



Case Study: Stopping a Criminal Buyer Before the Sale

Due Diligence That
Averted Legal Disaster

Case Study: Sale Blocked to Prevent Criminal Exposure — How Pholus Uncovered a Hidden Risk Before It Became a Legal Disaster

Executive Summary

A founder-led business was on the verge of completing a sale to what appeared to be a qualified international buyer. However, during a routine advisory engagement, Pholus conducted discreet due diligence and uncovered concerning indicators: the buyer—a European national with Latin American residency—intended to use the company to move illicit funds. Pholus immediately advised the seller to halt the transaction to avoid potential legal exposure, including possible RICO liability. Rather than attempt to salvage the deal or seek another buyer, the founder—already disengaged from the business—chose to wind it down. Pholus guided the entire exit process, ensuring vendors were paid, accounts were closed, and a final tax return was filed. The client avoided reputational and criminal entanglement, and the business was shut down cleanly, with no outstanding obligations.

Key Results & Indicators

- Deal terminated prior to closing
- All vendors paid and accounts closed
- Final tax return filed correctly
- No association with illicit actors
- RICO exposure averted entirely

The Situation

A client engaged Pholus to assist in the sale of a small business they no longer wished to operate. The founder was emotionally checked out, ready to exit the business, and believed they had found a legitimate buyer—an international entrepreneur who expressed interest in maintaining the existing structure while “expanding operations.”

The buyer was a European national who held residency in Latin America. On paper, the buyer had enough assets to support the transaction, and had even submitted polished business plans to satisfy surface-level due diligence. But the client retained Pholus for an additional review before finalizing the deal.

That decision proved critical.

Our Findings: A Hidden Financial Risk with Criminal Implications

Pholus conducted a quiet, structured due diligence investigation. We began by analyzing the buyer’s history, financial footprint, and documented intentions for the business.

Several red flags surfaced:

- The buyer had limited verifiable operational experience in the target industry
- Multiple shell entities linked to the buyer existed across different jurisdictions
- Discrepancies appeared between the buyer’s declared financials and the traceable transactions
- Certain phrases in the buyer’s proposed business model mirrored techniques often used in illicit finance operations (including money laundering layering tactics)

Through our analysis and local partner intelligence, it became increasingly likely that the buyer intended to use the acquired business as a vehicle for running illicit funds through the Latin American banking system. Given the cross-border nature of the buyer's profile, the risk of triggering a future RICO investigation (Racketeer Influenced and Corrupt Organizations Act) was nontrivial—even if the seller had no ongoing involvement.

Our Recommendation: Cancel the Deal — and Exit Safely

We delivered a detailed, plain-language risk report to the client. Our recommendation was clear: cancel the transaction immediately. While there was no proof of a crime yet committed, the risk of entanglement in a criminal conspiracy—especially given the buyer’s operational opacity—was too great to ignore.

We also advised the client that, given their emotional detachment and lack of interest in resuming daily operations, it was time to consider a dignified business wind-down. The original plan of selling and walking away was no longer viable.

The Execution: A Clean, Quiet Exit

Pholus worked closely with the client and their legal and financial advisors to implement a structured, low-friction shutdown of the business. The approach prioritized ethical closure, reputational discretion, and administrative completeness. Every element of the exit was sequenced with care to minimize disruption and emotional drag.

The Execution: A Clean, Quiet Exit

We began by stabilizing relationships with all existing vendors and suppliers.

- Outstanding balances were identified, prioritized, and paid promptly, even in cases where relationships had lapsed.
- Every vendor contract—formal or informal—was reviewed, renegotiated where needed, and either fulfilled or terminated in writing.
- All final communications with vendors were crafted to express appreciation, ensure continuity for any post-close responsibilities, and protect the client’s long-term reputation.

By exiting on good terms, the client preserved their personal and professional credibility—important for future ventures, references, or community standing.

Financial Closure

We coordinated the full financial wind-down of the entity in concert with the client's accountant and banking institutions.

- All corporate bank accounts were closed after confirming that no future debits were pending.
- A detailed reconciliation was conducted to ensure no open liabilities or overlooked assets remained.
- We coordinated directly with the accountant to prepare and file the final tax return, making sure that the business was legally and financially closed out with proper documentation for future audits, investor inquiries, or compliance needs.

The books were not just closed—they were archived, labeled, and accessible, reducing future friction for the founder in both personal and professional contexts.

Stakeholder Communication

Pholus helped the client communicate clearly and graciously with all relevant stakeholders.

- A final message was drafted and delivered to employees, clients, and select partners, expressing gratitude for their support and confirming the formal closure of the business.
- The communication deliberately avoided any mention of the failed sale or the buyer's background, ensuring no speculation, legal exposure, or reputational harm.
- We advised the client on how to handle informal inquiries, giving them language to protect their privacy while still showing poise and professionalism.

In every message, the tone was controlled, respectful, and appreciative—leaving no room for gossip or misinterpretation.

Throughout the process, Pholus served as the client's primary strategic sounding board and operational project manager. From final contract reviews to inbox shutdowns, we guided every detail—keeping the founder focused, steady, and protected from the emotional and logistical weight of the transition.

The result was not just a shutdown—it was a clean break, free from lingering liabilities, unanswered questions, or reputational risk.

The Outcome: No Scandal, No Fallout, No Regret

- The client exited the business with peace of mind and no legal or reputational baggage
- The deal was quietly canceled, and no further engagement occurred with the flagged buyer
- The shutdown process was handled with professionalism and transparency
- All vendors were paid, and all obligations were honored
- No press coverage or third-party inquiries arose, and no regulatory interest was triggered

Had the sale gone forward, the client could have unwittingly become tied to a criminal operation, risking asset seizure, regulatory scrutiny, or worse. Instead, with Pholus' guidance, they avoided exposure—and walked away clean.

Why It Matters

Most standard due diligence checks would have cleared the buyer. A valid passport, clean online profile, and a decent-looking business plan are often enough to satisfy sellers who are ready to move on.

But in fragile markets, where regulatory gaps are wide and criminal actors are sophisticated, “plausible buyers” can pose very real risks. Pholus specializes in identifying the gap between what looks safe and what actually is.

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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