



Case Study: Protecting a Director During Litigation

Filling the Gap After the
Company Stepped Back

Case Study: When the Company Stepped Back, Pholus Stepped In — Quietly Protecting a Director During Litigation Exposure

Executive Summary

A company director was left exposed when the organization failed to support him in a lawsuit. Pholus coordinated with counsel, resolved insurance gaps, and protected the individual while advising their exit from the organization.

Key Results & Indicators

- Director removed from lawsuit
- Personal risk eliminated
- Exit handled without triggering investor concern
- Zero reputational exposure for individual or firm

The Situation

A mid-sized company operating reached out to Pholus shortly after becoming entangled in a complex legal dispute. The company was facing a lawsuit that involved both organizational actions and individual accountability, and leadership felt their internal communications with legal counsel were unclear and inconsistent. There were concerns that misalignment could worsen exposure for executives, confuse the legal defense strategy, and damage the company's reputation.

Pholus was initially engaged to help clarify the organization's messaging to their attorneys — streamlining communication across stakeholders, reducing internal panic, and supporting the leadership team as they navigated unfamiliar legal terrain.

We began the engagement with a short-term advisory mandate focused on one deliverable: an internal accountability session.

Accountability Session: Clarifying the Landscape

Pholus led a 90-minute accountability session with senior leaders and department heads. The goals were threefold:

1. Clarify internal roles and risks
2. Establish a coherent communication pathway to external legal counsel
3. Separate personal vs. organizational liability in discussions and documentation

While the session was successful in addressing immediate confusion and calming internal anxiety, the company opted not to continue with a full advisory retainer. They appreciated the intervention but chose to rely solely on their external legal team moving forward.

However, not everyone in the room was ready to move on.

An Overlooked Risk: One Director Left Exposed

During the engagement, Pholus requested to review the organization's insurance coverage and risk policies — a standard step in any situation involving executive liability. What we found was alarming:

The company had no Directors and Officers (D&O) insurance policy in place.

This meant that one of the directors — who had been personally named in the lawsuit — was now exposed to legal, reputational, and financial risk with no organizational safety net. They had mistakenly believed that the company's general liability coverage would protect them. It did not.

Upon learning this, the director reached out privately. They requested that Pholus continue supporting them, but now as a personal advisor, not a company-facing consultant.

Before accepting the director's request for continued support, Pholus proactively informed the company of the situation and sought explicit confirmation that taking on the individual as a personal client would not constitute a conflict of interest. The company acknowledged the request and agreed to allow Pholus to work with the director independently.

This step ensured full transparency, preserved professional boundaries, and avoided any perception of backchannel behavior or divided loyalties during a sensitive legal process.

Switching Tracks: Quiet, Targeted Protection

Pholus stepped into this new advisory role with clear objectives:

- Coordinate with the director's personal legal counsel
- Assess the risk exposure created by the lawsuit
- Develop a communication strategy to remove the director from liability without escalating the situation

We worked behind the scenes with legal representatives to correct prior statements, clarify the director's role in key decisions, and document a lack of involvement in certain contested actions. The director had not acted in bad faith — they were simply caught in the organizational crossfire due to title and timing.

Resolution: Lawsuit Narrowed, Exit Coordinated

Within weeks, Pholus succeeded in coordinating with the legal team to have the director removed from the lawsuit. No press release was issued, and no media coverage occurred — the company was privately held, and the removal was handled discreetly.

But while the legal threat faded, something else broke that couldn't be repaired: trust.

The director felt betrayed that the company had failed to secure D&O coverage, especially given their long-standing contributions and loyalty to the firm. They began to question the company's governance, decision-making culture, and willingness to protect its leadership in moments of vulnerability.

Ultimately, the director decided to resign from their role and exit the company. Pholus helped manage that transition, ensuring that:

- All exit communications were respectful and professional
- No bridges were burned unnecessarily
- The director's next steps were protected and planned

Key Takeaways

This case stands out not because of what happened publicly, but because of what didn't:

- No lawsuits escalated
- No reputations were publicly damaged
- No one resigned under a cloud of scandal
- No press leaks occurred
- And no one went to court unnecessarily

Pholus operated in the background, advocating for one exposed individual in an ecosystem that was rapidly turning transactional.

Why It Matters

Most advisors focus only on the company. But when governance gaps create personal exposure for individuals, someone needs to be willing to say, "We'll stay with you — even if the organization won't."

Sometimes the most successful outcomes are invisible. This was one of them.

Pholus supports companies — but we also protect the individuals who hold them up. Especially when no one else does.

About Pholus

Pholus is a discreet advisory firm that supports founders, boards, and stakeholders in fragile or complex environments. We specialize in quiet interventions, exit planning, and operational clarity when reputations, relationships, or resources are at risk.

Need to navigate something delicate or high-stakes? We work behind the scenes to help you stabilize, reset, or exit — without triggering avoidable fallout.

Visit us: <https://www.pholus.co/> **Email:** contact@pholus.co **Signal:** pholus.01

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