



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

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**FORMER OWNER OF FRED LEIGHTON SENTENCED IN MANHATTAN
FEDERAL COURT TO SIX YEARS IN PRISON FOR 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, was sentenced today in Manhattan federal court to six years in prison for wire fraud, bankruptcy fraud, and concealment of assets in connection with a scheme to embezzle and double-pledge collateral that ESMERIAN estimated to be worth tens of millions of dollars. That collateral partially secured over \$210 million in loans ESMERIAN used to finance his business operations and to purchase Fred Leighton. United States District Judge DENISE L. COTE imposed today's sentence.

Manhattan U.S. Attorney PREET BHARARA said: "Ralph Esmerian tried to game the financial system and the bankruptcy process for years to finance his businesses. As a result of his frauds, the lenders who trusted him have lost tens of millions of dollars. Now Esmerian will pay a steep price for his crimes."

According to the Criminal Information, the Criminal Complaint, 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, which ESMERIAN repeatedly violated by secretly selling additional Merrill Lynch collateral and converting the proceeds to his own 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 of dollars 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 he 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.

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In addition to the prison term, Judge COTE sentenced ESMERIAN, 71, of New York, New York, to three years of supervised release. ESMERIAN was also ordered to perform 1800 hours of community service and forfeit \$20 million. Restitution is pending.

In imposing the sentence, Judge COTE said that, beginning in 2008, ESMERIAN "lived a life of fraud and deceit on a massive scale" and noted that this sentence shows that "you cannot defraud your creditors, you cannot lie to the court, [and] you cannot undermine the litigation system."

Mr. BHARARA thanked the United States Postal Inspection Service for its outstanding work on the investigation. He 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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