# OpenAI navigates complex transition from non-profit to for-profit structure



OpenAI, the start-up renowned for its development of advanced artificial intelligence technologies such as ChatGPT, is currently navigating intricate negotiations to transition from a non-profit to a for-profit structure. This pivotal change, which has been in discussion since September, aims to split the organisation into two distinct entities: a for-profit public benefit corporation (PBC) and a newly formed charitable arm focused on the organisation’s foundational mission of “benefiting humanity.”

The complexity of these negotiations is evident, especially concerning the valuation of Microsoft’s stake, the largest investor in OpenAI. According to sources familiar with the talks, the ongoing discussions have highlighted the challenges of determining the appropriate equity for Microsoft in the new PBC structure. Additionally, key decisions regarding the equity allocation for OpenAI's Chief Executive Officer, Sam Altman, are also pending resolution.

The potential value of the charitable arm has reportedly been pegged at around $30 billion, although this figure is not final. The bulk of this valuation would be translated into equity in the PBC, with a smaller portion being disbursed in cash. Karla Dennis, Chief Executive of tax advisory firm KDA, noted, “That is a new phenomenon where non-profits have stakes in the for-profit,” indicating that such arrangements are typically executed through cash transactions.

OpenAI has emphasised that the restructuring could create “one of the best resourced non-profits in history.” However, some stakeholders, including Elon Musk, a co-founder of OpenAI, contend that the non-profit’s actual worth is significantly higher, given its substantial control over a start-up now valued at approximately $157 billion.

The shift towards a for-profit model aims to facilitate OpenAI's ability to raise upwards of tens of billions of dollars from investors, a necessary step to advance its cutting-edge AI models in a highly competitive landscape. The timeline for this conversion is under pressure, as OpenAI has committed to completing the transition within two years, following a recent funding round that garnered $6.6 billion from investors. Should the conversion not occur within this timeframe, investors will have the opportunity to reclaim their contributions.

Microsoft's involvement is particularly sensitive, as discussions also revolve around the amount of equity it can maintain without drawing scrutiny from antitrust regulators. In a recent development, Microsoft announced a restructuring of its partnership with OpenAI, relinquishing its status as the exclusive cloud service provider while retaining a right of first refusal for future collaboration. Despite these changes, many core elements of their partnership will remain effective until the end of 2030, encompassing existing revenue-sharing agreements.

In a further indication of its commitment to expansive growth, OpenAI has entered a joint venture with Japan’s SoftBank, named Stargate, aimed at building a $100 billion AI infrastructure in the United States.

The proposed shift to a for-profit entity has sparked significant debate in Silicon Valley, as OpenAI's journey serves as a bellwether for the broader race to develop and monetise generative AI technologies. Musk, having established his own competitor, xAI, has initiated legal challenges against OpenAI’s conversion, alleging that early investors were misled regarding the nature of their contributions to what they believed was a research-focused organisation.

Founded as a non-profit in 2015, OpenAI transitioned to create a for-profit subsidiary in 2019, capping investor returns while retaining control for its non-profit board. Currently, the company’s trajectory is closely tied to milestones such as achieving artificial general intelligence (AGI), where AI systems could demonstrate intelligence at human-like levels. Notably, provisions related to AGI are reportedly being removed from the new structure.

OpenAI's corporate governance faced scrutiny following a rapid series of events in November 2023, during which Altman was briefly ousted from his position before being reinstated, highlighting the tumultuous nature of leadership within the company.

As negotiations progress, stakeholders express cautious optimism that the transformation could be finalised within the year. However, those familiar with the discussions acknowledge that the timeline is subject to change and may extend for several additional months due to the challenges associated with accurately pricing such an innovative and influential technology. Delaware Attorney General Kathleen Jennings has sought clarity on the transaction to ensure that it is executed at a fair price and serves the public interest, as OpenAI continues to navigate these unprecedented waters.

Source: [Noah Wire Services](https://www.noahwire.com)

## References

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* <https://techcrunch.com/2024/12/27/openai-lays-out-its-for-profit-transition-plans/> - TechCrunch reports on OpenAI's plans to transition into a Delaware Public Benefit Corporation (PBC), aiming to balance shareholder and stakeholder interests while advancing its mission. The article mentions the ongoing discussions about OpenAI's structure and its implications.
* <https://openai.com/index/why-our-structure-must-evolve-to-advance-our-mission/> - OpenAI explains why its corporate structure must evolve to support its mission, including transitioning into a PBC to ensure long-term success and sustainability for both its for-profit and non-profit arms.
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* <https://www.forbes.com/sites/forbestechcouncil/2023/12/18/openai-and-the-future-of-ai/?sh=5c4c9f6d66f6> - Forbes discusses the broader implications of OpenAI's transition on the AI industry, highlighting its role in shaping the future of AI technologies.