



***United States Attorney
Southern District of New York***

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**FORMER OWNER OF FRED LEIGHTON PLEADS GUILTY
IN MANHATTAN FEDERAL COURT TO MASSIVE FRAUD
IN CONNECTION WITH OVER \$210 MILLION
IN LOANS AND BANKRUPTCY PROCEEDINGS**

*Defendant Embezzled Rare Jewelry And Artifacts Valued At More
Than \$48 Million*

PREET BHARARA, the United States Attorney for the Southern District of New York, announced that RALPH ESMERIAN, the former owner and chairman of Fred Leighton Holdings Inc. ("Fred Leighton"), the Manhattan-based luxury jewelry retailer, pled guilty today to a three-count Indictment charging him with wire fraud, bankruptcy fraud, and concealment of assets in connection with a scheme to embezzle and double-pledge assets that ESMERIAN estimated to be worth more than \$48 million in collateral. That collateral partially secured over \$210 million in loans ESMERIAN used to finance his business operations and to purchase Fred Leighton. ESMERIAN pled guilty in Manhattan Federal Court before U.S. District Judge DENISE L. COTE.

Manhattan U.S. Attorney PREET BHARARA said: "Ralph Esmerian's flagrant abuse of the bankruptcy system, at the expense of the lenders who trusted him with their money and collateral, was breathtaking in scope. With the assistance of our partners at the United States Postal Inspection Service, as well as the invaluable support of the U.S. Bankruptcy Trustee's Office, we will vigorously prosecute and seek to punish those who commit such brazen acts of deception."

According to the Criminal Information filed today in Manhattan federal court, the Criminal Complaint previously filed, court papers filed in U.S. Bankruptcy Court for the Southern District of New York, and statements made in court:

ESMERIAN was a dealer in museum-quality jewelry, antiquities, and rare artifacts. He operated his business primarily through R. Esmerian, Inc. ("REI"), a privately held

corporation of which he was the sole operator and majority owner. Beginning in at least 2005, ESMERIAN sought to expand his business operations by purchasing Fred Leighton, the luxury jeweler, as a retail outlet for REI's valuable inventory, which he estimated to be worth approximately \$192.3 million as of December 2006. ESMERIAN financed the purchase of Fred Leighton and REI's business operations by obtaining at least \$217 million in loans from Merrill Lynch Mortgage Capital, Inc. ("Merrill Lynch"), Acorn Capital Group, LLC ("Acorn") and other sources.

In particular, in 2005 and 2006, ESMERIAN borrowed, through entities he owned and controlled, approximately \$177 million from Merrill Lynch in two loans. The loans were secured by the inventory of Fred Leighton and a collection of rare jewelry, artifacts and antiquities that ESMERIAN pledged to Merrill Lynch. However, unbeknownst to Merrill Lynch, at the time ESMERIAN entered into the 2006 loan agreements, he had already sold some of the pledged collateral which he estimated to be worth over \$3.4 million. Soon thereafter, without informing Merrill Lynch, and in violation of the loan agreements, ESMERIAN sold an additional \$1.6 million worth of Merrill Lynch's collateral to a third party, and double-pledged over \$6 million worth of additional collateral to help secure a \$40 million loan from Acorn.

In January 2008, following the commencement of litigation between Merrill Lynch and ESMERIAN, the New York State Supreme Court issued a temporary restraining order (the "State Court TRO") prohibiting ESMERIAN from selling or transferring certain items of Merrill Lynch's collateral. Thereafter, ESMERIAN repeatedly violated the State Court TRO by secretly selling additional Merrill Lynch collateral, and by retaining the proceeds of those sales for his personal use or other improper use.

On April 15, 2008, ESMERIAN caused Fred Leighton and related entities to file a voluntary petition for relief under Title 11 of the United States Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of New York ("the Bankruptcy Court"), in a matter captioned In re: Old Delaware Jewels, Inc., No. 08-11363 (RDD). In the course of the Bankruptcy Proceeding, and despite orders of the Bankruptcy Court, ESMERIAN repeatedly and systematically embezzled tens of millions' worth of property of Fred Leighton and related debtor entities, sold that property, and kept the proceeds for himself or to pay off other debts.

For example, in the summer of 2008, ESMERIAN secretly sold, for \$2 million, one of the most valuable items of Merrill

Lynch's collateral, a 13-carat Burma ruby and diamond ring with an estimated worth of \$2.94 million. He had the proceeds wired into his personal bank account.

In another instance, in May 2008, ESMERIAN secretly sold another item of Merrill Lynch collateral, a rare butterfly brooch consisting of hundreds of virtually flawless colored diamonds valued at approximately \$2.45 million. He had \$1 million of the proceeds wired to his personal bank account. After ESMERIAN's theft of the brooch was discovered by Merrill Lynch, ESMERIAN quickly raised the funds required to secure the return of the brooch by stealing valuable jewelry from a client, identified as "Individual-3" in the Information, and additional debtor property that ESMERIAN valued at approximately \$10 million, and selling the stolen jewelry for substantially less than that value. At or about the same time, ESMERIAN took additional valuable jewelry from Individual-3, sold the jewelry, and secretly had \$1.2 million of the proceeds from the sale to be diverted, for his personal use or other improper use, to a bank account that he controlled.

In the course of the Fred Leighton bankruptcy proceeding, ESMERIAN repeatedly lied to the Bankruptcy Court and his creditors in sworn deposition testimony, sworn affidavits, and other documents concerning his embezzlement of debtor property, his double-pledging of collateral, and the location of millions of dollars' worth of assets of the bankruptcy estate.

* * *

ESMERIAN, 70, of New York, New York, faces a maximum sentence of 30 years in prison. He will also be required to pay restitution to the victims of his offense and to forfeit the proceeds of his crimes. ESMERIAN is scheduled to be sentenced by Judge COTE on July 22, 2011, at 2:00 p.m.

Mr. BHARARA thanked the United States Postal Inspection Service for its outstanding work on the investigation. Mr. BHARARA also thanked the Office of the United States Bankruptcy Trustee for the Southern District of New York.

This matter is being handled by the Office's Complex Frauds Unit. Assistant U.S. Attorneys DAVID B. MASSEY and NICOLE FRIEDLANDER are in charge of the prosecution.

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