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UNITED STATES DISTRICT COURT  
WESTERN DISTRICT OF WASHINGTON  
AT SEATTLE

ERIC ANDERSON, derivatively on behalf of  
Microsoft Corporation,

Plaintiff,

vs.

SATYA NADELLA, AMY E. HOOD,  
JARED SPATARO, RAJESH JHA, REID  
HOFFMAN, HUGH JOHNSTON, TERI LIST,  
CATHERINE MACGREGOR, MARK  
MASON, SANDRA E. PETERSON, PENNY  
PRITZGER, CHARLES W. SCHARF, JOHN  
W. STANTON, and EMMA WALMSLEY,

Defendants,

- and -

MICROSOFT CORPORATION,

Nominal Defendant.

Case No.

SHAREHOLDER DERIVATIVE  
COMPLAINT FOR BREACH OF  
FIDUCIARY DUTY AND VIOLATION OF  
SECTION 14(A) OF THE SECURITIES  
EXCHANGE ACT OF 1934

DEMAND FOR JURY TRIAL

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1 Plaintiff Eric Anderson (“Plaintiff”), derivatively on behalf of Microsoft Corporation  
2 (“Microsoft” or the “Company”) alleges the following based on personal knowledge as to  
3 Plaintiff and Plaintiff’s acts and as to all other matters on information and belief based on the  
4 investigation of Plaintiff’s counsel, which included, among other things, a review of legal and  
5 regulatory filings, press releases, a review of U.S. Securities and Exchange Commission (“SEC”)  
6 filings of Microsoft Corporation, Microsoft’s online documents, media reports about Microsoft  
7 and other public statements issued by the Company. Plaintiff believes that substantial additional  
8 evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for  
9 discovery.

#### 10 I. NATURE OF THE ACTION

11 1. Plaintiff brings this shareholder derivative action on behalf of Microsoft to remedy  
12 wrongdoing committed by certain of the Company’s officers and directors. Throughout the  
13 relevant time period (January 1, 2022, to the present), Defendants caused Microsoft to make false  
14 and misleading statements about its artificial intelligence (“AI”) strategy, the Company’s Copilot  
15 family of products, and financial results. During the same time, Microsoft’s officers and directors  
16 caused the Company to violate copyright and intellectual property laws by training its AI software  
17 on copyrighted works for which it did not possess lawful licenses.

18 2. Microsoft told its shareholders and the market that it did not violate federal  
19 copyright laws with respect to development and training of its AI software, AI generative models,  
20 and products, stating: “Generative AI Models — Microsoft uses a variety of data sources,  
21 including publicly available information, *in a manner consistent with global copyright laws.*” It  
22 similarly stated that “*we do not train on data from domains listed in the Office of the United*  
23 *States Trade Representative Notorious Markets for Counterfeiting and Piracy list*” and “*We*  
24 *train on data that we gain access to (such as archives and metadata) through negotiated*  
25 *arrangements with publishers and copyright owners.*”

26 3. Beginning in September 2023, however, Microsoft was sued for copyright  
27 infringement by numerous authors and copyright holders. The first of such cases was *Authors*  
28

1 *Guild v. OpenAI & Microsoft Corp.*, No. 1:23-cv-08292 (S.D.N.Y.). This was the first major class  
2 action against Microsoft by book authors. It was originally filed in September 2023 against  
3 OpenAI, and an amended complaint filed in December 2023 added Microsoft as a defendant.  
4 Notable plaintiffs include John Grisham, George R. R. Martin, Jodi Picoult, Jonathan Franzen,  
5 David Baldacci, the Authors Guild, and numerous other bestselling novelists. The complaint  
6 alleges that: (1) Microsoft and OpenAI copied hundreds of thousands of copyrighted books  
7 without permission to train GPT models; (2) Microsoft knowingly participated by investing  
8 billions of dollars in OpenAI, providing Azure supercomputing infrastructure, integrating GPT  
9 into Bing Chat and Copilot, and sharing in the commercial exploitation of the models; and (3) The  
10 models can generate summaries and passages derived from copyrighted books, diminishing the  
11 market for licensed works. The complaint seeks certification of a nationwide class and asserts  
12 claims for copyright infringement and other causes of action.

13 4. In January 2024, *Basbanes v. Microsoft Corp. & OpenAI* was filed — No. 1:24-cv-  
14 00084 (S.D.N.Y.). Unlike the *Authors Guild* case, this complaint focuses more heavily on  
15 investigative nonfiction books. The plaintiffs allege that Microsoft: (1) copied plaintiffs' books  
16 during AI training; (2) the copying occurred without licenses; (3) Microsoft was an active  
17 participant rather than merely an investor; and (4) Microsoft's products commercially exploit the  
18 allegedly infringing models. The complaint seeks statutory damages, actual damages,  
19 disgorgement of profits, and injunctive relief preventing further use of copyrighted books.

20 5. On June 24, 2025, another major lawsuit was filed in New York against Microsoft  
21 by numerous authors alleging that Microsoft: (1) copied nearly 200,000 pirated books (primarily  
22 from the Books3 dataset); (2) used those books to train its Megatron AI models; (3) infringed  
23 their copyrights by reproducing and using the works without permission; and (4) seeking statutory  
24 damages and an injunction. The plaintiffs include well-known authors such as Kai Bird, Jia  
25 Tolentino, Daniel Okrent, and several others.

26 6. Then, in June 2026, a coalition of nearly 400 U.S. print and digital newspaper  
27 publishers filed a federal civil complaint in the Southern District of New York against Microsoft  
28

1 for allegedly scraping their copyrighted content without permission or compensation to train large  
2 language models like Microsoft Copilot — *Richner Communications, Inc. v. Microsoft Corp.*, No.  
3 26-cv-5320 (S.D.N.Y.).

4 7. The publishers claim that Microsoft: (1) Systematically and secretly crawled  
5 publisher websites, including content behind paywalls; (2) Copied articles, stories, and other  
6 original works onto their own servers; (3) Stripped copyright management information (author  
7 credits, publication names, copyright notices) before using the content; and (4) Used the material  
8 to train AI models, which allegedly reproduced it verbatim or near-verbatim in responses to user  
9 prompts.

10 8. These complaints allege that Microsoft was far from a passive investor, having (a)  
11 invested more than \$10 billion in OpenAI; (b) supplied the Azure infrastructure used for model  
12 training; (c) helped develop and deploy GPT-based systems, markets and profits from products  
13 such as Microsoft Copilot; and (d) knew copyrighted books were being used for training.  
14 Accordingly, the complaints generally assert not only secondary liability, but also direct liability  
15 based on Microsoft's direct participation in the development and commercialization of the AI  
16 systems.

17 9. During the same time, Microsoft's officers and directors caused the Company to  
18 issue false and misleading statements touting the success of the Company's AI strategy, including  
19 its Copilot family of products, while concealing material problems, including the fact that  
20 Microsoft had violated federal copyright laws in the formulation of its AI strategy and its  
21 partnership with AI companies like OpenAI; that the Company's Copilot software had  
22 experienced major undisclosed problems with brand positioning, user experience, usage, data  
23 siloing, computational capacity, organizational, and interoperability; and that Microsoft's  
24 proprietary AI model was performing well below competitors on several industry tests.

25 10. This misconduct has caused substantial damage to Microsoft and its shareholders.  
26 Moreover, the wrongdoing was directly committed or approved by the most senior executive  
27 officers and directors of Microsoft. The Board of Directors receives regular reports and approves  
28

1 the key decisions regarding Microsoft’s AI strategy.

2 11. This shareholder derivative action seeks to hold the Company’s officers and  
3 directors responsible for breaching their fiduciary duties, causing the Company to engage in  
4 widespread violation of copyright laws, and approving false and misleading statements, all of  
5 which have caused substantial damages to the Company.

6 **II. JURISDICTION AND VENUE**

7 12. This Court has subject-matter jurisdiction over this action pursuant to 28 U.S.C.  
8 § 1331 as Plaintiff’s claims raise a federal question under Section 14(a) of the Exchange Act, 15  
9 U.S.C. § 78n(a)(1) and Rule 14a-9 of the Exchange Act, 17 C.F.R. § 240.14a-9. This Court has  
10 supplemental jurisdiction over the state law claims asserted herein pursuant to 28 U.S.C.  
11 § 1367(a). This action is not a collusive one to confer jurisdiction on a court of the United States  
12 which it would not otherwise have.

13 13. Venue is proper in this District pursuant to 28 U.S.C. § 1391(b) because certain of  
14 the events or omissions giving rise to the claim occurred in this District, including the  
15 dissemination of the statements alleged to be materially false and misleading into this District.  
16 Microsoft’s corporate headquarters are also located in this District.

17 14. This Court has personal jurisdiction over each defendant named herein because  
18 each defendant is either a corporation that conducts business in and maintains operations in this  
19 District or is an individual who has sufficient minimum contacts with this District to render the  
20 exercise of jurisdiction by the courts of this District permissible under traditional notions of fair  
21 play and substantial justice.

22 15. In connection with the acts alleged in this complaint, defendants, directly or  
23 indirectly, used the means and instrumentalities of interstate commerce, including, but not limited  
24 to, the mails, interstate telephone communications, and the facilities of the national securities  
25 markets.

26 ///

27 ///

**III. PARTIES**

1 16. Plaintiff Eric Anderson is a current shareholder of Microsoft Corporation and has  
2 continuously owned shares of Microsoft Corporation at all relevant times.

3 17. Defendant Microsoft is a multinational technology conglomerate headquartered in  
4 Redmond, Washington. Microsoft common stock trades on the Nasdaq under the ticker symbol  
5 “MSFT.”

6 18. Defendant Satya Nadella (“Nadella”) served as Microsoft’s Chief Executive  
7 Officer (“CEO”) and Chairman of its Board of Directors during the relevant time period.

8 19. Defendant Amy E. Hood (“Hood”) served as Microsoft’s Chief Financial Officer  
9 (“CFO”) and Executive Vice President during the relevant time period.

10 20. Defendant Jared Spataro (“Spataro”) served as Microsoft’s Chief Marketing  
11 Officer, AI at Work (“AI CMO”) during the relevant time period.

12 21. Defendant Rajesh Jha (“Jha”) served as Microsoft’s Executive Vice President,  
13 Experiences and Devices (“EVP E&D”) during the relevant time period. In March 2026,  
14 Microsoft announced that defendant Jha would be retiring after more than 35 years of working  
15 with the Company.

16 22. Defendants Nadella, Hood, Spataro, and Jha are sometimes collectively referred to  
17 herein as the “Executive Officer Defendants.”

18 23. Defendant Reid Hoffman (“Hoffman”) has served as a Microsoft director at all  
19 relevant times.

20 24. Defendant Hugh Johnston (“Johnston”) has served as a Microsoft director at all  
21 relevant times.

22 25. Defendant Teri List (“List”) has served as a Microsoft director at all relevant  
23 times.

24 26. Defendant Catherine MacGregor (“MacGregor”) has served as a Microsoft director  
25 at all relevant times.

26 27. Defendant Mark Mason (“Mason”) has served as a Microsoft director at all  
27

1 relevant times.

2 28. Defendant Sandra E. Peterson (“Peterson”) has served as a Microsoft director at all  
3 relevant times.

4 29. Defendant Penny Pritzker (“Pritzker”) has served as a Microsoft director at all  
5 relevant times.

6 30. Defendant Charles W. Scharf (“Scharf”) has served as a Microsoft director at all  
7 relevant times.

8 31. Defendant John W. Stanton (“Stanton”) has served as a Microsoft director at all  
9 relevant times.

10 32. Defendant Emma Walmsley (“Walmsley”) has served as a Microsoft director at all  
11 relevant times.

12 33. Defendants Nadella, Hoffman, Johnston, List, MacGregor, Mason, Peterson,  
13 Pritzger, Scharf, Stanton, and Walmsley are sometimes referred to herein as the “Director  
14 Defendants.”

15 34. The Executive Officer Defendants and the Director Defendants are sometimes  
16 referred to herein as the Individual Defendants. Each of the Individual Defendants was directly  
17 involved in the management and day-to-day operations of the Company at the highest levels and  
18 was privy to confidential proprietary information concerning the Company and its business,  
19 operations, services, partners, and present and future business prospects, as alleged herein. In  
20 addition, the Individual Defendants were involved in drafting, producing, reviewing, and/or  
21 disseminating the false and misleading statements and information alleged herein, were aware of,  
22 or recklessly disregarded, the false and misleading statements being issued regarding the  
23 Company, and approved or ratified these statements, in violation of the federal securities laws.

24 35. As officers and controlling persons of a publicly held company whose securities  
25 are registered with the SEC pursuant to the 1934 Act and trade on the Nasdaq, which is governed  
26 by the provisions of the federal securities laws, the Individual Defendants each had a duty to  
27 promptly disseminate accurate and truthful information with respect to the Company’s operations,  
28

1 business, services, partners, and present and future business prospects. In addition, the Individual  
2 Defendants each had a duty to correct any previously issued statements that had become  
3 materially misleading or untrue, so that the market price of Microsoft common stock would be  
4 based upon truthful and accurate information. Defendants' false and misleading  
5 misrepresentations and omissions during the relevant time period violated these specific  
6 requirements and obligations.

7 36. The Individual Defendants, because of their positions of control and authority as  
8 officers and/or directors of the Company, were able to, and did, control the content of the various  
9 SEC filings, press releases, and other public statements pertaining to the Company during the  
10 relevant time period. Each Individual Defendant was provided with copies of the documents  
11 alleged herein to be misleading before or shortly after their issuance, participated in conference  
12 calls with investors during which false and misleading statements were made, and/or had the  
13 ability and/or opportunity to prevent their issuance or cause them to be corrected. Accordingly,  
14 each Individual Defendant is responsible for the accuracy of the public statements detailed herein  
15 and is, therefore, primarily liable for the representations contained therein.

#### 16 IV. FACTUAL ALLEGATIONS

17 37. Microsoft is one of the few companies in the world with a market capitalization  
18 exceeding 1 trillion dollars. It sells the ubiquitous Windows operating system software that most  
19 of the world's computers run on. It was started by Bill Gates and Paul Allen on April 4, 1975.

20 38. To continue its growth, Microsoft has embraced artificial intelligence ("AI"). By  
21 embedding AI across its cloud infrastructure and productivity tools, Microsoft has sought to  
22 secure long-term platform lock-in. Microsoft's Intelligent Cloud division (housing Azure) is the  
23 Company's largest and fastest-growing segment. Azure AI services are a primary growth engine,  
24 driving significant double-digit revenue jumps as the company builds out its massive global data  
25 center footprint. During fiscal year 2025, Azure revenues increased 34% to more than \$75 billion,  
26 driving a 14% increase in gross margin for the Intelligent Cloud segment. Throughout the relevant  
27 time period, defendants represented that Microsoft's revenue growth would continue to be driven

1 by Azure.

2 39. Azure's recent growth has been achieved in large part by Microsoft's integration  
3 of AI capabilities throughout the platform's products and services. Instead of just providing raw  
4 models, Microsoft has embedded Microsoft 365 Copilot deeply into its suite of enterprise tools  
5 (Teams, Office, GitHub), reaching over 100 million monthly active users. Microsoft has  
6 positioned itself as a leader in generative AI and has repeatedly emphasized the importance of AI  
7 to the Company's strategy, competitive position, and future growth. To advance that strategy,  
8 Microsoft has invested billions of dollars in companies developing large language models  
9 ("LLMs")—AI systems trained on massive datasets to perform natural language tasks, including  
10 generating human-like text and other content.

11 40. To further its aggressive push into AI-enabled software, Microsoft has invested  
12 over \$13 billion since 2019 in OpenAI, the developer of ChatGPT, which is a large language  
13 model (LLM). Microsoft has also recently committed to investing billions more in Anthropic, the  
14 developer of rival LLM Claude. These deals have been criticized for their apparent circularity, as  
15 the LLM providers and Microsoft have committed to using each other's products and services,  
16 and for creating potential concentration risk given their size.

17 41. After investing billions in OpenAI, Microsoft began actively collaborating with  
18 OpenAI in the development of AI systems. Those collaborations involved training AI systems on  
19 copyrighted materials for which OpenAI and Microsoft did not have the necessary legal rights or  
20 licenses.

21 42. In 2023, Microsoft also introduced its own proprietary generative AI chatbot,  
22 Copilot. Originally built on ChatGPT, more recently Microsoft has integrated technology from  
23 Claude to power Copilot and begun working on its own internal LLMs. Microsoft has launched  
24 numerous versions of Copilot across many of its consumer and enterprise applications, each with  
25 different features and use cases. Microsoft offers Copilot as a "freemium" model, allowing users  
26 to use basic features free of charge but then charging consumers and businesses for more  
27 premium features and capabilities, which the Company calls paid "seats."

1 43. Beginning in September 2023, Microsoft's unlawful misappropriation of  
2 copyrighted materials resulted in it being sued for copyright infringement by numerous authors  
3 and copyright holders. The first such case was *Authors Guild v. OpenAI & Microsoft Corp.*, No.  
4 1:23-cv-08292 (S.D.N.Y.). This was the first major class action against Microsoft by book  
5 authors. It was originally filed in September 2023 against OpenAI, and an amended complaint  
6 filed in December 2023 added Microsoft as a defendant. Notable plaintiffs include John Grisham,  
7 George R. R. Martin, Jodi Picoult, Jonathan Franzen, David Baldacci, the Authors Guild, and  
8 numerous other bestselling novelists. The complaint alleges that: (1) Microsoft and OpenAI  
9 copied hundreds of thousands of copyrighted books without permission to train GPT models; (2)  
10 Microsoft knowingly participated by investing billions of dollars in OpenAI, providing Azure  
11 supercomputing infrastructure, integrating GPT into Bing Chat and Copilot, and sharing in the  
12 commercial exploitation of the models; and (3) The models can generate summaries and passages  
13 derived from copyrighted books, diminishing the market for licensed works. The complaint seeks  
14 certification of a nationwide class and asserts claims for copyright infringement and other causes  
15 of action.

16 44. In January 2024, *Basbanes v. Microsoft Corp. & OpenAI*, No. 1:24-cv-00084, was  
17 filed in the United States District Court for the Southern District of New York. Unlike the *Authors*  
18 *Guild* case, this lawsuit focuses more heavily on investigative nonfiction books. The plaintiffs  
19 allege that Microsoft: (1) copied plaintiffs' books during AI training; (2) the copying occurred  
20 without licenses; (3) Microsoft was an active participant rather than merely an investor; and (4)  
21 Microsoft's products commercially exploit the allegedly infringing models. The complaint seeks  
22 statutory damages, actual damages, disgorgement of profits, and injunctive relief preventing  
23 further use of copyrighted books.

24 45. On June 24, 2025, another major lawsuit was filed in New York against Microsoft  
25 by numerous authors alleging that Microsoft: (1) copied nearly 200,000 pirated books (primarily  
26 from the Books3 dataset); (2) used those books to train its Megatron AI models; (3) infringed  
27 their copyrights by reproducing and using the works without permission; and (4) seeking statutory  
28

1 damages and an injunction. The plaintiffs include well-known authors such as Kai Bird, Jia  
2 Tolentino, Daniel Okrent, and several others.

3 46. Then, in June 2026, a coalition of nearly 400 U.S. print and digital newspaper  
4 publishers filed a federal civil complaint in the Southern District of New York against Microsoft  
5 for allegedly scraping their copyrighted content without permission or compensation to train large  
6 language models like Microsoft Copilot – *Richner Communications, Inc. v. Microsoft Corp.*, No.  
7 26-cv-5320 (S.D.N.Y.).

8 47. The publishers claim that Microsoft: (1) Systematically and secretly crawled  
9 publisher websites, including content behind paywalls; (2) Copied articles, stories, and other  
10 original works onto their own servers; (3) Stripped copyright management information (author  
11 credits, publication names, copyright notices) before using the content; and (4) Used the material  
12 to train AI models, which allegedly reproduced it verbatim or near-verbatim in responses to user  
13 prompts.

14 48. A common feature across these complaints is that plaintiffs attempt to distinguish  
15 Microsoft from a passive investor. They allege that Microsoft invested more than \$10 billion in  
16 OpenAI, supplied the Azure infrastructure used for model training, helped develop and deploy  
17 GPT-based systems, markets and profits from products such as Microsoft Copilot, and knew  
18 copyrighted books were being used for training. Accordingly, the complaints generally assert not  
19 only secondary liability, but also direct liability based on Microsoft’s own participation in the  
20 development and commercialization of the AI systems.

21 49. As a result of these lawsuits, the Individual Defendants were well aware of  
22 Microsoft’s alleged large-scale violation of copyrighted materials.

23 50. The Company’s Directors also failed to act on numerous red flags related to  
24 Microsoft’s copyright and IP infringement. For example, on June 23, 2025, Judge William Alsup  
25 issued a widely anticipated order in *Bartz v. Anthropic*, No. 3:24-cv-05417-WHA (N.D. Cal.) in  
26 which he held that there was a major difference between training AI systems based on legally  
27 acquired books and data and training such systems on pirated books and data. Judge Alsup’s  
28

1 decision was the first federal court decision squarely addressing whether using copyrighted works  
2 to train a generative AI model can qualify as fair use. Judge Alsup reached two key conclusions:

3 (a) Training on lawfully acquired books was “exceedingly transformative” and could  
4 constitute fair use under 17 U.S.C. § 107.

5 (b) Downloading and maintaining millions of pirated books in Anthropic’s central  
6 library was not protected by fair use, and the infringement claims based on those  
7 copies would proceed to trial.

8 51. Even after such order, however, Microsoft’s directors failed to cause Microsoft to  
9 comply with the law and permitted the unlawful training to continue.

10 52. The Director Defendants were not passive participants but instead had direct  
11 oversight responsibility for Microsoft’s massive, multi-billion-dollar investments in OpenAI and  
12 Anthropic. As noted *supra*, Microsoft has been a co-developer, co-designer, and commercial  
13 partner that participated in the creation, training, deployment, and monetization of the infringing  
14 AI systems. Pursuant to those investments, Microsoft invested \$13 billion in OpenAI, in exchange  
15 for which Microsoft is entitled to recover its investment through a large share of OpenAI Global’s  
16 profits. Further, after repayment, Microsoft will retain a substantial continuing equity interest in  
17 OpenAI. As a result of these massive investments, which are highly material to Microsoft, the  
18 Director Defendants have had direct oversight of the investment.

19 53. Under the Director Defendants’ supervision and pursuant to their direct approval,  
20 Microsoft designed and built a bespoke Azure supercomputing environment specifically for  
21 OpenAI. It then (1) engineered that infrastructure in collaboration with OpenAI; (2) optimized it  
22 for training large language models on internet-scale datasets; and (3) continues to operate that  
23 infrastructure during both training and inference. Under the Director Defendants’ direct oversight,  
24 Microsoft knowingly designed and operated the infrastructure used to ingest and process  
25 copyrighted material at scale.

26 54. Microsoft’s cloud infrastructure was specifically designed to use “essentially the  
27 whole internet” and was developed “in collaboration with and exclusively for OpenAI” to train its  
28

1 AI models. As a result, the Director Defendants knew or recklessly disregarded the fact that  
2 pirated books and data were being used to train the AI systems and software.

3 55. Under the Individual Defendants' direction, Microsoft greatly expanded its  
4 collaboration with OpenAI. On October 28, 2025, Microsoft and OpenAI announced the "next  
5 phase" of their historic partnership. Among other changes, OpenAI restructured as a for-profit  
6 public benefit corporation, of which Microsoft retained a 27% stake on an as-converted diluted  
7 basis (which Microsoft valued at \$135 billion), while OpenAI agreed to purchase \$250 billion  
8 worth of incremental Azure services. In April 2026, the parties announced the agreement had  
9 been revised again to purportedly add greater clarity and flexibility, among other revisions.

10 56. Similarly, on November 18, 2025, Microsoft and Anthropic (together with chip  
11 manufacturer NVIDIA Corporation) announced a strategic partnership whereby Microsoft will  
12 invest up to \$5 billion in Anthropic and power its in-house AI products in services in part with  
13 Claude, while Anthropic committed to purchasing \$30 billion of Azure compute capacity and up  
14 to one gigawatt of additional capacity from Microsoft.

15 57. The Individual Defendants highlighted the purported success of Copilot and  
16 Microsoft's foray into AI development, claiming that Copilot offered best-in-class capabilities  
17 and enjoyed widespread and growing user adoption. Defendants also downplayed concerns about  
18 the Company's AI investments and business dealings with LLM providers and other companies,  
19 claiming that Microsoft was well positioned to achieve suitable returns on its AI-related  
20 investments and emerge a key benefactor from AI technological advancements. As a result of  
21 these and similar statements, the price of Microsoft stock reached an intraday all-time high of  
22 over \$551.05 per share on July 31, 2025.

23 **V. THE INDIVIDUAL DEFENDANTS CAUSED MICROSOFT TO MAKE**  
24 **MATERIALLY FALSE AND MISLEADING STATEMENTS AND OMISSIONS**  
25 **ISSUED DURING THE RELEVANT TIME PERIOD**

26 58. On October 24, 2024, Microsoft filed its 2024 Proxy Statement, which was filed  
27 with the SEC and distributed to Microsoft shareholders in advance of the Company's 2025  
28 Annual Meeting of shareholders, which was held December 10, 2024. The Proxy Statement was

1 reviewed and approved by each of the Individual Defendants.

2 59. The 2024 Proxy stated:

3 **AI Strategy, Governance, and Regulation**

4 *The Board maintains direct oversight over AI strategy risk.* Our Environmental,  
5 Social, and Public Policy Committee assists the Board in overseeing Microsoft’s  
6 AI governance and regulation risk and provides oversight and guidance on  
7 Microsoft’s responsible AI policies and programs. *The Committee receives and  
8 provides feedback on regular updates from management regarding Microsoft’s  
9 ability to design, build, and use AI in a way that meets regulatory expectations.*<sup>1</sup>

10 60. The 2024 Proxy Statement included several shareholder proposals (Proposals 7, 8,  
11 and 9) that expressed concerns regarding the risks of generative AI, including reports on clean  
12 energy use for AI, liability risks, and AI data sourcing accountability. Shareholder Proposal No. 9  
13 specifically raised the following concern: “Microsoft employs generative AI models developed by  
14 OpenAI, which allegedly stole large amounts of personal information by scraping the web,  
15 including private information and private conversations, medical data, information about children  
16 — essentially every piece of data exchanged on the internet it could take — without notice to the  
17 owners or users of such data, much less with anyone’s permission.”<sup>2</sup> The proposal also noted that  
18 “Microsoft and OpenAI have been sued by the New York Times, among others, which alleged  
19 copyright infringement.”<sup>3</sup> The proposal also stated that “Prioritizing data ethics in Microsoft’s AI  
20 development may help avoid harmful fiduciary and regulatory consequences. Americans surveyed  
21 by Pew Research Center have expressed that data privacy and usage are among their main  
22 concerns with Big Tech’s AI initiatives.”

23 61. The Director Defendants, however, recommended voting AGAINST these  
24 proposals, stating that the Company’s current “Responsible AI” frameworks and existing  
25 transparency reports made them unnecessary. The Proxy Statement further unequivocally

26 <sup>1</sup> See 2024 Proxy at p. 11.

27 <sup>2</sup> See 2024 Proxy at p. 87.

28 <sup>3</sup> *Id.*

1 represented that Microsoft operated its AI programs in “*a manner consistent with global*  
2 *copyright laws*” and that “*We train on data that we gain access to (such as archives and*  
3 *metadata) through negotiated arrangements with publishers and copyright owners.*”<sup>4</sup> It also  
4 stated that “We sometimes train on synthetic datasets. These we create by prompting large  
5 language models to generate specific requested output before reviewing and filtering the results to  
6 ensure they are of sufficient quality to be part of the training dataset.”<sup>5</sup>

7 62. In urging shareholders to oppose Proposal No. 9 at the 2024 Annual Meeting, the  
8 Director Defendants also approved representations in the proxy which stated that Microsoft  
9 respects standards like robots.txt and tags such as NO ARCHIVE. The 2024 Proxy further stated  
10 Microsoft has shared controls for website owners to opt-out of having their content used for AI  
11 training. The 2024 Proxy also stated that Microsoft will comply with the EU AI Act (specifically  
12 Article 53), which will require publishing detailed summaries of training content starting in  
13 August 2025.<sup>6</sup>

14 63. After market hours on April 30, 2025, Microsoft issued a release providing the  
15 Company’s financial results for its fiscal third quarter ended March 31, 2025 (“Q3 2025”). The  
16 release stated that during the quarter, Microsoft generated \$26.8 billion in Intelligent Cloud  
17 revenue, a 21% increase, “driven by Azure and other cloud services revenue growth of 33%.” The  
18 release quoted CEO Nadella as stating: ““Cloud and AI are the essential inputs for every business  
19 to expand output, reduce costs, and accelerate growth . . . From AI infra and platforms to apps, we  
20 are innovating across the stack to deliver for our customers.””

21 64. Also on April 30, 2025, Microsoft filed with the SEC a Q3 2025 quarterly report  
22 on Form 10-Q, which was signed by CEO Nadella and CFO Hood who attested to the report’s  
23

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24 <sup>4</sup> See 2024 Proxy at p. 88.

25 <sup>5</sup> *Id.*

26 <sup>6</sup> *Id.* at p. 89.

1 accuracy and material completeness. The Form 10-Q contained the same financial information  
2 regarding Microsoft's Azure and Intelligent Cloud offerings contained in the Q3 2025 release.  
3 The Form 10-Q further stated: "Azure and other cloud services revenue grew 33% driven by  
4 demand for our portfolio of services, including 16 points from our AI services."

5 65. That same day, Microsoft hosted an earnings conference call with analysts and  
6 investors to discuss the Company's Q3 2025 results hosted by CEO Nadella and CFO Hood. In  
7 his prepared remarks, CEO Nadella represented that Microsoft "continue[s] to win new customers  
8 with best-in-class AI capabilities." In particular, CEO Nadella highlighted purported  
9 advancements in Copilot and its growing adoption by consumers and businesses alike, stating:

10 ***Microsoft 365 Copilot is built to facilitate human agent collaboration, hundreds of thousands of customers across geographies and industries now use Copilot, up 3 times year-over-year. Our overall deal size continues to grow. In this quarter, we saw a record number of customers returning to buy more seats.***  
11 And we're going further. Just last week, we announced a major update, bringing  
12 together agents, notebooks, search and create into a new scaffolding for work.  
13

14 Our new researcher and analyst deep reasoning agents analyze vast  
15 amounts of web and enterprise data to deliver highly skilled expertise on demand  
16 directly within Copilot. Beyond horizontal knowledge work, we are introducing  
17 agents for every role and business process.

18 Our sales agent turns contacts into qualified leads and with sales chat reps  
19 can quickly get up to speed on new accounts. [A]nd our customer service agent is  
20 deflecting customer inquiries and helping service reps resolve issues faster. With  
21 Copilot Studio, customers can extend Copilot and build their own agents with no  
22 code, low code.

23 More than 230,000 organizations, including 90% of the Fortune 500 have  
24 already used Copilot Studio. With deep reasoning and agent flows in Copilot  
25 Studio, customers can build agents that perform more complex staff and also  
26 handle deterministic scenarios like document processing and financial approvals.

27 And they can now build computer use agents that take action on the UI  
28 across desktop and web apps. And with just a click, they can turn any SharePoint  
29 site into an agent, too. This quarter alone, customers created over 1 million custom  
30 agents across SharePoint and Copilot Studio, up 130% quarter-over-quarter.

31 66. In her prepared remarks, CFO Hood similarly claimed: "We continue to see strong  
32 demand for our cloud and AI offerings as they help customers drive productivity, increase  
33 efficiencies and grow their businesses." She highlighted the purported success of Copilot, stating:  
34 "ARPU growth was again driven by E5 and M365 Copilot." CFO Hood continued:

1 ***With M365 Copilot, we continue to see growth across customer segments***  
2 ***and geos. Paid M365 Commercial seats grew 7% year-over-year to over \$430***  
3 ***million. While we continue to see installed base expansion across all customer***  
4 ***segments, growth was primarily driven by our small and medium business and***  
5 ***frontline worker offerings.***

6 67. On July 30, 2025, Microsoft issued a release providing the Company's financial  
7 results for its fiscal fourth quarter and year ended June 30, 2025 ("FY25"). The release stated that  
8 during the fourth quarter, Microsoft generated \$29.9 billion in Intelligent Cloud revenue, a 26%  
9 increase, "driven by Azure and other cloud services revenue growth of 39%." The release quoted  
10 CEO Nadella as stating: "Cloud and AI is the driving force of business transformation across  
11 every industry and sector . . . We're innovating across the tech stack to help customers adapt and  
12 grow in this new era, and this year, Azure surpassed \$75 billion in revenue, up 34 percent, driven  
13 by growth across all workloads."

14 68. Also on July 30, 2025, Microsoft filed with the SEC a FY25 annual report on  
15 Form 10-K, which was signed by CEO Nadella and CFO Hood who attested to the report's  
16 accuracy and material completeness. The Form 10-K contained the same financial information  
17 regarding Microsoft's Azure and Intelligent Cloud offerings contained in the FY25 release. The  
18 Form 10-K further stated: "Azure and other cloud services revenue grew 34% driven by demand  
19 for our portfolio of services."

20 69. That same day, Microsoft hosted an earnings conference call with analysts and  
21 investors to discuss the Company's FY25 results hosted by CEO Nadella and CFO Hood. In his  
22 prepared remarks, CEO Nadella claimed Microsoft was experiencing "record" enthusiasm for its  
23 Copilot products, stating:

24 Talking about the app layer, these applications are becoming embedded in  
25 our daily work and life. Our family of Copilot apps has surpassed 100 million  
26 monthly active users across commercial and consumer. And when you take a  
27 broader look at the engagement of AI features across our products, we have over  
28 800 million monthly active users.

Microsoft 365 Copilot is becoming the new way to organize work and  
workflow and work artifacts. We rolled out our biggest update to Microsoft 365  
Copilot to date this quarter, bringing together chat, search, create, notebooks as  
well as agents into one intuitive scaffolding. ***With this innovation and continued  
product improvements, we are seeing real momentum. Customers continue to  
adopt Copilot at a faster rate than any other new Microsoft 365 suite, with strong***

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*usage intensity as shown by our week-over-week retention. And we saw the largest quarter of seat ads since launch with a record number of customers returning to buy more seats.*

70. On September 10, 2025, Microsoft’s AI CMO Spataro presented at the Goldman Sachs Communacopia & Technology Conference. AI CMO Spataro spoke extensively about the purported benefits of Copilot and its widespread adoption by Microsoft customers, claiming “we feel great about what we can do” through Copilot to “improve efficiency by 20% to 30%.” He gave several examples of purported real-world efficiency gains, characterizing them as “just real nuts and bolts.” AI CMO Spataro continued: “It may not be the most exciting thing to talk about, but at Microsoft, we’re saving a lot of money, and we see our customers doing it as well.”

71. When asked by the interviewer how Copilot was doing in the market, AI CMO Spataro represented “that 70% of the Fortune 500 are using Copilot in a pretty extensive way, and those are lands, and we’re expanding from there.” He further claimed: “This past quarter, when we reported, it was our best quarter ever both in terms of seat adds for Copilot and the number of customers.” Similarly, when asked how “Copilot usage tracked relative to your expectations,” AI CMO Spataro responded that Copilot “still is our fastest-growing M365 portfolio product that we’ve ever had. And that’s saying something because M3 and ME 5, like those are big important products that continue to really grow.”

72. On October 21, 2025, Microsoft filed its 2025 Proxy Statement, which was filed with the SEC and distributed to Microsoft shareholders in advance of the Company’s 2025 Annual Meeting of shareholders, which was held December 5, 2025. The Proxy Statement was reviewed and approved by each of the Individual Defendants.

73. The 2025 Proxy again emphasized the Board’s direct oversight responsibility for Microsoft’s AI strategy, stating:

<p><b>AI Strategy, Governance, and Regulation</b></p>	<p><i>The Board maintains direct oversight over AI strategy risk. Our Environmental, Social, and Public Policy Committee assists the Board in overseeing Microsoft’s AI governance and regulation risk and provides oversight and guidance on Microsoft’s responsible AI policies</i></p>
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*and programs.* The Committee receives and provides feedback on regular updates from management regarding Microsoft’s ability to design, build, use, and access AI in a way that is responsible and meets customer expectations and regulatory requirements.

74. The 2025 Proxy Statement heavily touted Microsoft’s “leadership in artificial intelligence” and stated that Satya Nadella and his team had positioned the company as a “clear artificial intelligence leader,” representing that:

Our exceptional fiscal year 2025 results demonstrate that Satya Nadella and his leadership team have positioned Microsoft as a clear artificial intelligence leader for this generational technology shift, enabling Microsoft to drive long-term growth through innovation, security, and quality.

75. Microsoft’s 2025 Proxy Statement represented to shareholders that Microsoft did not violate any federal copyright laws with respect to development and training of its AI software, AI generative models, and products, stating:

- “Generative AI Models — Microsoft uses a variety of data sources, including *publicly available information*, in a manner consistent with global copyright laws.”
- “*We do not train on data from domains listed in the Office of the United States Trade Representative Notorious Markets for Counterfeiting and Piracy list.*”
- “*We train on data that we gain access to (such as archives and metadata) through negotiated arrangements with publishers and copyright owners.*”<sup>7</sup>

76. The 2025 Proxy highlighted that the “family of Copilot apps” had surpassed 100 million monthly active users and that more than 230,000 organizations are using Copilot Studio. The Proxy highlighted the following AI successes realized by Microsoft in bullet format:

- Furthered adoption of our family of Copilot apps, with Copilot apps surpassing

<sup>7</sup> 2025 Proxy at p. 82.

1 100 million monthly active users.

- 2 • Launched Azure AI Foundry, helping customers design, customize, and manage  
3 AI applications and agents at scale, supporting more than 70,000 customers,  
4 including 80% of the Fortune 500.

5 77. The 2025 Proxy also touted the alleged success of Copilot, stating:

6 **Copilot Studio.** Launched in fiscal year 2024, Copilot Studio empowers customers  
7 to become creators of AI solutions, equipping them with the capabilities to build,  
8 customize, and scale intelligent agents tailored to their business needs. Just as  
9 Power Platform made app creation easier, Copilot Studio brings a no-code  
10 approach to creating custom AI “copilots” tailored to specific workflows or  
11 industries. Users can configure an AI agent with natural language instructions and  
12 connect it to their internal data or apps via pre-built plugins, all without writing  
13 code. *More than 230,000 organizations, including 90% of Fortune 500  
14 companies, have used Copilot Studio, building 3 million custom AI agents across  
15 SharePoint and Copilot Studio.*

16 78. The 2025 Proxy Statement also stated that Microsoft’s massive spending was a  
17 proactive “AI-first platform focus.” It notes that Microsoft invested over \$88 billion in capital  
18 expenditures in fiscal year 2025 *to support customer demand* and added over two gigawatts of  
19 capacity, stating that Microsoft had:

20 *Invested over \$88 billion in capital expense to support customer demand signals,  
21 driving commercial bookings of over \$100 billion in Q4.*

22 79. The 2025 Proxy stated that *the Board maintains direct oversight over “Software  
23 and Services Quality and Availability,” receiving regular updates on product resiliency.* It also  
24 described Azure AI Foundry as offering “best-in-class development tools.”

25 80. The 2025 Proxy also represented to shareholders that Defendant Nadella was doing  
26 an excellent job driving Microsoft’s AI strategy, warranting awarding Nadella a high operational  
27 performance rating (151.67% payout), citing his “thoughtful leadership” in advancing AI and  
28 cybersecurity.

81. The 2025 Proxy Statement included several shareholder proposals (Proposals 5, 6,  
and 7) that expressed concerns regarding the risks of generative AI, including reports on GenAI  
bias, censorship risks, and data usage oversight. Shareholder Proposal No. 7 specifically raised  
the following concern: “Microsoft employs generative AI models developed by OpenAI, which

1 allegedly stole large amounts of personal information by scraping the web, including private  
2 information and private conversations, medical data, information about children — essentially  
3 every piece of data exchanged on the internet it could take — without notice to the owners or  
4 users of such data, much less with anyone’s permission.”<sup>8</sup> The proposal also noted that  
5 “Microsoft and OpenAI have been sued by the New York Times, among others, which alleged  
6 copyright infringement.”<sup>9</sup>

7 82. The Director Defendants, however, recommended voting AGAINST these  
8 proposals, stating that the Company’s current “Responsible AI” frameworks and existing  
9 transparency reports made them unnecessary. If further unequivocally represented that Microsoft  
10 operated its Ai programs in “*a manner consistent with global copyright laws*” and that “*We train*  
11 *on data that we gain access to (such as archives and metadata) through negotiated*  
12 *arrangements with publishers and copyright owners.*”<sup>10</sup>

13 83. In urging shareholders to oppose Proposal No. 7 at the 2025 Annual Meeting, the  
14 Director Defendants also approved representations in the proxy that Microsoft respects standards  
15 like robots.txt and tags such as NO ARCHIVE. The 2025 Proxy further stated Microsoft has  
16 shared controls for website owners to opt-out of having their content used for AI training. The  
17 Proxy also stated that Microsoft will comply with the EU AI Act (specifically Article 53), which  
18 will require publishing detailed summaries of training content starting in August 2025.<sup>11</sup> The  
19 Company also noted that during fiscal year 2025 (July 1, 2024 to June 30, 2025), it had engaged  
20 in direct outreach efforts to shareholders owning over 35% of the Company’s stock on these  
21 issues, and specifically to discuss its AI training practices and how it navigates global legal  
22 frameworks, stating “During fiscal year 2025, we approached investors holding over 35% of

23 <sup>8</sup> See 2025 Proxy at p. 81.

24 <sup>9</sup> *Id.*

25 <sup>10</sup> See 2025 Proxy at p. 82.

26 <sup>11</sup> *Id.* at p. 83.

1 Microsoft’s shares to discuss our practices and the status of different legal frameworks around the  
2 world that relate to training AI models.”<sup>12</sup> It also noted that between late 2024 and May 2025,  
3 Microsoft engaged with the National Legal and Policy Center (the proponent of shareholder  
4 proposals regarding AI data ethics) to share updates on its approach and transparency reporting.

5 84. On October 29, 2025, Microsoft issued a release providing the Company’s  
6 financial results for its fiscal first quarter ended June 30, 2025 (“1Q26”). The release stated that  
7 during the quarter, Microsoft generated \$30.9 billion in Intelligent Cloud revenue, a 28%  
8 increase, while “Azure and other cloud services revenue increased 40%.” The release quoted CEO  
9 Nadella as stating: ““Our planet-scale cloud and AI factory, together with Copilots across high  
10 value domains, is driving broad diffusion and real-world impact . . . It’s why we continue to  
11 increase our investments in AI across both capital and talent to meet the massive opportunity  
12 ahead.” CFO Hood added: ““We delivered a strong start to the fiscal year, exceeding  
13 expectations across revenue, operating income, and earnings per share . . . Continued strength in  
14 the Microsoft Cloud reflects the growing customer demand for our differentiated platform.””

15 85. Also on October 29, 2025, Microsoft filed with the SEC a Q1 2026 quarterly  
16 report on Form 10-Q, which was signed by CEO Nadella and CFO Hood who attested to the  
17 report’s accuracy and material completeness. The Form 10-Q contained the same financial  
18 information regarding Microsoft’s Azure and Intelligent Cloud offerings contained in the Q1  
19 2026 release. The Form 10-Q continued: “Azure and other cloud services revenue grew 40%  
20 driven by demand for our portfolio of services with continued growth across all workloads.”

21 86. That same day, Microsoft hosted an earnings conference call with analysts and  
22 investors to discuss the Company’s Q1 2026 results hosted by CEO Nadella and CFO Hood. In  
23 his prepared remarks, CEO Nadella touted the recently announced restructuring of Microsoft’s  
24 partnership with OpenAI and the Company’s purportedly market-leading AI capabilities, stating:

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25 <sup>12</sup> *Id.*

1 And as you saw yesterday, we closed a new definitive agreement with  
2 OpenAI, marking the next chapter in what is one of the most successful  
3 partnerships and investments our industry has ever seen. This is a great milestone  
4 for both companies, and we continue to benefit mutually from each other's growth  
5 across multiple dimensions.

6 Already, we have roughly 10x-ed our investment. OpenAI has contracted  
7 an incremental \$250 billion of Azure services, our rev share, exclusive IP rights  
8 and API exclusivity for Azure continue until AGI or through 2030. And we have  
9 extended the model and product IP rights through 2032. And we are also energized  
10 to innovate and pursue AI advancements with both talent and compute investments  
11 that have real-world impact.

12 With that, let's turn to our momentum across our AI platform and Copilots  
13 as well as with agents. ***We have the most expansive data center fleet for the AI  
14 era, and we are adding capacity at an unprecedented scale. We will increase our  
15 total AI capacity by over 80% this year and roughly double our total data center  
16 footprint over the next two years, reflecting the demand signals we see.*** Just this  
17 quarter, we announced the world's most powerful AI data center, Fairwater in  
18 Wisconsin, which will go online next year and scale to 2 gigawatts alone.

19 And we have deployed the world's first large-scale cluster of NVIDIA  
20 GB300s. We are building a fungible fleet that's been continuously modernized and  
21 spans all stages of the AI life cycle from pretraining to post training to synthetic  
22 data generation and inference. And it also goes beyond GenAI workloads to  
23 recommendation engines, databases, and streaming. ***We're optimizing this fleet  
24 across silicon systems and software to maximize performance and efficiency.***

25 87. During the call, Defendant Nadella elaborated on the purported demand and  
26 capabilities of Copilot, calling Copilot "best-in-class" according to multiple third-party  
27 benchmarks:

28 ***We are seeing increasing demand and diffusion of our AI platform and family of  
Copilots, which is fueling our investments across both capital and talent.***

\* \* \*

Now let's turn to applications and agents we ourselves are building on this  
platform. We now have 900 million monthly active users of our AI features across  
our products. And our first-party family of Copilots now has surpassed 150 million  
monthly active users across the information work, coding, security, science, health,  
and consumer.

When it comes to information work, we continue to innovate with  
Microsoft 365 Copilot. ***Copilot is becoming the UI for the agentic AI experience.***  
We have integrated chat and agentic workflows into everyday tools like Outlook,  
Word, Excel, PowerPoint, and Teams. ***Just nine months since release, tens of  
millions of users across Microsoft 365 customer base are already using chat.  
Adoption is accelerating rapidly, growing 50% quarter over quarter, and we  
continue to see usage intensity increase.***

This quarter, we also introduced agent mode, which turns single prompts  
into export quality Word documents, Excel spreadsheets, PowerPoint presentation  
and then iterate to deliver the final product much like agent mode in coding tools

1 today. *We're thrilled by the early response, including third-party benchmarks*  
2 *that rank it best-in-class.*

3 Beyond individual productivity, Copilot is multiplayer, (technical  
4 difficulty) agents like Facilitator and Project Manager, prep meeting agendas, take  
5 notes, capture decision, kick off group tasks.

6 We are seeing a growing Copilot agent ecosystem with top ISVs like  
7 Microsoft, Asana, Jira, LexisNexis, SAP, ServiceNow, Snowflake and Workday,  
8 all building their own agents that connect to Copilot. And customers are also  
9 building agents for their mission-critical business processes and workflows using  
10 tools like Copilot Studio and integrating them into Copilot.

11 The overall number of agent users doubled quarter over quarter. And just  
12 yesterday, we announced App Builder, a new Copilot agent that lets anyone create  
13 and deploy task-specific apps and agents in minutes grounded in Microsoft 365  
14 context.

15 *All this innovation is driving our momentum. Customers continue to*  
16 *adopt Microsoft 365 Copilot at a faster rate than any other new Microsoft 365*  
17 *suite, all up more than 90% of the Fortune 500 now use Microsoft 365 Copilot,*  
18 *Accenture, Bristol-Myers Squibb, EY Global and the UK's Tax and Payments*  
19 *and Customs Authority all purchased over 15,000 seats this quarter. Lloyds*  
20 *Banking Group has deployed 30,000 seats, saving each employee an average of*  
21 *46 minutes daily.*

22 *And a large majority of our enterprise customers continue to come back*  
23 *to purchase more seats. Our partner, PwC, alone added 155,000 seats this*  
24 *quarter and now has over 200,000 deployed across its global operations. In just*  
25 *six months, PwC employees interacted with Microsoft 365 Copilot over 30*  
26 *million times, and they credit this identic transformation with saving millions of*  
27 *hours in employee productivity.*

28 88. On December 2, 2025, Microsoft's EVP E&D Jha presented at the UBS Global  
Technology and AI Conference. When he was asked about consumer adoption of Copilot, EVP  
E&D Jha responded that the "intensity" of Copilot usage was increasing, stating:

29 *As we recently disclosed, two quarters in a row, the daily active*  
30 *engagement with Copilot has more than doubled, quarter over quarter. That, to*  
31 *me, is a real sign of product with increased intensity of usage and more users*  
32 *engaging with the Copilot experience.*

33 *Another one I would point to: Maybe a couple of quarters ago, we said,*  
34 *what, 70% of the Fortune 500 had Copilot. Now, that's up to 90%.*

35 I do think the ARPU growth is a good one to think about. As we discussed,  
36 most of our seat growth today is in lower ARPU base: small businesses, first-line  
37 workers. *The fact that our ARPU growth has been stable, Copilot is a*  
38 *contributor to that.*

89. Later, in response to a question about Copilot's trajectory, EVP E&D Jha

1 represented that there were several “things that are already elevating the capabilities of Copilot,”  
2 continuing:

3 I think the first is *the reasoning model finally unlocks AI and graphical*  
4 *user interfaces to work much more effectively*. I’m very excited in the January,  
5 February timeframe. You’re going to see agent mode inside of Office, inside of  
6 Excel, inside of Word, inside of PowerPoint, in your calendar, in your meeting,  
7 inside your Teams channel. That is going to be a big one.

8 It’s one thing to go and say there’s AI off on the side, which I think is a  
9 very interesting user experience because you get to express your intent in a natural  
10 language, but then, to be able to take that same capability and bring that to existing  
11 workflows that hundreds of millions of people are already on with a graphical user  
12 interface and have those two coexist, I think the agent mode is going to be a big  
13 unlock. That’s thing 1.

14 The second thing is what we talked about: enabling more Agentic  
15 workflows. This is where Agent 365 as a governance and a compliance plane  
16 enables customers to go without the worry of a sprawl or a management issue on  
17 their hands.

18 Finally, with Copilot, we brought multiple sources of intelligence into  
19 Copilot. Just like if I hire an employee with liberal arts background to work on a  
20 project and I hire an employee with a STEM background to work on a project,  
21 they’re going to bring different strengths. *And so with Copilot, it’s not just about*  
22 *the model. It’s about how the models come together with the graphical user*  
23 *interface, the innate capabilities of the model, multiple lineages of the model to*  
24 *actually deliver the outcome or the workflow that you’re planning to go do,*  
25 *whether in our applications or agents that you will build on your own.*

26 90. Defendant Jha, in response to an analyst’s question about competitive threats for  
27 Copilot, and specifically Google’s Gemini, represented that Copilot offered numerous unique  
28 differentiators and consistently outperformed the competition, stating:

Let me first just say, look, with — let me talk about Copilot, what’s  
differentiated, what’s unique?

*The first thing we got to do is to make sure we meet users’ expectations*  
*with what they expect Generative AI to do: be a great writer, be a great analyzer,*  
*be able to tell you the weather, create an image, and all of that stuff.*

*That’s [table stakes]. We’re going to go do that. We’re going to be*  
*competitive like any other Gen AI tool on that.*

Now, let’s talk about what’s unique and what’s differentiated.

The first thing is what we call Work IQ, which is understanding your work  
context. Most of the people powering economic activity around the globe are on  
M365. Work IQ gives us a pretty good understanding of the projects that matter to  
you, who your work group is, what events are interesting, who are your customers,

1 your e-mails, your meetings, your documents. We have a pretty good  
understanding of that stuff.

2 Then, you'll hear the other tools talk about connectors. Connector is trying  
3 to drink through a very thin straw and understand your work context. Now, you  
can take many sips from a thin straw, it is still a thin straw.

4 *And so we have customers who've done side-by-side analysis of Copilot*  
5 *in the context of your work and connector-based things and the gap is very*  
*significant and growing. Anyway, that's just thing one.*

6 Thing two, though, as people use Copilot, both as a new endpoint, as a peer  
7 to what Excel, PowerPoint, Outlook, Teams — as a pure endpoint. But they have  
billions of transactions every hour that go through these applications.

8 We have an opportunity to serve the same Work IQ intelligence with agent  
9 mode inside of these existing applications that people use. *We can uniquely do*  
*that well.* That's thing two.

10 Thing three, human-to-human collaboration, communication, productivity,  
11 highly regulated. We have 15 years' experience on how to do eDiscovery,  
sensitivity label, all sorts of things, legal hold, data classification, data governance.

12 All of that works with human-to-AI conversations in Copilot automatically  
13 for customers. Our 15 years of maturity on that stuff is enterprise-grade maturity  
and human-to-human productivity. Human and AI productivity gets all of that for  
14 free. The other providers are going to have to go build all of that capability.

15 Thing 4, can I keep going or you can keep coming?

16 Thing 4, though, it's, like, can I go back to — we are not beholden to a  
17 model, we are beholden to the best outcome. And so we will build experiences that  
are powered by whether it be our IP partner, OpenAI, whether it be Anthropic,  
18 whether it be Copilot tuning, whether it be an open source model whose weights  
you want to go create as your own unique IP. We are multi-model.

19 Finally, the more important thing that — and I go back to the comment I  
20 made earlier, if you think that the future workforce is going to have more agents  
than humans — (inaudible) this is going to be true in every organization, how is  
the human supposed to get work?

21 I thought that the beauty of AI was I don't have to worry about tools  
22 anymore. I have one natural language interface that abstracts away the tools and I  
express my intent.

23 In a world where, now, I'm surrounded by hundreds of agents that are  
24 semi-autonomous, some that I'm managing, some that I have to rendezvous with,  
how does a human navigate all of that stuff?

25 *Copilot is going to be the UI through which they orchestrate the agent.*  
26 *We are going to be the search engine for these agents. We're going to be the*  
*relevance engine for these agents. We're going to be the orchestration engine for*  
27 *these agents.*

1 IT is going to have a bunch of controls. Karl, you're in this department.  
2 These following agents are the most relevant to you. Your work group will create  
3 an agent that you tend to use a lot. Copilot will know to use that.

4 So when you put all of these things together, I really like our ability to go  
5 serve M365 customers with M365 Copilot.

6 91. On December 5, 2025, Microsoft held its Annual Shareholders Meeting, which  
7 was hosted by CEO Nadella, CFO Hood, and other Microsoft executives. During the meeting,  
8 CEO Nadella highlighted the purported "major advances in AI innovation" that had occurred in  
9 Microsoft's "family of Copilots." CFO Hood similarly emphasized Microsoft Windows'  
10 purported "best in class AI capabilities."

11 92. Microsoft executives also provided examples of these claimed capabilities. For  
12 example, Microsoft 365 Copilot Director Callie August claimed that "Copilot doesn't just access  
13 your work data, it actually understands it." She continued: "We call this work IQ, and it's the  
14 intelligence layer behind Microsoft 365 Copilot and agents that helps Copilot understand you,  
15 your job, and your company. This enables Copilot to give you more accurate, relevant, and  
16 personalized responses."

17 93. Defendant Nadella also discussed the AI-readiness of the Company's cloud  
18 infrastructure, stating it was already "obviously at scale and building out rapidly":

19 *So for example, our infrastructure business, one of the great*  
20 *opportunities we now get is to build out our cloud infrastructure so that it's AI*  
21 *ready for what is going to be the token factories or the intelligence factories. So*  
22 *that's sort of our number one priority. We're obviously at scale and building out*  
23 *rapidly.* The layer above that. Is you want to use these token factories to create AI  
24 agents, so there's a new app server being born, and that's where things like  
25 Foundry and GitHub Copilot and all come together so that we can then enable our  
26 developers and you know our partners to build great agents.

27 And then the layer above that is where the high value domains in which we,  
28 have always participated, information work, right? That's where Microsoft 365  
29 Copilot comes in. Software development with Gitup Copilot or security Copilot or  
30 what we're doing in business applications and of course in the consumer space, so  
31 we're taking a pretty full stack approach, but the real goal is for not only for us to  
32 reimagine the current categories and also build new extensions.

33 94. The statements referenced in ¶¶58-93 above were materially false and/or  
34 misleading when made because they failed to disclose the following adverse facts pertaining to

1 the Company’s business, operations, and financial condition, which were known to Defendants or  
2 recklessly disregarded by them as follows:

3 (a) that Microsoft had violated federal copyright laws in the formulation of its AI  
4 strategy and its partnership with AI companies like OpenAI;

5 (b) that Microsoft’s Copilot software had experienced major undisclosed problems  
6 with brand positioning, user experience, usage, data siloing, computational capacity,  
7 organizational, and interoperability;

8 (c) that Microsoft’s proprietary AI model was performing well below competitors on a  
9 number of benchmark tests;

10 (d) that Microsoft needed to increase its capital expenditures by billions of dollars and  
11 divert GPU and CPU capacity away from fulfilling demand for its profitable Azure services in  
12 order to improve the competitive positioning of its Copilot software and increase its AI-related  
13 R&D; and

14 (e) that, as a result of (a)-(d) above, Microsoft had failed to convert a significant  
15 percentage of its commercial Microsoft 365 users to paid Copilot subscriptions and the  
16 Company’s Copilot offerings had lost market share to rival products, a trend that was increasing.

17 95. Furthermore, Item 303 of SEC Regulation S-K, 17 C.F.R. § 229.303(b)(2)(ii)  
18 (“Item 303”), required defendants to “[d]escribe any known trends or uncertainties that have had  
19 or that are reasonably likely to have a material favorable or unfavorable impact on net sales or  
20 revenues or income from continuing operations.” Similarly, Item 105 of SEC Regulation S-K, 17  
21 C.F.R. § 229.105 (“Item 105”), required, in the “Risk Factors” section of registration statements  
22 and prospectuses, “a discussion of the material factors that make an investment in the registrant or  
23 offering speculative or risky” and required each risk factor to “adequately describe[] the risk.”

24 96. The failure of Microsoft’s periodic SEC filings to disclose the problems detailed  
25 herein regarding the development and customer adoption of Copilot products and Microsoft’s  
26 proprietary AI models violated Item 303, because these undisclosed facts were known to  
27 defendants and would (and did) have an unfavorable impact on the Company’s sales, revenues,  
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1 and income from continuing operations. This failure also violated Item 105, because these adverse  
2 facts created significant risks that were not disclosed even though they were some of the most  
3 significant factors that made an investment in Microsoft stock speculative or risky. Indeed, the  
4 risk disclosures contained in Microsoft’s periodic SEC filings were themselves materially  
5 misleading, presenting potential, future contingent risks as mere possibilities (*e.g.*, “[i]neffective  
6 or inadequate AI development or deployment practices by Microsoft or others *could* result in  
7 incidents that impair the acceptance of AI solutions, cause harm to individuals, customers, or  
8 society, or result in our products and services not working as intended”), while concealing  
9 adverse developments in Microsoft’s Copilot products and services and other AI-related offerings  
10 that had already occurred and making the numerous affirmative misrepresentations about those  
11 same products and services detailed herein.

#### 12 **DISCLOSURE OF THE TRUTH**

13 97. On January 28, 2026, Microsoft announced disappointing results for its fiscal  
14 second quarter ended December 31, 2025 (“Q2 2026”). First, during the quarter Microsoft’s  
15 Azure growth had slowed suddenly and fallen below analyst expectations. During the related  
16 earnings call, CFO Hood revealed that the slower Azure growth was primarily due to  
17 computational capacity constraints, as the Company had diverted central processing unit (“CPU”)  
18 and graphics processing unit (“GPU”) capacity to Copilot applications and AI-related research  
19 and development (“R&D”). Second, Microsoft revealed that its capital expenditures had increased  
20 to \$37.5 billion during the quarter, causing the Company’s capital expenditures for the first six  
21 months of its fiscal 2026 to balloon to \$72.4 billion compared to \$88.2 billion for *all* of  
22 Microsoft’s fiscal 2025. The reason for the dramatic growth in capital expenditures was again  
23 largely attributed to AI-related R&D and Copilot development and capacity buildout costs. Third,  
24 Microsoft revealed, for the first time, that the number of paid Microsoft 365 Copilot seats totaled  
25 only 15 million to date, materially below analyst estimates and a fraction of the more than 450  
26 million commercial Microsoft 365 users.

27 98. On this news, the price of Microsoft shares declined over \$48 per share, from  
28

1 \$481.63 per share at market close share on January 28, 2026 to \$433.50 per share at market close  
2 on January 29, 2026, on abnormally high trading volume of nearly 129 million shares traded.

3 99. On February 3, 2026, *The Wall Street Journal* revealed, in an article titled  
4 “Microsoft’s Pivotal AI Product Is Running Into Big Problems,” that severe challenges and  
5 functionality issues had plagued Microsoft’s Copilot offerings, leading to Copilot losing market  
6 share during the relevant time period to competing products such as Google’s Gemini. The article  
7 reported that “[c]onfusing brand positioning and interoperability problems have frustrated users,  
8 current and former employees who have worked on Microsoft’s AI products said” and that  
9 “[o]nly a small proportion of subscribers to Microsoft’s enterprise suite use Copilot, and the  
10 percentage who favor it over Google’s Gemini or other tools has decreased in recent months.”

11 The article continued:

12 Previously unreported data shows that Copilot subscribers, including those  
13 with corporate accounts, are increasingly favoring competing options.

14 From last July through late January, the percentage of Copilot subscribers  
15 who use the product as a primary option decreased from 18.8% to 11.5%,  
16 according to a survey of more than 150,000 respondents in the U.S. by market  
research firm Recon Analytics. This happened while the share of paid users who  
choose Google’s Gemini as the first option increased from 12.8% to 15.7%.

17 \* \* \*

18 Those surveyed who switched from Copilot said they found better quality  
19 elsewhere, with some citing poor user experience and restrictive usage limits.  
Workers who have access to subscriptions for Copilot, ChatGPT and Gemini  
choose ChatGPT and Gemini at a higher rate than Copilot, the Recon data shows.

20 Some companies are using only about 10% of the Copilot subscription  
21 seats they are paying for, according to a recent note by analysts at Citi Research.  
“Disorganized data silos” have been an issue for Copilot, analysts wrote.

22 \* \* \*

23 Customer surveys by Microsoft have shown that users have been confused  
24 by the multiple versions of Copilot, people familiar with the matter said. Some  
users have long complained about Copilot being forced onto them, popping up on  
everything from documents to the browser.

25 One issue cited by current and former employees is the lack of a cohesive  
26 experience across the different Copilots, a user pain point Nadella has flagged in  
27 the past. About a year ago, Nadella sent a frustrated email to Rajesh Jha, executive  
vice president of experiences and devices, detailing an incident in which Nadella  
had asked the enterprise version of Copilot on the Edge browser to help with a

1 public webpage he was on, but it couldn't fulfill his prompt, according to people  
2 familiar with the email.

3 \* \* \*

4 Some employees said an organizational silo between Suleyman's  
5 consumer-focused team and teams working on enterprise versions has made it  
6 challenging to achieve a unified vision.

7 The effort to train proprietary models has also been hampered by a shortage  
8 of computing capacity, with the company rationing server time to ensure  
9 availability for OpenAI and other customers of its Azure cloud service. On a  
10 number of benchmark tests, Microsoft's flagship proprietary AI model ranks well  
11 below competitors.

12 100. The price of Microsoft stock continued to fall in the days after Microsoft's 2Q26  
13 earnings announcement as the market continued to digest the adverse news and sources such as  
14 *The Wall Street Journal* revealed new adverse information, falling below \$393 per share on  
15 February 5, 2026.

16 101. On February 11, 2026, analysts at Melius Research LLC published a research note  
17 linking Microsoft's decision to divert Azure capacity to fix apparent flaws in Copilot as a "no-win  
18 situation" that was likely to plague the Company for the foreseeable future. The analysts wrote  
19 that "Copilot Woes and Azure are Linked" and that "the better the AI assistants get from  
20 competitors, the more Microsoft will seem behind in Copilot and its other AI tools — and then  
21 will need to spend more to invest in them, consuming the upside in Azure for their own  
22 purposes."

23 102. On March 17, 2026, *The Wall Street Journal* revealed in an article titled  
24 "Microsoft Seeks More Coherence in AI Efforts With Copilot Reorganization" that Microsoft was  
25 reorganizing its Copilot product teams to unify commercial and consumer versions partly in  
26 response to the challenges revealed by *The Wall Street Journal's* prior reporting on Copilot's  
27 problem-plagued development and disappointing customer adoption.

28 103. As a result of this news, price of Microsoft stock continued to fall, dropping to a  
low of just \$380 per share by March 20, 2026 – 30% below the relevant time period high.

104. On April 29, 2026, Microsoft announced results for its fiscal third quarter ended  
March 31, 2026. During the accompanying earnings call, Defendant Hood revealed that the

1 Company had increased its planned capital expenditures for calendar 2026 to \$190 billion, \$37  
2 billion more than analyst expectations according to BofA Securities.

3 105. On June 2, 2026, Evercore hosted Microsoft's CFO of Commercial Products and  
4 Infrastructure Mat McBride ("McBride") at its TMT Conference. During the interview, McBride  
5 was asked about the "perception that Copilot's not delivering what people want." In response,  
6 McBride stated the Company had been working to "improve[] the product rapidly over the last  
7 year," which included the launch of "625 new features," such that the "product is way different  
8 than it was 90 days ago."

9 106. Despite these purported improvements, Copilot has continued to lose market share  
10 according to third-party tracking services. For example, according to First Page Sage, which  
11 describes itself as "an SEO and thought leadership marketing company with offices throughout  
12 the U.S.," Copilot held an 8.7% market share among top generative AI chatbots in June 2026,  
13 down significantly from Copilot's 14.3% market share in June 2025 as measured by the service.  
14 According to First Page Sage, during this time period Copilot fell from the second most used  
15 generative AI chatbot by market share to the fourth most used generative AI chatbot.

16 **VI. ALLEGATIONS DEMONSTRATING DEFENDANTS' KNOWLEDGE OR**  
17 **RECKLESS DISREGARD OF THE TRUE FACTS**

18 107. As alleged herein, Defendants either knew, or recklessly disregarded, that the  
19 public documents and statements they issued and disseminated during the relevant time period to  
20 the investing public in the name of the Company, or in their own name, were materially false and  
21 misleading. Defendants knowingly and substantially participated or acquiesced in the issuance or  
22 dissemination of such statements and documents. Defendants, by virtue of their receipt of  
23 information reflecting the true facts regarding Microsoft, and their control over and/or receipt  
24 and/or modification of Microsoft's allegedly materially misleading misstatements, were active  
25 and culpable participants in the wrongdoing alleged herein.

26 108. Defendants knew and/or recklessly disregarded the false and misleading nature of  
27 the information they caused to be disseminated to the investing public. Accordingly, the false  
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1 statements described herein could not have been perpetrated during the relevant time period  
2 without the knowledge and complicity of, or at least the reckless disregard by, personnel at the  
3 highest levels of the Company, including the Individual Defendants.

4 109. The Individual Defendants, because of their positions with Microsoft, controlled  
5 the contents of Microsoft's public statements during the relevant time period. The Individual  
6 Defendants were each provided with or had access to the information alleged herein to be false  
7 and/or misleading prior to or shortly after its issuance and had the ability and opportunity to  
8 prevent its issuance or cause it to be corrected. Because of their positions and access to material,  
9 nonpublic information, the Individual Defendants knew or recklessly disregarded that the adverse  
10 facts specified herein had not been disclosed to and were being concealed from the public and that  
11 the positive representations that were being made were false and misleading. As a result, each of  
12 the defendants is responsible for the accuracy of Microsoft's corporate statements and is,  
13 therefore, responsible and liable for the representations contained therein.

14 110. Moreover, the Company's Proxy Statements admitted that the Board itself  
15 exercised direct oversight of the Company's AI strategy and frequently met with management  
16 concerning details of the strategy. *See, e.g.*, 2023 Proxy at p. 9: "For major initiatives, such as our  
17 approach to AI, the Board engages with management on strategic vision, investments,  
18 partnerships, capital requirements, and risks."

19 111. The Board's Environmental, Social, and Public Policy Committee also had  
20 responsibility for Microsoft's AI strategy, and specifically for reviewing and addressing  
21 responsible AI. The 2023 Proxy noted that "Microsoft's Environmental, Social, and Public Policy  
22 Committee provides oversight and guidance to management on responsible AI policies and  
23 programs." The members of that Committee during the relevant time period were:

24 Penny Pritzker – Chair

25 Reid Hoffman

26 John W. Stanton

27 Emma Walmsley

1 Mary MacGregor

2 112. Moreover, both the 2024 and 2025 Proxy Statements represented that “*The Board*  
3 *maintains direct oversight over AI strategy risk. Our Environmental, Social, and Public Policy*  
4 *Committee assists the Board in overseeing Microsoft’s AI governance and regulation risk and*  
5 *provides oversight and guidance on Microsoft’s responsible AI policies and programs.*”

6 113. In addition, the Individual Defendants were each personally involved in the  
7 development or supervision of Microsoft’s Copilot offerings and/or customer adoption and  
8 repeatedly held themselves out to the market as the Microsoft executives most knowledgeable and  
9 competent to speak on such topics during discussions with investors, analysts, and the media.  
10 During McBride’s June 2026 Evercore interview, for example, he described how the Company’s  
11 most-senior leadership, which would include the Individual Defendants, methodically developed  
12 and oversaw the Company’s AI infrastructure buildout in consultation with the Board given its  
13 scale, expected duration, and importance to the Company, likening the effort to prior cloud  
14 computing initiatives. Moreover, as documented by *The Wall Street Journal’s* reporting, the  
15 Individual Defendants were personally and directly involved in identifying and attempting to  
16 remediate the Copilot problems detailed herein, yet failed to accurately and timely disclose such  
17 issues to the market while simultaneously making the materially false and misleading statements  
18 attributed to them herein. As a result, there is a compelling inference that each Individual  
19 Defendant knew, or was reckless in not knowing, of their materially false and misleading nature  
20 at the time each statement was made that is at least as compelling as any non-culpable inference.

21 114. The Individual Defendants also had the motive and opportunity to engage in the  
22 wrongdoing. For example, Defendant Nadella sold over \$75 million worth of Microsoft shares  
23 during the relevant time period at prices above \$500 per share. These sales were suspicious in  
24 timing and amount, being in excess of defendant Nadella’s insider trading practices in each of the  
25 three years preceding the sales, and at prices substantially above the price to which Microsoft  
26 stock fell after disclosure of the truth in 2026 following the corrective disclosures detailed herein.

**VII. DERIVATIVE AND DEMAND FUTILITY ALLEGATIONS**

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115. Plaintiff brings this action derivatively and for the benefit of Microsoft to redress injuries suffered, and to be suffered, as a result of the Individual Defendants’ breaches of their fiduciary duties as directors and/or officers of Microsoft, unjust enrichment, and violations of the Exchange Act.

116. Microsoft is named solely as a nominal party in this action. This is not a collusive action to confer jurisdiction on this Court that it would not otherwise have.

117. Plaintiff is, and has been at all relevant times, a shareholder of Microsoft. Plaintiff will adequately and fairly represent the interests of Microsoft in enforcing and prosecuting its rights, and, to that end, has retained competent counsel, experienced in derivative litigation, to enforce and prosecute this action.

118. Plaintiff incorporates by reference and realleges each and every allegation set forth above, as though fully set forth herein.

119. A pre-suit demand on the Board of Microsoft is futile and, therefore, excused. At the time this action was commenced, the Board consisted of the following Directors: Nadella, Di Sibio, Hoffman, Johnston, List, MacGregor, Mason, Peterson, Pritzger, Rainey, Scharf, Stanton, and Walmsley. Since Microsoft has an odd-numbered board, Plaintiff needs to allege demand futility as to seven of the thirteen Directors that were on the Board at the time this action was filed.

120. Delaware law applies a director-by-director “three-part test as the universal test for assessing whether demand should be futile.” *United Food & Commercial Workers Union v. Zuckerberg*, 262 A.3d 1034, 1057-58 (Del. 2021). The three-part test asks with respect to each Demand Director: “(i) whether the director received a material personal benefit from the alleged misconduct that is the subject of the litigation demand; (ii) whether the director would face a substantial likelihood of liability on any of the claims that are the subject of the litigation demand; and (iii) whether the director lacks independence from someone who received a material personal benefit from the alleged misconduct that is the subject of the litigation demand or who would face

1 a substantial likelihood of liability on any of the claims that are the subject of the litigation  
2 demand.” *Id.*

3 **A. Each Demand Director Faces a Substantial Likelihood of Personal Liability**  
4 **for Directly Participating in the Supervision of the \$13 Billion Partnership**  
5 **With OpenAI, Pursuant to Which the Director Defendants Caused Microsoft**  
6 **to Jointly Develop the Infringing AI Systems**

7 121. The second inquiry in the demand futility test under Delaware law is whether a  
8 director faces a substantial likelihood of liability on any of the claims that are the subject of the  
9 litigation demand. Here, each Demand Director faces a substantial likelihood of liability for  
10 directly participating in the wrongful conduct and/or breaching his or her oversight duties in bad  
11 faith.

12 122. For a software company like Microsoft, intellectual property rights, including  
13 copyright protection, is a *mission critical issue* to the Company. If third parties could violate  
14 Microsoft’s copyright protections willy-nilly, Microsoft’s software would have no value and the  
15 Company’s revenues would collapse. In a similar vein, if Microsoft violates the copyright rights  
16 of other companies or persons, it exposes itself to substantial damages. Even worse, if Microsoft’s  
17 own software is developed in a manner that violates intellectual property rights, the consequences  
18 are dire, as Microsoft’s software would be imbued with copyright violations, threatening the  
19 Company’s recurring revenues from its software, thereby not only exposing it to damages but also  
20 adversely impacting its revenues, profits, and growth rate. That is what happened here under the  
21 Director Defendants’ watch.

22 123. Eleven of the Demand Directors — Nadella, Hoffman, Johnston, List, MacGregor,  
23 Mason, Peterson, Pritzger, Scharf, Stanton, and Walmsley — have been on the Board of Directors  
24 at all relevant times, including during the time that Microsoft committed the copyright and IP  
25 violations, and all such Directors made the false and misleading statements and also caused  
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1 Microsoft to make the stock repurchases.<sup>13</sup> Thus, all eleven Demand Directors are interested  
2 because they face a substantial likelihood of liability for each of the claims asserted herein.

3 124. The same eleven Directors also failed to act on numerous red flags related to  
4 Microsoft's copyright and IP infringement. Even after Judge William Alsup issued a seminal  
5 order dated June 23, 2025, in *Bartz v. Anthropic*, No. 3:24-cv-05417-WHA (N.D. Cal.) which  
6 made it clear that there was a major difference between training AI systems based on legally  
7 acquired books and data and training such systems on pirated books and data, Microsoft's  
8 directors failed to cause Microsoft to comply with the law and permitted the unlawful training to  
9 continue. Judge Alsup's decision was the first federal court decision squarely addressing whether  
10 using copyrighted works to train a generative AI model can qualify as fair use. Judge Alsup  
11 reached two key conclusions:

- 12 1. Training on lawfully acquired books was "exceedingly transformative" and could  
13 constitute fair use under 17 U.S.C. § 107.
- 14 2. Downloading and maintaining millions of pirated books in Anthropic's central library  
15 was not protected by fair use, and the infringement claims based on those copies  
16 would proceed to trial.

17 125. Second, the Director Defendants knew about or recklessly disregarded the  
18 unlawful copyright infringement. They were not passive participants but instead had direct  
19 oversight responsibility in Microsoft's massive, multi-billion investments in OpenAI and  
20 Anthropic. Microsoft has been a co-developer, co-designer, and commercial partner that  
21 participated in the creation, training, deployment, and monetization of the infringing AI systems.  
22 Pursuant to those investments, Microsoft invested \$13 billion in OpenAI, in exchange for which  
23 Microsoft is entitled to recover its investment through a large share of OpenAI Global's profits.

24 \_\_\_\_\_  
25 <sup>13</sup> Directors Rainey and Di Sibio only recently joined the Board, and thus Plaintiff  
26 excludes them from these allegations. Rainey joined the Microsoft Board in December 2025, and  
27 Di Sibio joined the board in May 2026.

1 Further, after repayment, Microsoft will retain a substantial continuing equity interest in OpenAI.  
2 As a result of these massive investments, which are highly material to Microsoft, the Director  
3 Defendants have been personally and directly involved in all aspects of the investment.

4 126. Third, under the Director Defendants supervision and pursuant to their direct  
5 approval, Microsoft designed and built a bespoke Azure supercomputing environment specifically  
6 for OpenAI. It then (1) engineered that infrastructure in collaboration with OpenAI; (2) optimized  
7 it for training large language models on internet-scale datasets; and (3) continues to operate that  
8 infrastructure during both training and inference. ***Under the Director Defendants’ direct***  
9 ***oversight, Microsoft knowingly designed and operated the infrastructure used to ingest and***  
10 ***process copyrighted material at scale.***

11 127. Microsoft’s cloud infrastructure was specifically designed to use “essentially the  
12 whole internet” and was developed “in collaboration with and exclusively for OpenAI” to train its  
13 AI models. As a result, the Director Defendants knew or recklessly disregarded the fact that  
14 pirated books and data were being used to train the AI systems and software.

15 128. Fourth, Directors Nadella, Hoffman, Johnston, List, MacGregor, Mason, Peterson,  
16 Pritzger, Rainey, Scharf, Stanton, and Walmsley personally approved the Company’s 2025 Proxy  
17 Statement which contained false and misleading statements.

18 129. As a result, Directors Nadella, Hoffman, Johnston, List, MacGregor, Mason,  
19 Peterson, Pritzger, Rainey, Scharf, Stanton, and Walmsley consciously ignored repeated red flags  
20 which demonstrated that the Company was engaging in large-scale violation of federal copyright  
21 and IP laws. For these reasons, the Director Defendants are incapable of making an independent  
22 and disinterested decision to institute and vigorously prosecute this action, including because they  
23 face a substantial likelihood of liability for their wrong acts, such that demand on the Board to  
24 institute this action is excused as futile.

25 ///

26 ///

27 ///

**B. Each Demand Director Faces a Substantial Likelihood of Liability for Approving the Issuance of False and Misleading Public Statements**

130. As explained above, Directors Nadella, Hoffman, Johnston, List, MacGregor, Mason, Peterson, Pritzger, Rainey, Scharf, Stanton, and Walmsley caused Microsoft to issue numerous false and misleading disclosures during the relevant time period.

131. The Microsoft directors were ultimately responsible for the Company's public disclosures. Directors Nadella, Hoffman, Johnston, List, MacGregor, Mason, Peterson, Pritzger, Rainey, Scharf, Stanton, and Walmsley approved one or more of the false and misleading statements alleged herein.

132. The Director Defendants, together and individually, violated and breached their fiduciary duties of loyalty and acted in bad faith. The Director Defendants knowingly approved and/or permitted the wrongful conduct alleged herein and caused the Company to engage in copyright infringement misconduct, authorized and/or permitted the false statements to be disseminated directly to the public and made available and distributed to stockholders, authorized and/or permitted the issuance of various false and misleading statements, and are principal beneficiaries of the wrongdoing alleged herein, and thus, could not fairly and fully prosecute the causes of action asserted herein.

133. Each Demand Director had actual knowledge of the undisclosed material facts alleged herein and knowingly or consciously disregarded them in bad faith when approving the false and misleading statements. The Demand Directors either knowingly or recklessly issued or caused the Company to engage in copyright infringement misconduct, and to issue the materially false and misleading statements alleged herein. The Director Defendants knowingly approved and/or permitted a business model to train Microsoft's AI products on a dataset that included copyrighted materials and knew of the falsity of the misleading statements in SEC filings at the time they were made. The Director Defendants thus face a substantial likelihood of liability and are not disinterested.

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**C. Defendant Nadella is Interested and Received Improper Financial Benefits**

134. Defendant Nadella has served as the CEO of the Company at relevant times and is not disinterested or independent. Nadella derived his sole employment income from Microsoft and does not qualify as an independent director, as Microsoft's proxy statements admit.

135. Further, as alleged herein, Nadella was awarded unjust compensation in the aggregate amount of \$224,115,510 million between 2023-25, as reflected in the following chart:

Named Executive and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Non-equity	All Other Compensation (\$)	Total (\$)
					Incentive Plan Compensation (\$)		
	2025	2,500,000	0	84,245,496	9,555,000	196,294	96,496,790
Satya Nadella	2024	2,500,000	0	71,236,392	5,200,000	169,791	79,106,183
	2023	2,500,000	0	39,236,137	6,414,750	361,650	48,512,537

136. As the Company's 2025 Proxy admits, Nadella's pay was completely out of proportion to that of every other employee of the Company. The Proxy states that "For fiscal year 2025, the annual total compensation for the median employee of the Company (other than our CEO) was \$200,972 and the annual total compensation of our CEO was \$96,496,790. Based on this information, for fiscal year 2025 *the ratio of the annual total compensation of our CEO to the annual total compensation of the median employee was 480 to 1.*"

137. Nadella's massive compensation was unjust because he breached his fiduciary duties, issued false and misleading statements, and manipulated the targets for his compensation. He is therefore interested in the claims asserted herein and demand is clearly futile as to Nadella.

**D. Demand is Futile as to the Audit Committee Directors**

138. The Audit Committee Directors (Johnston (Chair), List, and Stanton) are not disinterested or independent, and therefore are incapable of considering a demand. The Audit Committee Directors were responsible for assessing the adequacy and effectiveness of

1 Microsoft's technology security policies, internal controls regarding compliance with federal  
2 copyright laws, information and technology security, cybersecurity, and privacy related areas,  
3 compliance with related legal, regulatory and ethical requirements, and public disclosure  
4 requirements. The Audit Committee Directors breached their fiduciary duties to the Company by  
5 allowing Microsoft to engage in copyright violations and by failing to prevent and correct such  
6 violations after they occurred, thus exposing the Company to substantial damages. The Audit  
7 Committee Directors therefore cannot independently consider any demand to sue themselves for  
8 breaching their fiduciary duties and committing violations of the 1934 Act.

9 **E. Demand is Futile as to Directors Pritzker, Hoffman, Stanton, Walmsley, and**  
10 **MacGregor**

11 139. The Company's Proxy Statements admitted that the full Board exercised direct  
12 oversight of the Company's oversight strategy, and frequently met with management concerning  
13 details of the strategy. *See, e.g.,* 2023 Proxy at p. 9: "For major initiatives, such as our approach  
14 to AI, the Board engages with management on strategic vision, investments, partnerships, capital  
15 requirements, and risks."

16 140. Thus, all eleven Director Defendants are interested with respect to the key  
17 allegations in this complaint. Moreover, however, the Board's Environmental, Social, and Public  
18 Policy Committee also had responsibility for Microsoft's AI strategy, and specifically for  
19 reviewing and addressing responsible AI. The 2023 Proxy noted that "Microsoft's Environmental,  
20 Social, and Public Policy Committee provides oversight and guidance to management on  
21 responsible AI policies and programs." The members of that Committee during the relevant time  
22 period were:

23 Penny Pritzker – Chair

24 Reid Hoffman

25 John W. Stanton

26 Emma Walmsley

27 Mary MacGregor

1 141. Both the 2024 and 2025 Proxy Statements represented that “The Board maintains  
2 direct oversight over AI strategy risk. Our Environmental, Social, and Public Policy Committee  
3 assists the Board in overseeing Microsoft’s AI governance and regulation risk and provides  
4 oversight and guidance on Microsoft’s responsible AI policies and programs.”

5 142. As members of the Board’s Environmental, Social, and Public Policy Committee,  
6 Directors Pritzger, Hoffman, Stanton, Walmsley, and MacGregor were responsible for direct  
7 oversight of the Company’s responsible AI strategy. Through the conduct alleged herein, they  
8 acted in bad faith with respect to such duties, including by issuing statements which  
9 unequivocally represented that the Company fully complied with global copyright laws when they  
10 knew, or recklessly disregarded, the falsity of such statements. They also repeatedly ignored red  
11 flags demonstrating that the Company was engaging in widespread copyright violations and failed  
12 to engage in further necessary inquiry in response to such red flags. As a result, Defendants  
13 Pritzger, Hoffman, Stanton, Walmsley, and MacGregor face a substantial likelihood of liability.  
14 Demand is thus futile as to such directors.

15 **F. Demand is Futile for Additional Reasons**

16 143. The Director Defendants’ conduct was not the product of legitimate business  
17 judgment as it was based on bad faith and intentional, reckless, or disloyal misconduct. Thus,  
18 none of the directors can claim exculpation from their violations of duty pursuant to the  
19 Company’s charter. As all the Director Defendants, who comprise eleven out of the current  
20 thirteen board members, face a substantial likelihood of liability, they are self-interested in the  
21 conduct challenged herein. They cannot be presumed to be capable of exercising independent and  
22 disinterested judgment about whether to pursue this action on behalf of the stockholders of the  
23 Company. Accordingly, demand is excused as being futile.

24 144. The acts complained of herein constitute violations of fiduciary duties owed by  
25 Microsoft’s officers and directors, and these acts are incapable of ratification.

26 145. The Director Defendants are covered by D&O insurance policies. Such policies  
27 contain provisions that eliminate coverage for any action brought by Microsoft against the  
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1 Individual Defendants, known as the “insured versus insured exclusion.” As a result, if the  
2 Demand Directors were to sue themselves or certain of the officers of Microsoft, there would be  
3 no D&O insurance protection. By contrast, if the suit is brought derivatively, as this action is  
4 brought, such insurance coverage exists and will provide a basis for the Company to effectuate  
5 recovery. Therefore, the Board cannot be expected to file the claims asserted in this derivative  
6 lawsuit because such claims would not be covered under Microsoft’s D&O insurance policy.  
7 Thus, there is no majority of disinterested directors among the Director Defendants and demand is  
8 excused as futile.

9 **CAUSES OF ACTION**

10 **FIRST CAUSE OF ACTION**

11 **Breach of Fiduciary Duty**

12 **(Against All Individual Defendants)**

13 146. Plaintiff incorporates by reference and realleges each and every allegation  
14 contained above, as though fully set forth herein.

15 147. The Individual Defendants owed and owe Microsoft fiduciary obligations. By  
16 reason of their fiduciary relationships, the Individual Defendants owed and owe Microsoft the  
17 highest obligation of good faith, fair dealing, loyalty, and due care.

18 148. The Individual Defendants, and each of them, as a result of the facts alleged  
19 herein, violated and breached their fiduciary duties of candor, good faith, care, and loyalty.

20 149. As a direct and proximate result of the Individual Defendants’ breaches of their  
21 fiduciary obligations, Microsoft has been harmed, as alleged herein.

22 150. Plaintiff seeks declaratory and injunctive relief to remedy Defendants’ breaches of  
23 fiduciary duty.

24 **SECOND CAUSE OF ACTION**

25 **Violation of Section 14(a) of the Securities Exchange Act**

26 **(Against All Director Defendants)**

27 151. Plaintiff incorporates by reference and re-alleges each and every allegation  
28 contained above, as though fully set forth herein. Plaintiff specifically disavows any allegation of

1 fraud in this claim for violation of Section 14(a).

2 152. Section 14(a) of the Exchange Act, 15 U.S.C. § 78n(a)(1), provides that “[i]t shall  
3 be unlawful for any person, by use of the mails or by any means or instrumentality of interstate  
4 commerce or of any facility of a national securities exchange or otherwise, in contravention of  
5 such rules and regulations as the [SEC] may prescribe as necessary or appropriate in the public  
6 interest or for the protection of investors, to solicit or to permit the use of his name to solicit any  
7 proxy or consent or authorization in respect of any security (other than an exempted security)  
8 registered pursuant to section 12 of this title [15 U.S.C. § 78l].”

9 153. Rule 14a-9, promulgated pursuant to § 14(a) of the Exchange Act, provides that no  
10 proxy statement shall contain “any statement which, at the time and in the light of the  
11 circumstances under which it is made, is false or misleading with respect to any material fact, or  
12 which omits to state any material fact necessary in order to make the statements therein not false  
13 or misleading.” 17 C.F.R. § 240.14a-9.

14 154. The Director Defendants violated § 14(a) of the Exchange Act, 15 U.S.C.  
15 § 78n(a)(1), and Rule 14a-9, 17 C.F.R. § 240.14a-9, promulgated thereunder by the SEC.

16 155. The Director Defendants, individually and in concert, disseminated and/or  
17 permitted the dissemination of materially false and misleading statements in the Company’s  
18 Proxy Statements filed with the SEC, as alleged herein.

19 156. The 2024 and 2025 Proxy Statements were used to solicit shareholder votes in  
20 connection with the re-election of the Director Defendants to the Board and approval of executive  
21 compensation, among other things. The Proxy Statements also contained the Director Defendants’  
22 recommendations against shareholder proposals addressed to Microsoft’s AI strategy and use.

23 157. The 2024 and 2025 Proxy Statements were materially false and misleading for the  
24 reasons alleged herein, as they contained affirmative misstatements and material omissions. The  
25 material omissions in the Proxy Statements made the affirmative statements in the Proxies half-  
26 truths, meaning that the Director Defendants were required to (yet failed to) include all additional  
27 information necessary to make the statements not misleading. *See* 17 C.F.R. § 240.12b-20.

1 158. In the exercise of reasonable care, the Director Defendants should have known that  
 2 by misrepresenting or failing to disclose the foregoing material facts, the statements contained in  
 3 the Proxy Statements were materially false and misleading.

4 159. The materially false and misleading statements contained in the Proxy Statements  
 5 misleadingly induced shareholders to vote in favor of the election of the Director Defendants to  
 6 the Board, thereby allowing them to continue breaching their fiduciary duties to the Company.

7 160. The Company was damaged as a result of the Director Defendants' material  
 8 misrepresentations and omissions in the Proxy Statements.

9 **THIRD CAUSE OF ACTION**

10 **Unjust Enrichment**

11 **(Against the Executive Officer Defendants)**

12 161. Plaintiff incorporates by reference and re-alleges each and every allegation set  
 13 forth above, as though fully set forth herein.

14 162. By their wrongful acts and omissions, the Executive Officer Defendants were  
 15 unjustly enriched at the expense of, and to the detriment of, the Company.

16 163. During the relevant time period, the Executive Officer Defendants either received  
 17 bonuses, stock options, or similar compensation from the Company that was tied to the financial  
 18 performance of the Company or received compensation that was unjust in light of the Executive  
 19 Officer Defendants' bad faith conduct. As alleged *supra*, Nadella alone was awarded unjust  
 20 compensation in the aggregate amount of \$224,115,510 million between 2023-25.

21 164. Defendant Hood was awarded the following compensation during the relevant time  
 22 period:

23 ///  
 24 ///  
 25 ///

26 <b>Named</b>		<b>Stock</b>	<b>Non-equity</b>	<b>All Other</b>	
27 <b>Executive and</b>	<b>Salary</b>	<b>Awards<sup>1</sup></b>	<b>Incentive Plan</b>	<b>Compensation<sup>3</sup></b>	<b>Total</b>
28 <b>Principal</b>	<b>Year (\$)</b>	<b>(\$)</b>	<b>Compensation<sup>2</sup></b>	<b>(\$)</b>	<b>(\$)</b>

Position	(\$)					
	2025	1,000,000	25,037,360	3,421,000	23,191	29,481,551
Amy E. Hood	2024	1,000,000	21,094,956	3,642,750	61,500	25,799,206
	2023	1,000,000	16,450,701	2,295,250	156,946	19,902,897

165. The exact compensation of Defendants Spataro and Jha is not publicly reported by Microsoft and thus discovery is necessary to allege their compensation with more specificity.

166. Plaintiff, as a shareholder and representative of the Company, seeks restitution from the Executive Officer Defendants and seeks an order from this Court disgorging all profits, benefits, and other compensation, including any performance-based compensation obtained by the Executive Officer Defendants due to their wrongful conduct and breach of their fiduciary duties.

**PRAYER FOR RELIEF**

WHEREFORE, Plaintiff prays for relief and judgment, as follows:

A. Declaring that Plaintiff may maintain this action on behalf of Microsoft and that Plaintiff is an adequate representative of the Company;

B. Declaring that Defendants have breached their fiduciary duties to Microsoft;

C. Determining and awarding to Microsoft the damages sustained as a result of the violations set forth above by all Defendants, jointly and severally, together with pre-judgment and post-judgment interest thereon;

D. Directing Microsoft to take all necessary actions to reform and improve its corporate governance, internal controls, and policies by implementing a Board-level reporting and information system—and to monitor that system—to ensure that the Company addresses copyright infringement in any form, and any other civil and criminal laws relating to violation of intellectual property rights;

E. Awarding against all Defendants and in favor of the Company extraordinary equitable and injunctive relief as permitted by law and/or equity as this Court deems just and appropriate;

1 F. Awarding Plaintiff's costs and disbursements for this action, including reasonable  
2 attorneys' fees and expenses; and

3 G. Granting such other relief as this Court deems just and appropriate.

4 **JURY DEMAND**

5 Plaintiff hereby demands a trial by jury.

6 Dated: June 30, 2026

Respectfully submitted,  
COTCHETT PITRE & MCCARTHY, LLP

8 *s/ Karin B. Swope*

9 

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Karin B. Swope (WA Bar # 24015)

1809 7th Avenue, Suite 1610

Seattle, Washington 98101

10 Telephone: (206) 778-2123

11 Facsimile: (206) 299-4184

Email: kswope@cpmlegal.com

12 BOTTINI & BOTTINI, INC.

13 Francis A. Bottini, Jr.

Aaron P. Arnzen

7817 Ivanhoe Avenue, Suite 102

14 La Jolla, California 92037

15 Telephone: (858) 914-2001

Facsimile: (858) 914-2002

16 Email: fbottini@bottinilaw.com

aarnzen@bottinilaw.com

17 *Counsel for Plaintiff*

**VERIFICATION**

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I, Eric Anderson, verify that I am a shareholder of nominal defendant Microsoft Corporation (the “Company”), and that I have continuously owned stock in the Company at all relevant times. I have reviewed the allegations in this Shareholder Derivative Complaint (the “Complaint”). As to those allegations of which I have personal knowledge, I believe them to be true; as to those allegations of which I lack personal knowledge, I rely upon my counsel and counsel’s investigation, and believe them to be true. Having received a copy of the Complaint and reviewed it with counsel, I authorize its filing.

I declare under penalty of perjury that the foregoing is true and correct.

Dated: June 29, 2026

*Eric Anderson*  
\_\_\_\_\_  
Eric Anderson