larger B Corp community.

Houlahan shared his views on the challenges of attracting and signing up new B Corps:

The single largest barrier, without question, is our legal framework. You have to get your general council to approve it, and then your board will approve it, and then your shareholders will approve it. And you’re using silver bullets with all three of them to get through. It’s a big deal.

However, he concluded, “We also think it is the magic sauce of the certification.”

**The Business Case to Become a B Corp**

While the initial pitch to companies was about leadership, over time, other benefits to being a B Corp had emerged such that by 2010, there was a business case to becoming part of the movement. While service partnerships were the most tangible, certification also offered increased advertising benefits, access to a broader set of capital market opportunities, and potential tax benefits.

**Service Partnerships** Once a business became certified as a B Corp, the company became eligible to participate in B Lab’s service partnerships—opportunities for B Corps to get discounts on numerous business services—for example, Salesforce.com CRM systems, NetSuite enterprise software, and Inspire Commerce credit card processing. Collectively, B Corporations saved more than $750,000 annually from these service partnerships; there were more than 60 B Corp service partners, a number that the B Lab team intended to grow. For over 50 B Corps, the savings generated from these relationships more than offset their B Corp certification fees. So these companies actually made money as a result of their certification.

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b Since its founding, B Lab had raised $11 million; its largest financial supporters included the Rockefeller Foundation, Halloran Philanthropies, Prudential Social Investments, Deloitte, USAID, the three co-founders, and the Panta Rhea Foundation.
In another example, three B Corps—Ogden publications, publisher of *Mother Earth News*, the *Utne Reader*, and other sustainability-focused periodicals; Care2.com, 14 million member online community of “great people doing great things”; and Sustainable Industries, publisher of the leading magazine of the same name for sustainable business leaders—offered their platforms to B Lab to launch its first collective B Corp brand campaign. The marketing campaign portrayed homes reminiscent of whimsical dollhouses filled with products from B Corps. In one, a woman sat in a living room reading a book from BetterWorldBooks, wearing Dansko clogs and sipping Numi tea; in another, a man mopped the floor with Method cleaning products, wearing an Autonomie Project T-shirt and GoLite hiking shoes. The tag lines read “Better Companies make Better Products. B Corporations are Better Companies.” Another series compared “big brand” products—e.g., a household cleaner—with those made by a B Corporation, highlighting metrics from the B Corps’ B Impact Report to substantiate the claim that B Corps were better companies. (See Exhibit 8).

Finally, academia had the potential to become an important partner. If a graduate from the Yale School of Management worked at a B Corp within 10 years of graduation, the graduate received the same loan forgiveness available through Yale’s nonprofit loan forgiveness program. The program was even retroactive for prior graduates. The announcement of this program came as a surprise to the B Lab founders. They recalled, “I think it was very much student driven—students saying, ‘Hey, there’s a perfectly valid form of creating social benefit beyond just going to work at a not-for-profit. It’s this!’” Subsequently, the founders had been to Harvard, Tuck (Dartmouth), Stanford, Fuqua (Duke), Kenan-Flagler (University of North Carolina), and Kellogg (Northwestern) to try to replicate this loan forgiveness model.

**Investment Potential**

In addition to service partnerships, there was a growing eco-system of investors interested in supporting B Corps. More than 25 financial services companies—including venture capital firms, investment banks, wealth managers, and commercial banks, such as Benchmark Asset Managers, Agora Management Corporation, Renewal Partners, Grassroots Capital Management, Abacus Wealth Partners, and Watershed Capital—were certified B Corporations.5 Furthermore, one large institutional investor was interested in creating a B Corp Fund, which would exclusively invest in B Corporations. And in the spring of 2008, Better World Books (a B Corp) raised $2.5 million in growth capital from Good Capital (also a B Corp), while TBL (another B Corp) invested more than $1.8 million in Numi Tea and CleanFish (both B Corps). In early 2009, Plum Organics (a B Corp) was sold to The Nest Collective, a holding company for mission-driven food brands, which was itself exploring becoming a B Corp. As of 2010, four B Corps had been sold, and conversations had ensued with the new owners to maintain the B Corp Certification.6

An increasing number of these financial institutions used the B Impact Rating System (BIRS)—the B Impact Assessment and B Impact Report together comprised BIRS—to assess the social and environmental impact of their portfolio companies. Additionally, two B Corps—Philadelphia’s e3bank and San Francisco’s RSF Capital Management—required commercial loan customers to use BIRS to assess their social and environmental performance. e3bank and RSF Capital Management also used BIRS as an educational tool, helping borrowers benchmark and improve their social and environmental performance. Finally, many certified B Corps had outside investors who had vetted and approved the B Corp legal framework (e.g. Method, Seventh Generation, ShoreBank, and IceStone).7 Although there were no public B Corps as of 2010, there was nothing in the legal framework that prevented a company from going public. In fact, the B Corp legal framework was purposely created in order to enable companies to go public and maintain their social mission amid the short-term earnings pressure of the public equities market.
Potential Tax Advantages  In the fall of 2009, B Lab received a phone call from a city councilman’s office. Houlahan chuckled as he recalled:

The voice on the other end of the line said, “we’re about to introduce legislation to propose a tax break for Certified B Corporations in the City of Philadelphia.” He just wanted to make sure he could get a comment from us before he introduced it. We were gladly stunned and said, “We’d love to be engaged and involved.”

In the end, the founders offered testimony in front of city council with two Certified B Corporations and one that was in the process of becoming certified. They also provided written testimony from seven other B Corps as well as a partner from corporate law firm Drinker, Biddle & Reath.

Certified B Corporations qualified for a $4,000 tax break after the Philadelphia City Council voted to provide the incentive as a means to reward certified sustainable businesses. Under the pilot, only 25 companies were able to receive the tax credit, although the city was considering expanding the program in the future. This development made Philadelphia the first city in the nation to provide a pilot tax incentive for certified sustainable businesses. The founders had also met with policymakers in Washington, D.C. and Portland, Oregon to discuss their interest in creating similar incentives for certified B Corporations.

Of course, not all companies were convinced of the business potential. Kassoy reflected:

Some say, “I’ve got my own big brand that’s got plenty of credibility; I don’t need you.” That’s a recruiting challenge. Or “call me when you’ve got $100 billion of revenue represented and every consumer knows who you are.” Then there’s another group of people who say, “This is all great, but there’s just no way I’m changing my corporate articles. It’s too far along. I’ve got too broad a group of investors. Too many of them don’t care. I’ve got too many other problems.”

Establishing a New Corporate Form

Under most U.S. state corporate legal regimes, statutes rarely denied businesses permission to consider the social and environmental impacts of their operations. However, if a business had permission to consider these non-financial interests, they also had permission not to consider them. Moreover, when a corporation was in “play” or entered “Revlon mode” (e.g., up for sale with multiple competing offers), board members in 19 states—most notably Delaware and California—were required by law to maximize shareholder financial return, often by selling the company to the highest bidder. B Lab argued that “Revlon mode” duties specifically—and the lack of clarity around the issue of fiduciary obligations more generally—denied entrepreneurs, managers, investors, and consumers the freedom to build, invest in, or support businesses that sought to create long-term benefits for society.

Revlon, Inc. v. MacAndrews & Forbes Holdings, Inc., 506 A.2d 173 (Del. 1986), a landmark decision of the Delaware Supreme Court, held that once the “sale” or “break-up” of a company is inevitable, the fiduciary obligation of the directors of a target corporation are narrowed significantly; the singular responsibility of the board being to maximize immediate stockholder value by securing the highest price available (the role of the board of directors transforms from “defenders of the corporate bastion to auctioneers charged with getting the best price for the stockholders at a sale of the company”).
Coen Gilbert explained:

There are tons of individual companies that have managed to effectively balance social and business impact. Still, we need to institutionalize the values, standards, and accountability that allow companies to do that. We need systems in place. We need to change the rules of the game instead of continuing to clean up messes.

We want to look at the root causes. The root causes are not evil people, but rather poor system design. Right now, the system is designed to maximize short-term stock value; it does that well, but at the cost of everything else. The question is: How do we have a system that facilitates long-term value for the good of society?

**Designing a Legal Foundation for Public Benefit Objectives**

To provide a legally sound platform for entrepreneurs and investors who wanted to create and invest in companies explicitly seeking to create both shareholder and social value, B Lab championed U.S. state laws that would provide clarity to business leaders, general counsels, and investors that the fiduciary duty of directors and officers of these companies included creating public benefit, even in liquidity scenarios such as when a company was up for sale and therefore entered “Revlon mode.” The proposed legislation also included higher standards of transparency, requiring annual reporting to shareholders and the public about the corporation’s social and environmental performance using a third-party standard. In addition, the legislation included mechanisms to help ensure that these corporations and the positive social and environmental impact they created were built to last, such as requiring a two-thirds majority vote of shareholders to remove these higher standards. B Lab hoped that such legislation would serve as a platform for policymakers to provide a variety of tailored tax, procurement, and investment incentives for private-sector businesses addressing public benefit objectives.

B Lab received pro bono counsel from Drinker, Biddle, and Reath, which was instrumental in guiding B Lab’s legal strategy. Working with B Lab’s founders, firm partner William H. Clark, Jr. drafted the model Benefit Corporation legislation and had met with members of the Bar Associations in each state with legislation under consideration. Clark served for a number of years as the draftsman for the Title 15/Business Associations Committee of the Pennsylvania Bar Association, and in that capacity he was the author of the 1988 Pennsylvania Business Corporation Law and the Pennsylvania Revised Uniform Limited Partnership Act. Kassoy recalled:

[Clark] got really excited about this idea that there ought to be an alternative corporate form or an election that a regular company could make to do something broader in expanding fiduciary duty. He encouraged us to sit down with him and a blank slate to write a corporate code. He worked with us as we decided what should a company look like if it wanted to create public benefit in addition to shareholder value?

The founders spent over six months going back and forth with Clark and others from Drinker Biddle to set the initial model for Benefit Corp legislation, and they worked with the firm and Clark to customize the model legislation that they drafted for Maryland and Vermont.
Maryland and Vermont Pass Benefit Corporation Legislation

The spring of 2010 was a busy one for B Lab: On April 13, 2010 the state of Maryland signed the nation’s first Benefit Corporation legislation, and on May 19, 2010, Vermont passed Benefit Corporation legislation.

Kassoy recalled the serendipitous beginning of the Maryland legislation:

At a cocktail party at a D.C. restaurant [and B Corp] called Bus Boys and Poets, a friend of B Lab, Jim Epstein, introduced me to this guy, Jamie Raskin, who [was] a freshman senator in Maryland. I started describing to him the work that we do and then told him about this legislative idea. And he said, “Oh, this is perfect! This is exactly what we need in Maryland. This would make us the Delaware for sustainable business!” and literally, the end of the conversation was, “Can I have your card? I’m going to get legislation written next week.” And I remember calling Bart and Jay the next day and we kind of all laughed. And literally, I got a call two days later from his assistant saying, “Can you get on the phone with him? Can you guys help us write this thing, because we want to submit legislation next week?” And it might have taken him two weeks instead of a week by the time we rewrote the model version to fit into Maryland’s corporate code. But he literally submitted this piece of legislation, found co-sponsors, and just started driving it forward.

At the same time, the three B Lab founders were working on introducing legislation in January 2010 in Vermont. The significant business constituency organized by B Lab and its Vermont policy partners, Vermont Business for Social Responsibility (VBSR) and Vermont Employee Ownership Center (VEOC), was instrumental in getting legislative interest and the support of the Vermont Bar Association.

According to the Vermont legislation, a benefit corporation was obligated to create general public benefit alongside shareholder value, and fiduciary duty was redefined by stating that the creation of general public benefit was in the best interests of the Benefit Corporation. Key legal standards were “general public benefit” (purpose), “consideration” (accountability), and “recognized standards” (transparency). Legislative intent for these standards was to avoid a prescriptive regulatory approach.

Houlahan was thrilled with the rapid succession of the first two state legislations. He recalled:

We were quite lucky Maryland happened, because Maryland is behind only Delaware in having the second-largest number of incorporations. It’s got a serious business bar, a well-known middle-of-the-road governor, Martin O’Malley. It’s also near D.C. And so I think by passing in Maryland, it created some credibility and gravitas that I think Vermont wouldn’t have created by being first.” He paused, “That said, it was phenomenal that we could have kind of that one-two punch within a month of each other.

Coen Gilbert admitted that such high-level legal changes were not a part of B Lab’s original plan for their first years:

What happened in Maryland, Vermont, and Philly surprised us. Yes, in our original business plan, law was an eventual goal. But we thought we’d be dealing with that in 5 or 10 years. But, the chance came, we couldn’t say “Oh, the plan doesn’t say to talk to you for 3 years.” We just said, “Great, let’s go!”
Legislative Plans in Other States

Similar processes were under way in New York, New Jersey and Pennsylvania for 2010, and other states like Colorado, Michigan, North Carolina, Washington, and the District of Columbia also expressed interest. A related effort, catalyzed by B Lab’s policy work, resulted in 2010 introduction of legislation to create a new corporate form in California.

Houlahan felt that B Lab had learned a lot in its first legislative endeavors:

Having the local business associations involved showed the groundswell of support and created the possibility for adoption once something was actually passed. Also important to us was finding a legislator who could be a champion. Identifying that person came from the process of meeting with a bunch of businesses; some of these businesses had relationships with legislators and could get legislators to pay attention. By having a legislator saying, “I’m doing this, and I’m doing this with a group of businesses, and the local business association is backing me in doing it,” expresses that this is something that the business community wants. That puts us in a stronger position when we go to the Bar Association. Ideally, we’re trying to get them onboard like in Vermont and now in Pennsylvania, but at the least, to not oppose.”

Bar Associations were thought of as “the keeper of the flame of corporate law” in their respective states, so their engagement was also key.

While the founders were actively engaging other prospective state legislatures, Kassoy admitted:

We don’t have the resources to run around to every one of these states. And so we’ve been trying to stick to a few where we feel we actually have a good shot at making something happen. So we’ve assembled the documents that we’ve used in other states—everything from the letter that tried to engage businesses to the letter that we ask a business to send to its Assembly member, along with sort of a memo describing the order of operations that we just talked through in terms of building support—and we’ve put that into a package.

Their goal in the short term was to develop a standard package available for distribution to interested policy makers. In the long term, their goal was to raise additional money to support hiring of a dedicated and experienced policy team.

The Global Impact Investing Rating System (GIIRS)

An investment rating system that allows managers like us to talk about the impact we’re having compared to others, in addition to the financial return and the risk, allows us the opportunity to round out the story of our work . . . There is an opportunity for this (GIIRS) to be a game changer. If it is, it will change the way people think about how to make investment decisions, and that would be monumental.

— Preston D. Pinkett, Vice President, Prudential

In addition to certifying B Corporations and advancing new corporate form legislation, B Lab strove to facilitate the development of generally accepted standards for assessing the social and environmental impact of companies and investment funds. Launched in 2010, GIIRS, a wholly owned nonprofit subsidiary of B Lab, was a ratings agency that provided both ratings and underlying data about the social and environmental performance of primarily private or mission-driven for-profit enterprises. GIIRS also provided ratings of private equity and venture funds that provided capital to these companies, thereby filling a significant capital market gap that currently impeded the flow of
resources into impact investments: this gap was the lack of comparable, transparent, and comprehensive ratings of social and environmental impact to link institutional investors, financial intermediaries, fund managers, and mission-driven businesses.

To build this standards platform, the Global Impact Investing Network (GIIN)—composed of large institutional investors such as JPMorgan Chase, TIAA-CREF, Prudential, and the Rockefeller Foundation—worked with B Lab to create the GIIRS (Global Impact Investing Rating System) based on the B Impact Rating System (BIRS). Kassoy recalled, “These investors identified a number of issues impeding impact investing, [and] the really big thing was a lack of standards and ratings infrastructure to help them know what it meant to measure impact.”

Kassoy continued:

And so they came to us and said, “Would you be interested in taking your ratings system and moving it in a new direction, more focused on investors?” We were going in that direction anyway because we had always identified this problem with capital markets. We needed to drive more capital, and the idea with standards was always that they could talk to all these different stakeholders.

According to Houlanian, GIIRS was to social and environmental impact what Standard & Poor’s was to measuring a firm’s financial performance. “It’s comprehensive, meaning it looks at the whole business, not a product type of certification. It’s something that’s easy for investors to be able to use to drive capital and compare.” (see Exhibit 9)

Kassoy believed that GIIRS could allow institutional and high-net-worth investors to conduct better due diligence, make more informed investment decisions, more effectively track and improve social and environmental performance throughout the investment lifecycle, and better report absolute and relative impact. Additionally, GIIRS was intended to provide consultants, investment bankers, and other intermediaries with data and analytical tools to improve their own proprietary products or value-added services; and to help companies and fund managers raise capital from mission-aligned investors based on the social and environmental impact of their underlying businesses or portfolio companies.

GIIRS was in its pilot-testing phase as of 2010, but it had achieved some early successes. At the Presidential Summit on Entrepreneurship at the White House in April, the Obama Administration announced that the U.S. Agency for International Development (USAID) had made a financial commitment to GIIRS in order to drive capital to high-impact entrepreneurs in the developing world. USAID’s announcement helped to bring several other institutional investors to the table in supporting the development of GIIRS, including the Rockefeller Foundation, Prudential, and Deloitte. In addition, 25 private equity and venture funds across the globe had committed to becoming GIIRS Pioneer Funds. The list of Pioneers included nearly every major impact investment fund in the space, both in the developing world and in the U.S. (see Exhibit 10). This meant that in late 2010 and early 2011, 25 funds and over 170 companies in 30 countries would be pilot testing the rating system. It also meant that when GIIRS launched in mid-2011, it would have substantial data on hundreds of companies and 25 funds to attract investors.

GIIRS had also signed its first partnership agreement, with Investors’ Circle, for Investors’ Circle to require GIIRS ratings of all companies presenting at its venture fairs. B Lab was pursuing partnerships with a number of similar organizations, investor groups, and stock exchanges in order to drive adoption of GIIRS and create data and benchmarking that would be useful to investors and give GIIRS a chance to become a market standard.
B Lab wanted the GIIRS ratings to be broadly available to the public for free, in order to drive broad adoption and use. However, the underlying data, detailed benchmarking metrics, and analytics tools would be available only through subscription. GIIRS would receive fees paid by investors, intermediaries, funds, and companies in order to create a balanced set of revenue streams, with buy-in from all of these stakeholders. (see Exhibit 11). Non-B Corp companies would pay a modest fee for their Company Impact Rating in order to support GIIRS’ assurance costs.

GIIRS represented a major expansion of B Lab’s financial resources, commitments, and profile with institutional investors. B Lab had to expand its standards platform to include the emerging markets, create a fund rating methodology, develop a new technology platform, build a sales and marketing organization to drive adoption of the rating system with institutional investors, partner with Deloitte to build a credible assurance process that investors could rely on, and create partnerships with numerous organizations to drive use of the ratings. It was a risk, but B Lab’s founders and board decided that it was a risk worth taking, since GIIRS had the potential to change the game for driving capital to mission-driven entrepreneurs all over the world.

Conclusion

The Chinese food now finished, Coen Gilbert, Houlahan, and Kassoy, turned philosophical. Coen Gilbert noted:

What matters is action . . . . The path is about individual choice: you have the choice to be the change that you seek in the world or just talk about it. The power is in the hands of the individual actors—the individual entrepreneurs, the individual investors, the individual employees, the individual consumers—to be the change that B Corps represents.

As taxi cabs honked from below on Fifth Avenue, Kassoy put forth a barrage of outstanding questions:

- Could they attract more high-profile, ideally consumer products, companies that would garner national attention?
- How quickly could B Lab establish a new corporate form within the most influential U.S. state legislatures?
- Would investors, intermediaries, funds, and companies accept B Lab’s GIIRS pricing structure?
- Perhaps most importantly, was corporate social and environmental responsibility and impact investing a passing fad or the dawn of a new way of doing business?

Amidst all of the legal and logistical challenges, Kassoy believed the greatest challenge in the way of attracting individual actors was the appeal of doing nothing:

The greatest competitor we have to people becoming a certified B Corp is just non-adoption. People are not sort of making a choice between this and some other thing. They’re making a choice between this and just not doing anything. And so that’s a tough competition to win. . . . [And] a lot of people in this space are entrepreneurs. Entrepreneurs, by nature, are lousy joiners.
Of course, there was much to remain optimistic about. Houlahan countered: “We have 325 stories to tell. We have 325 heroes to celebrate.” He knew this had a strategic advantage, explaining:

Those stories, we can cut and dice any way you want. We can tell it to you by geography. We can tell it to you by industry. We can tell you by impact area. Somebody calls and says, “I’m running a story on women-owned businesses that are helping alleviate poverty.” Well, we got three of those. If somebody calls and says, “I really want to know more about ESOPs that are green”—well, we’ve got two of them. Just having the richness of the community of entrepreneurs, and the ability to tell that story, will help us grow.

All three knew that they needed that leverage, because they had no small ambitions for B Lab. Coen Gilbert declared, “What these entrepreneurs are doing is reinventing the corporation. And in doing that, they are reinventing capitalism. Or rather, they are repurposing private enterprise to create public benefit, not just private wealth.” But they all knew that none of these tasks could be accomplished by a single individual, corporation, or even state. In actuality, the engagement of 325 companies, 2 states, and 1 city was only a small way toward their goal.


Exhibit 1 Profiles of Key Case Protagonists

Jay Coen Gilbert, co-founder, B Lab

Jay Coen Gilbert co-founded and sold AND 1, a $250M basketball footwear and apparel company based outside Philadelphia. Jay led AND 1’s product and marketing for most of his 13 years there and was AND 1’s CEO during its period of most rapid growth.

Jay is a Henry Crown Fellow of the Aspen Institute, President of the Board of the Philadelphia chapter of KIPP Philadelphia Schools, a growing cluster of high performing public charter schools, and a Board member (ex-co-chair) of Investors’ Circle and Social Venture Network, leading national networks of social entrepreneurs and early stage social investors.

Jay grew up in New York City before heading west to Stanford University, graduating with a degree in East Asian Studies in 1989. Prior to AND 1, Jay worked for McKinsey & Co and several organizations in NYC’s public and nonprofit sectors. Jay and his wife live with their two children in Berwyn, PA.

Bart Houlahan, co-founder, B Lab

Prior to B Lab, Bart Houlahan was CFO, COO, and President of AND 1. As the principal operator of the business, Bart joined AND 1 in its second year, when revenues totaled just $4M. Over the course of the next 11 years, Bart helped to finance, operate, and scale the business to $250M in brand revenues with distribution in 85 countries world-wide.

Before AND 1, Bart was an investment banker with Stonebridge Associates, BNY Associates, and Prudential-Bache Securities, specifically focused on providing corporate finance and merger and acquisition services to small-cap businesses ranging in size from $20M to $500M.

Bart grew up in Chicago, is a graduate of Stanford University, and now resides in Devon, PA with his wife and two daughters.

Andrew Kassoy, co-founder, B Lab

Before leaving the private sector to form B Lab, Andrew spent 16 years in the private equity business. Most recently, he was a Partner at MSD Real Estate Capital, an affiliate of MSD Capital, the $12 billion investment vehicle for Michael Dell; before MSD, Andrew was a Managing Director in Credit Suisse First Boston’s Private Equity Department, a founding partner of DLJ Real Estate Capital Partners, and President of DLJ’s international business.

Andrew is a Board Member of the Freelancers Union and the Freelancers Union Insurance Company (provides affordable health insurance and other financial services to independent workers in thirty-two states), a Board Member of Echoing Green (nonprofit venture fund that provides seed capital to emerging social entrepreneurs), an Advisory Board member of Wall St. Without Walls (nonprofit which provides capital markets and investment banking expertise to community development organizations), and an investment committee member of the Patient Capital Collaborative (venture capital fund for businesses that create direct social impact).

Andrew was raised in Boulder, Colorado and graduated with Distinction from Stanford University where he was a Truman Scholar and President’s Award winner. He is a Henry Crown Fellow of the Aspen Institute. Andrew lives in New York City with his two sons.

Source: Company.
Exhibit 2  Summary and Key Provisions of Benefit Corp Legislation

- Benefit Corporation is a new class of corporation that 1) creates a material positive impact on society and the environment; 2) redefines fiduciary duty to require consideration of non-financial interests when making decision; and 3) reports on its overall social and environmental performance using recognized third party standards.
- Vermont and Maryland passed Benefit Corp legislation in early 2010. New York, New Jersey and Pennsylvania have introduced legislation. More than a dozen other states have expressed interest.

Purpose
- Shall create public benefit generally, defined as creating a material positive impact on society and the environment as measured by a third party standard
- Shall have right to name specific public benefit purposes (e.g., 50% profits to charity, carbon neutral, 100% local sourcing, beneficial product to customers in poverty)
- The creation of public benefit is in the best interests of the Benefit Corporation

Accountability
- Directors’ duties are to make decisions in the best interests of the corporation
- Directors and officers shall consider the effect of decisions on shareholders and employees, suppliers, customers, community, and the environment (together the “Stakeholders”) in both operating and change of control/liquidity/sale decisions
- Shall have an independent Benefit Director accountable for statement in annual Benefit Report whether Board acted consistent with obligation to create public benefit purposes, and considered effects of decisions on Stakeholders

Transparency
- Shall publish annual Benefit Report in accordance with recognized standards for defining, reporting, and assessing social and environmental performance, including assessment of successes and failures in achieving public benefit purpose and in considering effects of decisions on Stakeholders
- Benefit Report delivered to: 1) all shareholders; 2) public website with exclusion of proprietary data; and 3) Secretary of State with exclusion of proprietary data

Right of Action
- Only shareholders and directors have right of action
- No third party right of action
- If Benefit Corporation is a subsidiary, greater than 5% owners of parent have right of action
- Right of Action can be for 1) violation of or failure to pursue public benefit; 2) violation of duty or standard of conduct

Change of Control/Purpose
- Shall require 2/3 majority vote of shareholders to remove the higher Stakeholder standards

Source: Company.
Exhibit 3  Growth of B Corps

![Bar Chart: Number of B Corps Certified by Quarter]

Source: Company.

Exhibit 4  19 Founding B Corps Certified Before Public Launch at BALLE Conference 2007

- A-1 Builders
- BBMG
- Benchmark Asset Mgmt
- Better World Telecom
- Comet Skateboards
- Give Something Back Business Products
- Good Capital
- Indigenous Designs
- King Arthur Flour
- Learning & Vision Partners
- Mal Warwick Associates
- Method
- Moka Joe Coffee
- New Leaf Paper
- Pura Vida Coffee
- Seventh Generation
- Untours
- Village Books
- White Dog Café

Source: Company.
### Exhibit 5  Example of B Impact Assessment

#### Sample B Report

**XYZ Manufacturing, Inc.**

**Composite B Score: 83.2**

(> 80 out of 200 is eligible for certification as a B Corporation)

(> 60% points available is an Area of Excellence)

<table>
<thead>
<tr>
<th>Category</th>
<th>Points Earned</th>
<th>% Points Available</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Accountability</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Governance</td>
<td>3.2</td>
<td>54%</td>
</tr>
<tr>
<td>Transparency</td>
<td>2.5</td>
<td>63%</td>
</tr>
<tr>
<td><strong>Employees</strong></td>
<td>29.3</td>
<td>59%</td>
</tr>
<tr>
<td>Compensation &amp; Benefits</td>
<td>21.6</td>
<td>73%</td>
</tr>
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<td>Employee Ownership</td>
<td>0.0</td>
<td>0%</td>
</tr>
<tr>
<td>Work Environment</td>
<td>7.5</td>
<td>75%</td>
</tr>
<tr>
<td><strong>Consumers</strong></td>
<td>5.4</td>
<td>18%</td>
</tr>
<tr>
<td>Beneficial Products / Services</td>
<td>5.4</td>
<td>18%</td>
</tr>
<tr>
<td><strong>Community</strong></td>
<td>24.8</td>
<td>62%</td>
</tr>
<tr>
<td>Area of Excellence*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Suppliers</td>
<td>6.5</td>
<td>66%</td>
</tr>
<tr>
<td>Local</td>
<td>9.3</td>
<td>93%</td>
</tr>
<tr>
<td>Diversity</td>
<td>4.9</td>
<td>49%</td>
</tr>
<tr>
<td>Charity / Service</td>
<td>4.1</td>
<td>41%</td>
</tr>
<tr>
<td><strong>Environment</strong></td>
<td>18.1</td>
<td>36%</td>
</tr>
<tr>
<td>Facilities</td>
<td>4.7</td>
<td>39%</td>
</tr>
<tr>
<td>Energy Usage</td>
<td>16%</td>
<td></td>
</tr>
<tr>
<td>Supply Chain</td>
<td>9.1</td>
<td>51%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>3.0</td>
<td>25%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>81.3</td>
<td>42%</td>
</tr>
</tbody>
</table>

*Example of B Impact Assessment continues...*
Exhibit 5 (continued)

Section 4: Community - Suppliers (Continued)

CMt. 3 - What is the average tenure of your relationships with Significant Suppliers? [Equally Weighted]
- 0 - 1 Year
- 1 - 2 Years
- 2 - 3 Years
- 3 - 5 Years
- 5+ Years

CMt. 4 - What % of Significant Suppliers have been certified and/or approved by one of the following: B Corporation, Green America, SIF, FTF, Transfair, FSC, MSC, Cradle to Cradle, Green-e, USDA Organic, Other? [Equally Weighted]

CMt. 5 - Have you shared your social and environmental mission with all of your Significant Suppliers? [Equally Weighted]
- Yes
- No

Global Code of Conduct

CM2.1 - What % of your primary overseas vendors, have you visited and toured their facilities? [Equally Weighted]
- 0 - 49%
- 50 - 62%
- 63 - 75%
- 75%
- N/A

CM2.2 - Is your company a member of one or more broad labor / fair trade focused association? If so, which ones? [Equally Weighted]
- Fair Labor Association (FLA)
- International Labor Association (ILo)
- SA8000
- a Fair Trade Certification Org
- Other: please attach
- None

CM2.3 - Is there a formal Supplier Code of Conduct policy that specifically holds the company’s suppliers accountable for social and environmental performance? This may include policies on Fair Trade. If so, please attach the company’s Supplier Code of Conduct [Equally Weighted]
- Yes
- No

Quality Assurance

CM3.1a - Do you use an established methodology for quality assurance (PDSA, Six Sigma, DMAIC, TQM, Zero Defects, etc.)? [Equally Weighted]
- Yes
- No

CM3.2 - What percentage of Significant Suppliers are subjected to regular quality assurance reviews and audits? [Equally Weighted]

CM3.3 - Have you had a material recall or significant quality issue in the last three years? [Equally Weighted]
- Yes
- No
Exhibit 5 (continued)

**Section 4: Community - Diversity (Continued)**

**CM5.2** - What % of management is from previously excluded populations? [Equally Weighted]
- [ ] 0%
- [ ] 1-19%
- [ ] 20-29%
- [ ] 30-40%
- [ ] >40%
- [ ] N/A

**Employee Diversity**

**CM6.1** - What % of employees are women? [Equally Weighted]
- [ ] 0%
- [ ] <10%
- [ ] 10-19%
- [ ] 20-30%
- [ ] >30%
- [ ] Don’t Know

**CM6.2** - Does the % of ethnic minorities employed in your company equal or exceed the % of ethnic minorities in your metro area? [Equally Weighted]
- [ ] Yes
- [ ] No

**CM6.3** - What % of employees reside in low-income communities? [Equally Weighted]
- [ ] 0%
- [ ] <10%
- [ ] 10-19%
- [ ] 20-30%
- [ ] >30%
- [ ] Don’t Know

**CM6.4** - What % of employees are people with disabilities? [Equally Weighted]
- [ ] 0%
- [ ] 1-4%
- [ ] 5-10%
- [ ] >10%

**Supplier Diversity**

**CM7.1** - Is there a policy for the active recruitment of women or ethnic minority owned suppliers? Please attach supplier recruitment policy. [Equally Weighted]
- [ ] Yes
- [ ] No

**CM7.2** - What % of Significant Suppliers is majority owned by women or ethnic minorities? [Equally Weighted]
- [ ] 0%
- [ ] <10%
- [ ] 10-19%
- [ ] 20-30%
- [ ] >30%
- [ ] Don’t Know

**Community Impact**

**CM8.1** - What % of your Significant Suppliers is located in low or moderate-income communities? [Equally Weighted]
- [ ] 0%
- [ ] <10%
- [ ] 10-19%
- [ ] 20-30%
- [ ] >30%
- [ ] Don’t Know

**CM8.2** - What % of your employee base works in an Enterprise Zone, New Markets Tax Credit track, or other federal or state designation for a low-income community? [Equally Weighted]
- [ ] 0%
- [ ] <10%
- [ ] 10-19%
- [ ] 20-30%
- [ ] >30%
- [ ] Don’t Know

**CM8.3** - What % of your employee base works in low or moderate-income communities that are not designated as such by the government? [Equally Weighted]
- [ ] 0%
- [ ] <10%
- [ ] 10-19%
- [ ] 20-30%
- [ ] >30%
- [ ] Don’t Know

**Investor Base**

**CM9.1** - What % of the company is owned by non-accredited investors (including insiders or employees)? [Equally Weighted]
- [ ] 0%
- [ ] 1-4%
- [ ] 5-24%
- [ ] 25-50%
- [ ] >50%

continued >
Exhibit 5 (continued)

Section 4: Community - Diversity (Continued)

CMg.2 - What % of the company is owned by a non-profit organization (i.e. owns stock, stock equivalents, or stock options in the company)? [Equally Weighted]

- 0%
- 1-4%
- 5-24%
- 25-50%
- >50%

Charity / Service

Civic Engagement: Policy

CMto.1 - Is there a written Community Service Policy? [Equally Weighted]  [TOOL & BEST PRACTICE]

- Yes
- No

CMto.2 - Are suppliers and customers actively made aware of your service mission? [Equally Weighted]

- Yes
- No
- N/A

CMto.3 - Are full-time employees explicitly allowed any of the following paid or non-paid time-off hours options for community service? [Equally Weighted]

- Non-paid time off
- Paid time off
- More than 20 hours a year of paid time off
- Do not offer paid or non-paid time off

CMto.4 - Did a staff member at your company organize service days for employees in the last fiscal year? [Equally Weighted]

- Yes
- No

CMto.5 - Does the company have a written policy that allows paid time for employees to vote in elections? [Less Weighted]

- Yes
- No

Civic Engagement: Practices

CMtt.1 - What % of employees took paid or unpaid time off for community service last year? [Equally Weighted]

- 0%
- 1-24%
- 25-49%
- 50-75%
- >75%

CMtt.2 - What % of employees participated in company organized community service days last year? [Equally Weighted]

- 0%
- 1-24%
- 25-49%
- 50-75%
- >75%
- N/A

CMtt.3 - Has the company created a public facing partnership with a service/charitable organization? [Less Weighted]

- Yes
- No

CMtt.4 - If so, please describe the affiliation here. [Not Weighted]

CMtt.6 - What is the total number of volunteer hours donated for last year? (For data analysis purposes only) [Not Weighted]  

continued >
Exhibit 5 (continued)

Section 5: Environment - Energy Usage

Energy Usage

EN5.1 - Is an annual carbon inventory of company activities conducted? [Equally Weighted]

- Yes
- No

EN5.2 - By what % has your carbon footprint been reduced on a per capita basis over the last 12 months? [Heavily Weighted]

- 0%
- 10 - 19%
- 20 - 30%
- 30 - 40%
- 40 - 50%
- 50 - 60%
- 60 - 70%
- 70 - 80%
- 80 - 90%
- 90 - 100%
- Don’t Know

EN5.3 - What % of energy (relative to company revenues) was saved in the last year for your corporate facilities? [Heavily Weighted]

- 0%
- 1 - 4%
- 5 - 9%
- 10 - 15%
- 15 - 20%
- 20 - 25%
- 25 - 30%
- 30 - 35%
- 35 - 40%
- 40 - 45%
- 45 - 50%
- 50 - 55%
- 55 - 60%
- 60 - 65%
- 65 - 70%
- 70 - 75%
- 75 - 80%
- 80 - 85%
- 85 - 90%
- 90 - 95%
- 95 - 100%
- Don’t Know

EN5.4 - What % of energy is used from renewable sources at your corporate facilities? [Equally Weighted]

- 0%
- 1 - 4%
- 5 - 9%
- 10 - 15%
- 15 - 20%
- 20 - 25%
- 25 - 30%
- 30 - 35%
- 35 - 40%
- 40 - 45%
- 45 - 50%
- 50 - 55%
- 55 - 60%
- 60 - 65%
- 65 - 70%
- 70 - 75%
- 75 - 80%
- 80 - 85%
- 85 - 90%
- 90 - 95%
- 95 - 100%
- Don’t Know

EN5.5 - Has the company increased its % use of renewables annually at its corporate facilities? [Equally Weighted]

- Yes
- No
- Already Maximized

EN5.7 - For which of the following systems have you implemented energy conservation/efficiency measures for your corporate facilities (if your company has selected “other,” please attach a description)? [Equally Weighted]

- Equipment: Energy Star Appliances / Automatic Sleep Modes / After-Hour Timers / etc.
- Lighting: Natural Light / CF Bulbs / Occupancy Sensors / Daylight Dimmers / Task Lighting / etc.
- Other (please specify)
- None of the above

EN5.8 - Has an energy assessment of the corporate-run facilities been done in the last three years (Choose N/A only if your company does not have any corporate-run facilities)? [Equally Weighted]

- Yes
- No
- N/A

EN5.9 - For which of the following activities does your company purchase carbon offsets for? [Less Weighted]

- Travel
- Commuting
- Office Operations
- Shipping
- Other
- None of the above

Source: Company.
Exhibit 6  Terms

Terms

B Corporations™ who receive certification in 2010 will:

• Be certified for a two year term beginning the date of certification.

• Meet performance standards for B Corp certification:
  - Submit completed Version 2.0 of the B Impact Assessment for review and receive a passing score (80/200).
  - Submit to an audit if randomly selected (B Lab randomly audits 20% of all B Corporations over the 2 year certification period).
  - Attach all required documentation, found in Step 3 of Become a B, to complete their B Impact Assessment™ Submission.

• Meet legal standards for B Corp certification:
  - Obtain Board (or other Governing Body) approval to amend their corporate governing documents to institutionalize stakeholder interests within 12 months of certification.
  - Schedule a Shareholder’s Meeting to be held within 12 months of certification to approve the amendment of the corporate governing documents.
  - Submit a copy of the Company’s amended governing documents within 12 months of certification.

• Abide by intellectual property requirements:
  - Use B Corporation™ intellectual property, including the name ‘B Corporation™’, and the ‘B Corporation™ Seal’, consistent with the ‘B Corporation™ Brand Usage Guidelines’ provided by B Lab.
  - Allow the Company’s names and logos to be used by B Lab for the limited purpose of promoting the community of B Corporations.

• Sign the B Corporation™ Declaration of Interdependence as a symbol of their commitment to our shared collective purpose.

• Pay B Lab an annual certification fee based on the tiered structure below:

<table>
<thead>
<tr>
<th>Annual Sales</th>
<th>Annual Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 - $1,999,999 MM</td>
<td>$500</td>
</tr>
<tr>
<td>$2 MM - $4,999,999 MM</td>
<td>$1,000</td>
</tr>
<tr>
<td>$5 MM - $9,999,999 MM</td>
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<tr>
<td>$10 MM - $19,999,999 MM</td>
<td>$5,000</td>
</tr>
<tr>
<td>$20 MM - $99,999,999 MM</td>
<td>$10,000</td>
</tr>
<tr>
<td>$100 MM +</td>
<td>$25,000</td>
</tr>
</tbody>
</table>

• Provided that the company takes and passes the most current version of the B Impact Assessment and completes a review with a B Lab staff member every two years, this Term Sheet will automatically renew unless either party chooses to cancel the contract in writing for any reason.

Commitment

By signing below, I agree to the above terms.

Source: Company.
Exhibit 7  B Corp Declaration of Interdependence

Certified

B Corporation

bcorporation.net

Declaration of Interdependence

We envision a new sector of the economy which harnesses the power of private enterprise to create public benefit. This sector is comprised of a new type of corporation — the B Corporation™ — which is purpose-driven and creates benefit for all stakeholders, not just shareholders.

As members of this emerging sector and as entrepreneurs and investors in B Corporations™,

We hold these truths to be self-evident:

That we must be the change we seek in the world;

That all business ought to be conducted as if people and place mattered;

That, through their products, practices, and profits, businesses should aspire to do no harm and benefit all.

To do so, requires that we act with the understanding that we are each dependent upon one another and thus responsible for each other and future generations.

______________________________  ______________________________
Signature/Title:                        Signature/Title: B Lab

Date: Company

______________________________  ______________________________
Due Date: Due Date

the change we seek™

Source: Company.
Exhibit 8  B Lab Ad Campaign
Exhibit 8 (continued)

Source: Company.
Exhibit 9  GIIRS Company Impact Rating Report Example—“Heath First Investors”

Source: Company.
Exhibit 10  GIIRS Advisory Committee

The GIIRS Advisory Committee is comprised of innovators at organizations taking the lead in impact investing including banks, pension funds, foundations, investor networks, ratings agencies, private wealth managers, and investment advisors. The group is tasked with making recommendations to B Lab’s Board of Directors and Management regarding:

- Rapid adoption of GIIRS as the standard by which the investment community measures the social and environmental impact of its non-public market investments;
- Raising initial $8 million and future growth capital to support the development of GIIRS; and
- Development of GIIRS’ product features that meet the needs of the impact investing community.
- Particular input will be sought on features concerning the GIIRS analytics tools, ratings reports, and the fund weighting methodology.

Members of the GIIRS Advisory Committee:

- Suzanne Biegel, Acting CEO, Investors’ Circle
- Amit Bouri, Director, Global Impact Investing Network
- Margot Brandenburg, Associate Director, Rockefeller Foundation
- Matt Christensen, Executive Director, EUROUSIF
- Stuart Davidson, Managing Partner, Labrador Ventures
- Sarah Forrest, Former Head, GS Sustain, Goldman Sachs
- Lisa Hagerman, Director, More for Mission
- David Korslund, Senior Advisor, Global Alliance on Banking Values
- Christina Leijonhufvud, Director Social Finance, JP Morgan
- Steve Lydenberg, Chief Investment Officer, Domini Social Investments
- Jessica Matthews, Manager MRI Group, Cambridge Associates
- Preston Pinkett, Vice President, Prudential
- Ed Powers, Managing Director, Banc of America Capital Access Funds
- Jody Rasch, Vice President, Moody’s Corporation
- Max Rutten, Former Vice President, Bernstein Global Advisors
- Christa Velasquez, Director, Annie E. Casey Foundation

Standards Advisory Council

Oversight of the B Impact Ratings System is the responsibility of B Lab’s Standards Advisory Council, an independent committee of 14-16 members, each respected in the field for their wisdom and each with deep industry or stakeholder expertise. The Standards Advisory Council is divided into two subgroups—one group oversees the content and weightings for the version of the B Impact Ratings System that is appropriate for companies and funds in the developed markets, the other for the version that is appropriate for companies and funds in the emerging markets.

Developed Markets — Current Members:

- Bart Houlahan, Co-founder, B Lab
- Hewson Baltzell, Head of the Sustainability Solutions Team, Risk Metrics
- Doug Claffey, Founding Partner & CEO, Workplace Dynamics
- Cathy Clark, Adjunct Asst. Professor, Duke University, CASE
- Debra Dunn, Director, Skoll Foundation; former SVP Corporate Affairs and Global Citizenship Hewlett Packard
- Rhonda Evans, Science Advisor, GoodGuide
- Bonny Moellenbrock, Executive Director, SJF Advisory Services
- Beth Sirull, Executive Director, Pacific Community Ventures
- Don Shaffer, President & CEO, RSF Social Finance

Emerging Markets — Current Members:
- Flory Wilson, Director of International Standards, GIIRS
- Lindsey Anderson, Impact Assessment Manager, Aspen Network of Development Entrepreneurs (ANDE)
- Veronica Chau, Associate Partner, Dalberg Global Advisors
- Kelly McCarthy, Global Impact Analyst, World Resources Institute
- Rafi Menachem, Social Impact Coordinator, Grassroots Business Fund
- Fred Ogana, Country Director, Technoserve Kenya
- Rob Schneider, Senior Alliance Manager, U.S. Agency for International Development (USAID)
- Brian Trelstad, Chief Investment Officer, Acumen Fund
- Michael Wright, Legal Advisor/Fellow, Harvard University, Center for Business and Government
- Sarah Gelfand, Director of IRIS, Global Impact Investing Network (GIIN)

GIIRS Pioneer Funds

GIIRS Pioneer funds are leading private equity and venture capital funds with a focus on impact investing. Collectively, the 25 Pioneer GIIRS fund managers have $1.2b assets under management and have investments in over 44 countries. GIIRS Pioneer Funds will be the first funds to receive GIIRS Fund Ratings. A global population of GIIRS rated funds will give institutional investors for the first time the rigorous, comparable, third party metrics they need to channel more capital into the emerging asset class of impact investments.

Developed Markets:
- Core Innovation Capital
- City Light Capital
- Equilibrium Capital Group
- Good Capital, LLC
- Patient Capital Collaborative
- Mindful Investors
- Murex Investments
- Renewal Partners
- RSF Capital Management
- Sartori Capital
- SJF Ventures
- TBL Capital

Emerging Markets:
- Acumen Fund
- African Agricultural Capital
- Agora Partnerships
- Business Partners International
- E&Co
- Fanisi
- Grassroots Business Fund
- Grassroots Capital Management
- Gray Ghost Ventures
- IGNIA Partners
- Root Capital
- SEAF
- New Ventures at World Resources Institute

Source: Company.
## Exhibit 11  GIIRS Financial Scenario & Summary Financials

**Assumptions:** The GIIRS financial scenario and summary financials presented below require approximately $8 million in philanthropic commitments to build and achieve sustainability, with approximately $4 million used during the first 24 months of operations.

### Financial Scenario

<table>
<thead>
<tr>
<th>Investor Mix</th>
<th>Phase 1 (Years 0-3)</th>
<th>Phase 2 (Years 4-6)</th>
<th>Phase 3 (Years 7-10)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impact first and financial first</td>
<td>Impact first and financial first</td>
<td>Impact first, financial first, and mainstream investors</td>
<td></td>
</tr>
<tr>
<td>Growth Rates</td>
<td>Starting with 20 investors, 35%</td>
<td>30%</td>
<td>20%</td>
</tr>
<tr>
<td>Pricing Assumptions</td>
<td>Low, to entice adoption</td>
<td>Increased to reflect increased market value</td>
<td>Increased to reflect increased market value</td>
</tr>
</tbody>
</table>

### Summary Financials

<table>
<thead>
<tr>
<th>Year(s)</th>
<th>Incubation</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
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</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Companies</td>
<td>$ -</td>
<td>$61,250</td>
<td>$94,938</td>
<td>$140,416</td>
<td>$390,674</td>
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<td>Institutional Investors</td>
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<td>$25,000</td>
<td>$33,750</td>
<td>$45,563</td>
<td>$355,388</td>
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<tr>
<td>Investment Advisors</td>
<td>$ -</td>
<td>$27,500</td>
<td>$37,125</td>
<td>$50,119</td>
<td>$130,309</td>
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<tr>
<td>Fund Managers</td>
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<td>$56,875</td>
<td>$88,156</td>
<td>$130,386</td>
<td>$345,176</td>
</tr>
<tr>
<td><strong>Total - Revenue</strong></td>
<td>$ -</td>
<td>$170,625</td>
<td>$253,969</td>
<td>$366,483</td>
<td>$1,221,547</td>
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<tr>
<td><strong>Audit &amp; Ratings</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Staff</td>
<td>$194,500</td>
<td>$220,000</td>
<td>$220,000</td>
<td>$220,000</td>
<td>$225,500</td>
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<tr>
<td>Company Audit</td>
<td>$ -</td>
<td>$15,000</td>
<td>$61,250</td>
<td>$96,688</td>
<td>$144,872</td>
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<td>Fund Audit</td>
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<td>$1,113</td>
<td>$2,034</td>
<td>$3,009</td>
<td>$4,310</td>
</tr>
<tr>
<td><strong>Total - Audit</strong></td>
<td>$194,500</td>
<td>$256,313</td>
<td>$283,284</td>
<td>$319,696</td>
<td>$374,682</td>
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<td><strong>Performance Standards</strong></td>
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<td>$612,500</td>
<td>$627,813</td>
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<td>Conferences &amp; Associations</td>
<td>$29,726</td>
<td>$29,726</td>
<td>$32,353</td>
<td>$33,161</td>
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<td>Ratings Platform</td>
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<td>$75,000</td>
<td>$76,875</td>
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<td><strong>Total - Ratings</strong></td>
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<td>$719,853</td>
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<td><strong>Sales and Marketing</strong></td>
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<td></td>
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<tr>
<td>Staff</td>
<td>$127,750</td>
<td>$165,000</td>
<td>$165,000</td>
<td>$330,000</td>
<td>$338,250</td>
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<tr>
<td>Conferences &amp; Associations</td>
<td>$39,961</td>
<td>$47,641</td>
<td>$47,641</td>
<td>$24,086</td>
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<tr>
<td>Web</td>
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<td>$73,000</td>
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<td>Marketing Agency</td>
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<td>$90,000</td>
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<td>Printed Materials</td>
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<td>Other Media</td>
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<td>$20,000</td>
<td>$20,000</td>
<td>$20,500</td>
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<td>$10,000</td>
<td>$20,000</td>
<td>$20,000</td>
<td>$20,000</td>
<td>$20,500</td>
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<tr>
<td><strong>Total - Sales and Marketing</strong></td>
<td>$358,711</td>
<td>$455,641</td>
<td>$455,641</td>
<td>$607,086</td>
<td>$622,263</td>
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<td><strong>Administrative</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Staff</td>
<td>$330,000</td>
<td>$330,000</td>
<td>$330,000</td>
<td>$330,000</td>
<td>$338,250</td>
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<tr>
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<td>$53,700</td>
<td>$53,700</td>
<td>$53,700</td>
<td>$53,700</td>
<td>$55,043</td>
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<td>Risk Management</td>
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<td>$4,750</td>
<td>$4,750</td>
<td>$4,750</td>
<td>$4,869</td>
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<tr>
<td>Legal</td>
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<td>$25,000</td>
<td>$25,000</td>
<td>$25,000</td>
<td>$25,625</td>
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<tr>
<td>Accounting</td>
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<td>$5,000</td>
<td>$5,000</td>
<td>$5,000</td>
<td>$5,125</td>
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<tr>
<td>Continuing Ed / Training</td>
<td>$5,000</td>
<td>$5,000</td>
<td>$5,000</td>
<td>$5,000</td>
<td>$5,125</td>
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<td>Banking</td>
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<td>$1,500</td>
<td>$1,500</td>
<td>$1,500</td>
<td>$1,538</td>
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<tr>
<td>Capital Costs</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
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<tr>
<td><strong>Total - Administrative</strong></td>
<td>$424,950</td>
<td>$424,950</td>
<td>$424,950</td>
<td>$424,950</td>
<td>$435,574</td>
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<tr>
<td><strong>Total - Expenses</strong></td>
<td>$(2,094,513)</td>
<td>$(1,804,130)</td>
<td>$(1,831,102)</td>
<td>$(2,071,585)</td>
<td>$(2,170,368)</td>
</tr>
<tr>
<td><strong>Profit or Loss</strong></td>
<td>$(2,094,513)</td>
<td>$(1,633,505)</td>
<td>$(1,577,133)</td>
<td>$(1,705,102)</td>
<td>$(948,821)</td>
</tr>
</tbody>
</table>

Source: Company.
Endnotes


3 http://www.bcorporation.net/become/BRS.

4 http://www.bcorporation.net/become/official.

5 2009 B Corporation Annual Report, p. 41.

6 FAQs for Investors and Directors of Potential B Corporations (see pdf link to these FAQ’s at the bottom of the following webpage: http://www.bcorporation.net/become/legal), accessed September 2010.

7 Ibid.


9 Benefit Corporation Summary and Objectives.

