



*United States Attorney
Southern District of New York*

**FOR IMMEDIATE RELEASE
JULY 8, 2009**

**CONTACT: U.S. ATTORNEY'S OFFICE
YUSILL SCRIBNER,
REBEKAH CARMICHAEL,
JANICE OH
PUBLIC INFORMATION OFFICE
(212) 637-2600**

**FBI
JIM MARGOLIN, MONICA McLEAN
(212) 384-2720, 2715**

**SIX CHARGED IN \$140 MILLION
INVESTMENT FRAUD AND STOCK MANIPULATION SCHEME**

LEV L. DASSIN, the Acting United States Attorney for the Southern District of New York, and JOSEPH M. DEMAREST, JR., the Assistant Director-in-Charge of the New York Office of the Federal Bureau of Investigation, announced today that ROSS H. MANDELL, STEPHEN SHEA, ADAM HARRINGTON, a/k/a "Adam Rukdeschel," ARN WILSON, ROBERT GRABOWSKI, and MICHAEL PASSARO have been charged in a two-count Indictment with conspiracy to commit securities, wire and mail fraud; and with securities fraud. The defendants surrendered this morning to agents of the FBI.

According to the two-count Indictment unsealed today in Manhattan federal court:

From 1998 through 2006, the defendants participated in a scheme to defraud investors via two successive securities broker-dealers: The Thornwater Company, L.P., ("Thornwater"); and Sky Capital LLC and associated entities, including Sky Capital Enterprises Inc., and Sky Capital Holdings Ltd. (collectively "Sky Capital"). Until late 2006, shares of Sky Capital Holdings ("SKH") and Sky Capital Enterprises ("SKE") were traded publicly on the Alternative Investment Market of the London Stock Exchange. Through material misrepresentations and omissions, the defendants induced victims to invest in purported investment opportunities promising large returns, such as private placements, offers to purchase restricted stock, and offers to purchase Sky Capital securities. In fact, investor funds were substantially used to enrich the defendants and others; to pay excessive undisclosed commissions to brokers; and to pay off victims who had lost money through prior purported investment opportunities. In connection with the scheme, the defendants, acting primarily from Thornwater and Sky Capital's offices in New

York, New York, raised a total of approximately \$140 million from investors.

As part of the scheme the defendants and others manipulated the secondary market for SKH and SKE stock. This was done to placate existing investors; to induce customers to make further investments in various investment vehicles at a "discount" from the price of the publicly-traded stock; and to enrich members of the scheme who had substantial holdings in Sky Capital. The manipulation was effected by using high-pressure sales tactics and materially false statements and omissions to induce investors to buy SKH and/or SKE stock; to discourage investors from selling the stock; by enforcing a "no net sales" policy whereby brokers were instructed not to accept SKH or SKE sell orders unless a matching buy order could be generated for another customer; by improperly "crossing" SKH and/or SKE stock among customer accounts to maintain the market price; and by making unauthorized purchases of SKH and/or SKE stock in retail customer accounts. The manipulation was designed to make it appear that there was demand for SKH and SKE stock (when in fact there was not); to control the market in the stock; and to maintain and increase the share price. To facilitate the market manipulation, MANDELL, SHEA, and HARRINGTON offered excessive undisclosed payments to Sky Capital brokers, including HARRINGTON, WILSON, GRABOWSKI, and PASSARO. The payments were often disguised as "advances," "loans," or "special bonuses." To generate funds for these payments, participants in the scheme, at MANDELL's direction, created a "spread" on SKH and SKE stock by negotiating to purchase large blocks of Sky Capital stock from Sky investors at discounted prices and then soliciting other Sky customers to purchase the same Sky Capital stock at the higher price. The resultant profit was split between Sky Capital and the brokers.

ROSS H. MANDELL, 52, of Boca Raton, Florida, was previously Chief Executive Officer of various Sky Capital companies and an undisclosed principal of Thornwater, as well as a Thornwater broker and investment banker. MANDELL exercised day-to-day management control over various Sky Capital companies and their employees either directly or through others despite Sky Capital's agreement with the NASD that, because of MANDELL's disciplinary history in the securities industry, MANDELL would not hold a supervisory position.

STEPHEN SHEA, 37, of Brooklyn, New York, was previously President and Chief Operating Officer of Sky Capital Holdings and of Sky Capital LLC; a member of Sky Capital Enterprises' Board of Directors; and Thornwater's Operations Principal. SHEA oversaw all aspects of Sky Capital's business operations, including

customer accounts, securities broker-dealer activities, and securities trading.

ADAM HARRINGTON, 39, of Miami, Florida, ARN WILSON, 52, of Concord, North Carolina, and MICHAEL PASSARO, 46, of Delray Beach, Florida, were previously registered brokers at Sky Capital and Thornwater. HARRINGTON, WILSON, and PASSARO each actively solicited customers to purchase Sky Capital securities and directed other brokers to do the same.

ROBERT GRABOWSKI, 41, of Staten Island, New York, was previously a registered broker at Sky Capital and President and CEO of Thornwater. GRABOWSKI participated in soliciting investors at Thornwater and Sky Capital.

The defendants are expected to be arraigned today before United States Magistrate Judge ANDREW J. PECK in Manhattan federal court. The case has been assigned to United States District Judge PAUL A. CROTTY.

If convicted, MANDELL, SHEA, HARRINGTON, WILSON, GRABOWSKI, and PASSARO each face a maximum sentence on the conspiracy count of 5 years in prison and a maximum fine of \$250,000, or twice the gross gain or loss from the offense. On the securities fraud count, the defendants face a maximum sentence of 20 years in prison and a maximum fine of \$5 million, or twice the gross gain or loss from the offense.

Mr. DASSIN praised the investigative work of the FBI in this case, and thanked the United States Securities and Exchange Commission for its assistance. Mr. DASSIN also thanked the Financial Services Authority and local law enforcement agencies in the United Kingdom for their assistance. He added that the investigation is continuing.

Assistant United States Attorneys JOSHUA A. GOLDBERG and ALEXANDER J. WILLSCHEER are in charge of the prosecution.

The charges contained in the Indictment are merely accusations, and the defendants are presumed innocent unless and until proven guilty.

09-205

###