



*United States Attorney  
Southern District of New York*



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**FORMER SKY CAPITAL CEO AND SENIOR BROKER FOUND GUILTY  
IN MANHATTAN FEDERAL COURT FOR COMMITTING MASSIVE  
INVESTMENT FRAUD AND STOCK MANIPULATION SCHEME**

PREET BHARARA, the United States Attorney for the Southern District of New York, announced that ROSS MANDELL, a former Chief Executive Officer of Sky Capital, LLC, a brokerage firm, and related Sky Capital companies, and ADAM HARRINGTON, a senior broker at Sky Capital, were found guilty today in their involvement in a scheme to defraud investors through two successive securities broker-dealers -- The Thornwater Company, L.P. ("Thornwater") and Sky Capital, LLC. MANDELL and HARRINGTON were convicted after a five-week trial presided over by U.S. District Judge PAUL A. CROTTY.

Manhattan U.S. Attorney PREET BHARARA stated: "Ross Mandell and Adam Harrington were masters of deception who had no qualms about lying to investors, manipulating stock prices, and using dubious trading practices to enrich themselves at the expense of their victims. Today, a jury in Manhattan federal court saw through their elaborate scheme and recognized the defendants as the shameless fraudsters they truly are. They will now pay for their crimes."

According to the Superseding Indictment filed in Manhattan federal court, other court documents, and statements made during trial:

From 1998 through 2006, MANDELL, HARRINGTON and their co-conspirators STEPHEN SHEA, ARN WILSON, ROBERT GRABOWSKI, and MICHAEL PASSARO participated in a scheme to defraud investors through material misrepresentations and omissions that induced individuals to invest in Thornwater and Sky Capital-related private placements. In fact, the defendants used investor funds to enrich themselves 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, operating out of Thornwater and

Sky Capital's offices in New York, New York, raised a total of approximately \$140 million from investors. MANDELL controlled the operations of both broker-dealers.

As part of the scheme, MANDELL and HARRINGTON directed the brokers at Sky Capital, LLC to manipulate the market prices of two Sky Capital stocks - Sky Capital Holdings Ltd., and Sky Capital Enterprises Inc. (collectively "Sky Capital"). By manipulating the market price of the Sky Capital stocks, the defendants were able to raise tens of millions of dollars from investors through additional Sky Capital private placements with promises that the private placement shares of Sky Capital stocks were "discounted" to the purported market price. To that end, the defendants enforced a "no net sales" policy and instructed brokers not to accept Sky Capital sell orders unless a matching buy order could be generated from another Sky Capital customer, for the purpose of maintaining the market price of the Sky Capital stocks. The defendants and others used high-pressure sales tactics and made materially false statements and omissions to induce investors to buy Sky Capital stock and to discourage them from selling. The defendants and others also made unauthorized purchases of Sky Capital stock in customer accounts as part of the no net sales policy.

To facilitate the market manipulation, MANDELL and HARRINGTON offered excessive undisclosed payments to Sky Capital brokers - sometimes as much as 400 percent more than their normal commissions. The payments were often disguised as "advances," "loans," or "special bonuses." To generate funds for these payments, MANDELL directed participants in the scheme to create a "spread" on Sky Capital stock by negotiating to purchase large blocks from Sky investors at discounted prices. They then solicited other Sky customers to purchase the same stock at the higher price. The profit was split between Sky Capital and the brokers.

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MANDELL, 54, of Boca Raton, Florida, and HARRINGTON, 41, of Miami, Florida were both found guilty of one count of conspiracy to commit securities fraud, wire fraud and mail fraud; one count of securities fraud; one count of wire fraud; and one count of mail fraud. They each face a maximum sentence of 65 years in prison, a maximum fine of \$5 million or twice the gross pecuniary gain or loss, and a maximum term of supervised release

SHEA, WILSON, GRABOWSKI, and PASSARO have previously

pled guilty and their sentencings are pending.

Mr. BHARARA praised the investigative work of the Federal Bureau of Investigation in this case and thanked the U.S. Securities and Exchange Commission for its assistance. He also thanked the Financial Services Authority and local law enforcement agencies in the United Kingdom for their assistance.

This case was brought in coordination with President Barack Obama's Financial Fraud Enforcement Task Force, on which U.S. Attorney Bharara serves as a co-chair of the Securities and Commodities Fraud Working Group. President Obama established the interagency Financial Fraud Enforcement Task Force to wage an aggressive, coordinated and proactive effort to investigate and prosecute financial crimes. The task force includes representatives from a broad range of federal agencies, regulatory authorities, inspectors general, and state and local law enforcement who, working together, bring to bear a powerful array of criminal and civil enforcement resources. The task force is working to improve efforts across the federal executive branch, and with state and local partners, to investigate and prosecute significant financial crimes, ensure just and effective punishment for those who perpetrate financial crimes, combat discrimination in the lending and financial markets, and recover proceeds for victims of financial crimes.

This case is being handled by the Office's Securities and Commodities Fraud Task Force. Assistant U.S. Attorneys PABLO QUIÑONES and KATHERINE GOLDSTEIN are in charge of the prosecution.

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