



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

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**MANHATTAN U.S. ATTORNEY CHARGES FORMER OWNER OF FRED
LEIGHTON WITH FRAUD IN CONNECTION WITH OVER
\$210 MILLION IN LOANS AND BANKRUPTCY PROCEEDINGS**

*Defendant Embezzled And Double-Pledged Rare Jewelry And Other
Collateral Valued At More Than \$40 Million*

PREET BHARARA, the United States Attorney for the Southern District of New York, and RONALD J. VERROCHIO, the Inspector-in-Charge of the New York Office of the United States Postal Inspection Service ("USPIS"), announced today the arrest of RALPH ESMERIAN, the former owner and chairman of Fred Leighton Holdings Inc. ("Fred Leighton"), the Manhattan-based luxury jewelry retailer, on charges that he embezzled and double-pledged more than \$40 million in collateral in connection with more than \$210 million in loans ESMERIAN used to finance his business operations and to purchase Fred Leighton. ESMERIAN was also charged with committing bankruptcy fraud by deceiving and making false statements in proceedings relating to Fred Leighton's Chapter 11 bankruptcy.

Manhattan U.S. Attorney PREET BHARARA said: "Ralph Esmerian allegedly lied and looted to maintain his personal and financial status by tricking his lenders, stealing from investors, and deceiving the bankruptcy court. With the assistance of our partners at the USPIS, as well as the invaluable support of the U.S. Bankruptcy Trustee's Office, we will vigorously prosecute anyone who defrauds creditors and financial institutions for personal gain."

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

ESMERIAN is a dealer and collector of high-value jewelry, artwork, and other objects, much of it museum-quality. ESMERIAN operated his jewelry business primarily through R. Esmerian, Inc. ("REI"), a privately held corporation that ESMERIAN controlled through majority ownership. 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 ESMERIAN estimated to be worth approximately \$192.3 million as of in or about December 2006. ESMERIAN financed the purchase of Fred Leighton and REI's business operations by obtaining at least approximately \$217 million in loans from financial institutions and other sources, including auction houses, other jewelry dealers, and private individuals.

In particular, in 2005 and 2006, in order to finance the purchase of Fred Leighton, ESMERIAN caused entities that he owned and controlled to borrow approximately \$177 million in two loans from Merrill Lynch Mortgage Capital, Inc. ("Merrill Lynch"). The Merrill Lynch loans were secured by the inventory of Fred Leighton and a collection of rare jewelry, antiquities and other valuable objects that ESMERIAN pledged to Merrill Lynch. However, less than three months after obtaining the second Merrill Lynch loan, and without informing Merrill Lynch, ESMERIAN sold over \$1.6 million worth of Merrill Lynch's collateral to a third party. Soon thereafter, ESMERIAN double-pledged more than \$6 million worth of Merrill Lynch's collateral to obtain other loans, including a \$40 million loan from Acorn Capital Group, LLC.

In 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, ESMERIAN repeatedly and systematically embezzled property of Fred Leighton and related debtor entities, sold that property, and kept the proceeds for himself or to pay off other debts.

For instance, in or about May 2008, ESMERIAN secretly sold one of the most valuable items of Merrill Lynch's collateral, a diamond brooch valued at approximately \$2.45 million, and caused \$1 million of the proceeds to be 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 additional debtor property valued at approximately \$10 million and selling it for substantially less than that value. In other instances, ESMERIAN took valuable jewelry from an individual, identified as "Individual 2" in the Complaint, sold it, and fraudulently kept proceeds from the sale, resulting in millions of dollars in losses to Individual 2.

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 tens of millions of dollars worth of assets of the bankruptcy estate.

* * *

The Complaint charges ESMERIAN with bankruptcy fraud, concealment of assets in connection a bankruptcy proceeding, and wire fraud. These charges are punishable by sentences of imprisonment of up to five years, five years, and 30 years, respectively.

ESMERIAN, 70, was arrested this morning in New York, New York, and will be presented in Manhattan federal court before U.S. Magistrate Judge KATZ later today.

Mr. BHARARA thanked the USPIS for its outstanding work in the investigation of the case announced today. Mr. BHARARA also thanked the Office of the United States Bankruptcy Trustee for the Southern District of New York. He added that the investigation is continuing.

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

The charge and allegations contained in the Complaint are merely accusations, and the defendant is presumed innocent unless and until proven guilty.