

URL: <https://ecorner.stanford.edu/clips/corporate-structure-for-ai-companies/>

Ilya Sutskever, co-founder and chief scientist of OpenAI, observes that the cost of data centers for large neural networks has shifted AI research from universities to companies. He explains how cost also drives OpenAI's unique corporate structure, which caps profits and equity. Once the company has paid out its obligation to investors and employees, it will become a non-profit again.



## Transcript

- It would be preferable 00:00:05,460 in a certain meaningful sense if OpenAI could just be a nonprofit from now until the mission of OpenAI is complete.. However, one of the things that's worth pointing out is the very significant cost of these data centers.. I'm sure you're reading about various AI startups and the amount of money they're raising, the great majority of which goes to the cloud providers.. Why is that? Well, the reason so much money is needed is because this is the nature of these large neural networks.. They need the compute, end of story.. You can see something like this.. You can see a divide that's now happening between academia and the AI companies.. So for a long time, for many decades, cutting-edge research in AI took place in academic departments in universities.. That kept being the case up until the mid-2010s, but at some point, when the complexity and the cost of these projects started to get very large, it no longer remained possible for universities to be competitive, and now, universities, university research in AI needs to find some other way in which to contribute.. Those ways exist..

They're just different from the way they're used to and different from the way the companies are contributing right now.. Now, with this context, you're saying, "Okay, the thing about nonprofit, a nonprofit is that people who give money to a nonprofit never get to see any of it back.. It is a real donation, and believe it or not, it is quite a bit harder to convince people to give money to a nonprofit, and so we think what's the solution there or what is a good course of action?" So we came up with an idea, that, to my knowledge, is unique in all corporate structures in the world.. The OpenAI corporate structure is absolutely unique.. OpenAI is not a for-profit company.. It is a capped-profit company, and I'd like to explain what that means.. What that means is that equity in OpenAI can be better seen as a bond rather than equity in a normal company.. The main feature of a bond is that once it's paid out, it's gone.. So in other words, OpenAI has a finite obligation to its investors as opposed to an infinite obligation that normal companies have.. - And does that include the founders? 00:02:55,770 Do the founders have equity in OpenAI? - So Sam Altman does not have equity, 00:03:01,170 but the other founders do..

- And is it capped or is it unlimited? 00:03:04,650 - It is capped.. 00:03:05,580 - And how does that cap? 00:03:06,560 Is that capped.... The founders, I presume, didn't buy in unless it's capped at the nominal share value.. - I'm not sure I understand the question precisely, 00:03:20,493 but what I can say, I can answer the part which I do understand, which is like, there is certainly, like it is there, it is different from normal startup equity, but there are some similarities as well where

the earlier you join the company, the higher the cap is because then the larger cap is needed to attract the initial investors.. As the company continues to succeed, the cap decreases and why is that important? It's important because it means that the company, when once all the obligation to investors and employees are paid out, OpenAI becomes a nonprofit again, and you can say, "This is totally crazy.. What are you talking about?" Like it's not gonna change anything, but it's worth considering what we expect, like, it's worth looking at what we think AI will be.. I mean, we can look at what AI is today and I think it is not at all inconceivable for OpenAI to achieve it, to pay out its obligation to the investors and the employees, become a nonprofit at around the time when perhaps the computers will become so capable, where the economic disruption will be very big, where this transition will be very beneficial...