The risks facing X / Internal documents the dangers facing the company formerly Twitter — Elon Musk included.

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Elon Musk and Linda Yaccarino. Photos by Jerod Harris, Chesnot, Getty Images

Yesterday, employees at X received a crash course in private equity from the folks at Morgan Stanley, whose Shareworks platform is being used to manage the restricted stock units that **Elon Musk** has finally begun doling out.

The issuance of new equity, complete with an official stockholder agreement and disclosure statement, marks the beginning of a new chapter in the saga of Twitter's haywire transformation into X. The old Twitter, a publicly traded company incorporated in Delaware with an independent board of directors, has been dead for a year. In its place now is X Holdings, a private, Nevada-based corporation with one controlling shareholder and a PO box in Austin, Texas.

If the transcript I published of X's all-hands with Musk and **Linda Yaccarino** last week wasn't clear enough, the internal equity documents solidify that Musk, X's "Principal Stockholder," calls the shots. He's the company's "sole director" who controls all decision-making through a special class of shares. He can hire and fire board members, should he decide to create a board.

Despite her CEO title, Yaccarino is mentioned in X's lengthy list of risk factors only once, where it's noted that she is focusing on "business operations" and that the company's "reliance on a small number of executive officers reduces our ability to quickly and successfully respond to any unforeseen or significant issues."

The reason for these documents being shared with employees (and now me) is that Musk has finally acknowledged what he thinks X's equity is now worth: $19 billion, a 55 percent drop from his $44 billion purchase price. Since promising employees new stock awards since he took over, Musk had yet to follow through with the details until this week.

Private companies typically price the shares they give employees as low as possible since that gives the most potential upside. But this is Musk, of course. He didn't follow the typical playbook of using an external auditor to arrive at $19 billion. He also didn't bother to register X's shares with the SEC (an agency he hates), which presents other complications for employees, including future tax implications that could be quite messy.

Based on how the stock market has treated money-losing tech companies this year, $19 billion is quite an optimistic number. When you consider how X's revenue has collapsed and the roughly $13 billion in debt Musk took on to help finance the acquisition, well, yikes. (The only investors who will regularly get to see the company's financials are those who put in $250 million or more: Sequoia, Andreessen Horowitz, Aliva Capital, VvCapital, Binance, Brookfield, Fidelity, **Larry Ellison**, and the Qatar government.)

One theory floated to me by an investor who knows Musk is that an inflated valuation means that he gets to issue fewer shares to employees since they are being awarded RSUs based on a previously communicated dollar amount. By using a higher valuation, fewer shares need to be issued, offsetting Musk's dilution.

Another theory is that Musk wants to keep his investors, which include longtime friends like Ellison and Sequoia's **Roelof Botha**, from having to more aggressively mark down the value of their investment. If Musk, the richest man in the world, says X is worth $19 billion, that's all that matters?

For now, sure. But a private company's valuation is ultimately whatever management thinks someone will pay in the future. Musk has said that he wants to model X's compensation structure after SpaceX, which conducts regular tender offers so employees can sell their vested shares to outside investors and get some liquidity.

Perhaps Musk knows people who will buy X equity at $19 billion in the near future. Nothing about a buyback was communicated to employees this week, flummoxing some. The stockholder agreement only mentions the possibility of the shares, which have a seven-year timer before they expire, being cashed out in the event of an IPO or acquisition.

Risk factor nuggets

The risk factors X shared with employees this week are intentionally meant to spell doom and gloom. Similar disclosures are common in SEC filings by public companies. The reason they exist — to help protect management from shareholder lawsuits — means they are often the most sober look you'll get at the problems facing a business.

If you've been following the news about X closely, a lot of these won't come as a surprise. But still, it's nice to hear from the horse's mouth:

"As of June 30, 2023, we had approximately 1,450 active employees, representing an approximately 80% reduction from the number of X employees prior to the Merger."
"The reduction in force may result in unintended consequences and costs, such as the loss of institutional knowledge and expertise as well as valuable sales and other employees, the failure to effectively transfer knowledge from employees who departed abruptly, attrition beyond the intended number of employees, decreased morale among our remaining employees, reputational harm and difficulty recruiting candidates in the future."

“To the extent Mr. Musk’s behaviors, posts, public commentary or other actions or inactions are not well received, or not broadly acceptable or mainstream, it may result in the loss of advertisers and users, including popular content creators, which would harm our business, financial condition, results of operations and prospects.”

“If our content moderation-related decisions are perceived to be arbitrary, biased, partisan, or self- serving, our reputation may be harmed and we may experience a decline in growth, retention and engagement. Additionally, there may be a perception that X is only useful to users who have political and social ideologies consistent with those of Mr. Musk.”

“We risk losing users on our platform who migrate to Truth Social, particularly as we move closer to the 2024 election cycle.”

“A large portion of the content on our platform comes from a small number of users and accordingly we are highly dependent on those content creators to provide quality content.”

“We may also update our policy to affect accounts whose primary purpose is the promotion of competing platforms. While we believe this will improve our competitive advantage, it could result in reduced engagement by content creators.”

"We have had disagreements with Apple regarding the terms and fees of the App Store, and future disagreements could lead to repercussions such as removal from the App Store. Additionally, there is a continued risk of being removed from Apple and Google's app stores for violating their guidelines, which would significantly impact our user base and reduce our potential revenue from subscribers."

"To date, revenue from subscribers has been derived from a small subset of our users. We will need to meaningfully increase the number of participating accounts in order to realize the anticipated benefits."

"We expect revenue from advertising will continue to be a material part of our overall revenue.. advertisers have expressed concern that there is a lack of comfort with our content moderation policies and capabilities or an acceptable level of certainty that their advertisements will not appear adjacent to or otherwise be associated with objectionable content that may appear on our platform and harm their brand as a result."

"As of September 30, 2023, we were subject to over 2,000 individual arbitration demands, as well as claims, charges, investigations and other legal proceedings (including thirteen putative class action lawsuits for various employment-related matters) that involve severance demands and/or allegations of unlawful discrimination, unlawful termination, breach of contract, intentional infliction of emotional distress, fraud, failure to pay wages, intentional interference with prospective economic gain, and/or violations of the Worker Adjustment and Retraining Notification Act and National Labor Relations Act."

"As we work to decrease our operating costs, we have stopped payment or services on certain of our contractual obligations, including certain lease payments. Such actions have resulted in litigation, including a putative class action lawsuit, and we expect there will be additional litigation with contractual parties from whom we have withheld payments in the future."

"We do not expect to have employment agreements other than offer letters with any member of our senior management or other key employees, and we do not maintain key person life insurance for any employee."