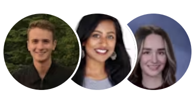
Exclusive

OpenAI CEO Says Company Could Become Benefit Corporation Akin to Rivals Anthropic, xAI

OpenAI CEO, Sam Altman. Photo by Jason Redmond/AFP via Getty Images



By Aaron Holmes, Natasha Mascarenhas and Julia Hornstein

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OpenAI CEO Sam Altman recently told some shareholders that the artificial intelligence developer is considering changing its governance structure to a for-profit business that OpenAI's nonprofit board doesn't control, according to a person who heard the comments. One scenario Altman said the board is considering is a for-profit benefit corporation, which rivals such as Anthropic and xAI are using, this person said.

Such a change could open the door to an eventual initial public offering of OpenAI, which currently sports a private valuation of $86 billion, and may give Altman an opportunity to take a stake in the fast-growing company, a move some investors have been pushing.

The Takeaway

• OpenAI could trim ties to nonprofit parent

• Before Microsoft invested, OpenAI's nonprofit contributed more capital than other shareholder

• OpenAI employees have sold more than $800 million worth of shares in past year

The restructuring discussions are fluid, and Altman and his fellow directors could ultimately decide to take a different approach.

Altman's comments were part of longer discussions about overhauling OpenAI's structure while still maintaining a connection to the original nonprofit he cofounded. For shareholders including Microsoft, which has invested $13 billion in the unit, drama involving the nonprofit board and Altman last fall exposed the current structure's fragility. The board fired Altman, sparking an employee revolt inside the for-profit unit that ended when Altman was rehired.

Benefit corporations are legally protected from minority shareholders who might otherwise sue the company for making decisions that don't prioritize shareholder returns. The new entity could also maintain a mission similar to that of the current OpenAI nonprofit—AI for the benefit of humanity—while giving investors a chance to more quickly realize a return on the $14 billion or so in capital they've put in.

Even so, some current investors say there is little pressure on the company to go public since it can continue to allow existing employees and others to sell their shares through regular secondary-share offerings, such as those done by SpaceX and Stripe. OpenAI conducted two such offerings for employees over the last year in which they collectively cashed out more than $800 million, said a person with knowledge of the deals.

In a statement, a spokesperson for OpenAI said, “We remain focused on building AI that benefits everyone and as we’ve previously shared we’re working with our board to ensure that we’re best positioned to succeed in our mission.” They added: “The nonprofit is core to our mission and will continue to exist.”

Microsoft Execs Push For-Profit Option

Some senior Microsoft executives involved in the company’s relationship with OpenAI have for years favored converting OpenAI into a full-fledged for-profit. Such a structure could give the software giant more influence over OpenAI in the form of a seat on its board as well as shareholder voting rights, according to one of those executives. A Microsoft spokesperson declined to comment.

In an unusual arrangement, the nonprofit, established in 2015 as a research lab, oversees the for-profit, set up in 2019. The for-profit has promised to pay Microsoft and other investors a share of any profits it generates up to a certain cap that will increase year after year. (Microsoft gets 75% of OpenAI’s profits until the capital investment is paid back, and 49% of subsequent profits up to a certain cap.) No outside investors hold a seat on the nonprofit’s eight-person board, although Microsoft has a nonvoting observer position.

A new structure theoretically could remove profit caps for shareholders. Altman didn’t take equity in OpenAI’s for-profit arm when he started it, as he wished to limit the number of board directors with shares. Now he could end up with a significant equity package. Investors have privately said they prefer that he have such a package so he isn’t as incentivized to focus on other projects and investments in other AI companies.

Such a change in structure could also make it easier for Altman to attract the amount of capital he has said the company might need—up to $100 billion.

The discussions come as the company accelerates its revenue growth. The ChatGPT maker has surpassed $3.4 billion in annualized revenue, a measure of the past month’s revenue multiplied by 12, more than doubling the number from about six months ago.

Aside from Microsoft, the investors who have put money directly into OpenAI include Reid Hoffman's foundation, Khosla Ventures, Y Combinator (which Altman previously ran), Y Combinator partner Paul Buchheit and the University of Michigan. Firms such as Thrive Capital, Sequoia Capital and Founders Fund have purchased shares from earlier investors or employees over the years.

The nonprofit has a stake in the for-profit unit as well. Before Microsoft became an investor, the nonprofit contributed more capital than each of the other shareholders, according to a person with knowledge of the deal.

To end the nonprofit's control over the new benefit corporation, the nonprofit would likely need to sell at least part of its ownership interest, according to Jonathan Storper, a partner at San Francisco–based law firm Hanson Bridgett who helped draft the California benefit corporation law in 2012.

Finding buyers for the shares isn't likely to be difficult. Smaller investors have clamored to buy shares in OpenAI and its rivals, often through special purpose vehicles set up to acquire them from existing investors.

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