

## STORIES CITY LIGHTS NEWS

# Dubious Entanglements

By Don Bauder | Published Thursday, Dec. 9, 2004

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San Diego — It's great to have an internationally recognized name -- except when it gets dragged through the mud. Consider economist Arthur B. Laffer, a resident of Rancho Santa Fe. He is considered the father of supply-side economics. As a member of President Reagan's Economic Policy Board, he was recognized as the primary force behind the tax cuts of the 1980s.

According to legend, the so-called supply-side revolution began in late 1974, in a Washington, D.C., restaurant, when Laffer sketched on a napkin what became known as the Laffer Curve. It postulated that as taxes rise, government revenue increases, but at a certain point, revenue decreases because taxes are so high that people don't work as hard. In a March 29, 1999, *Time Magazine* cover story on "The Century's Greatest Minds," the Laffer Curve was cited as one of "a few of the advances that powered this extraordinary century."

Almost all economists stick to economics. Not Laffer. Through his La Jolla-based Laffer Associates, he invests in speculative companies. "I love this," he enthuses. His name gets used to tout these enterprises. But when they turn out to be stinkers, the Laffer name gets besmirched. He has not always used good judgment in such involvements.

In late November, entrepreneurs who had wooed investors into a now-bankrupt company decided to settle a lawsuit filed by investors who had plunked more than \$3 million into the enterprise. The San Diego company, Qualmag, was attempting to develop a batteryless power supply capable of operating on static energy. The founder, Hassan Yarpezhkan, had recruited a family of San Diego physicians -- Darush Mohyi and Nasrin, Hamid, and Majid Mani -- to fund the venture. They are Iranians, as is Yarpezhkan.

Yarpezhkan has a track record. Earlier, he had sold a company to San Diego's Maxwell Technologies.

Laffer was recruited to join Qualmag's board. He got 450,000 shares for a penny apiece. Yarpezhkan got his 26.5 million shares for two cents each. As is typical in such ventures, the pair would have raked in millions if the company had gone public and succeeded, as it told potential investors it was capable of doing.

After it was clear that the company would flop, the Manis and Mohyi brought a superior-court suit against Yarpezhkan, Laffer, Qualmag, and Qualmag's accounting firm, Matranga & Correia (which has since split up). The suit, handled by attorneys Vincent Bartolotta, Jr., and Karen Frostrom, charged fraud and deceit, negligent misrepresentation, securities fraud, and civil conspiracy, among other things.

A trial went on for eight weeks. On November 23, right after the jury announced it had reached a verdict, the defendants and their insurance company decided to settle for \$3.2 million, or the amount that the doctors had originally invested. The jury then came back with a judgment of only \$2 million and also ruled in favor of the defendants in a cross-complaint against Hamid Mani for breach of contract. "It was academic, because it was already settled," says Edward Chapin, who represented Yarpezhkan.

The suit charged that Yarpezhkan and Laffer made misrepresentations that

induced the doctors to invest. In March of 2001, according to the suit, Laffer told the doctors that Qualmag had enough contracts to assure profitability in 2002, had no competitors, and would be a safe investment. Laffer repeated the alleged misrepresentations during 2001 and 2002, "lulling the plaintiffs into a false sense of security," the suit said.

Laffer's "prestige was one of the things that helped win them [the doctors] over," says Bartolotta.

"I had not met them [the doctors] when they invested," rejoins Laffer. "I was not a key person." Among several things, Laffer says he never claimed that the company had enough contracts to be profitable in 2002.

"Dr. Laffer's defense was that he did not make any of these misrepresentations, and the jury agreed with that," says Chapin. He says company misrepresentations were few. Yarpezhkan admitted that he was in error in stating that he had several patents. "He jumped the gun a couple of times on what was a patent pending. Other than that, the information that was related was accurate as far as we are concerned."

Bartolotta strongly disagrees. Among many things, he says, company touts, including Laffer, overstated the company's innovations and financial strength and neglected to state many risks of the investment. According to Bartolotta, defendants say they always stressed that the products were in development, and financial success was not guaranteed.

Qualmag's former accounting firm of Matranga & Correia, charged with helping to develop false information used to recruit investors, was "essentially vindicated," says the former firm's attorney, Robert Semmer.

"I thought it [Qualmag] was a really good company," says Laffer. "I am just amazed the suit wasn't settled two years earlier. All the legal bills made no sense. This is not a crooked case. It is a sad case."

But Laffer has been involved in some cases that turned out to be crooked. The most egregious was in 1990. Laffer was paid \$5000 to tout an Orange County multilevel-marketing company named FundAmerica. He lauded it in a video presentation that lured people into the scheme. The idea was that members would get a discount on various products and services. But members would be paid to recruit other members -- hence, it got to be known as the "Yuppie Pyramid."

In spring of that year, I went to Laffer's office to interview FundAmerica's head, Robert T. Edwards. He used the word "pyramid" to describe the enterprise. I began doing research on Edwards. The San Diego office of the attorney general was doing the same. Then I had quadruple bypass surgery. I was in the early recovery stages when I learned that the state of Florida charged FundAmerica with operating an illegal pyramid scheme. I went back to the story. Laffer immediately resigned, saying he had been betrayed.

Florida announced that there was an active warrant for Edwards's arrest in England. Scotland Yard had been looking for him. Edwards had earlier run pyramids in Canada and Australia, said Florida prosecutors. Shortly, Texas and California declared that FundAmerica was an illegal, endless-chain pyramid. The company went into bankruptcy. Investors eventually got \$13 million as a result of a securities/racketeering lawsuit.

In the 1990s, Laffer invested in a pizza chain named Mountain Mike's. He got in through Blaine Quick of Rancho Santa Fe. Another investor was former San Diegan Richard Silberman, a friend of Quick's. In 1990, Silberman had been convicted of helping launder \$300,000 from a government agent posing as a

front for Colombian drug traffickers. After getting out of prison in 1993, Silberman invested and also put two children of Susan Golding -- his former spouse and then San Diego mayor -- into the deal. Other investors included Seth Flam and Dr. Sol Lizerbram of FPA Medical Management, a onetime Wall Street darling that later plunged ingloriously into bankruptcy. Mountain Mike's was sold to a company named Jreck and then into another fast-food chain with acute dyspepsia named Ultimate Franchise Systems. "Jreck was a wreck," laughed Laffer at the time.

On March 4, 2002, *Forbes* magazine ran a lengthy investigative story with this opening paragraph: "How do respectable names like Deloitte & Touche and Arthur Laffer get tangled up with a seedy outfit like Casmyn Corp.?" The company mined for gold in such places as Zambia and Zimbabwe. Deloitte was the accounting firm. Laffer was on the board, along with the late Baron Edmund de Rothschild. The baron "was the one who told me these guys were great," says Laffer. "He had a huge estate outside of London."

However, as *Forbes* related, the company collapsed in scandal, and the chief executive officer vamoosed. "I got out. I complained that it was not managed in a proper fashion," says Laffer.

"I am involved in tons of things [including] investing in emerging companies," says Laffer. "Some have problems." Indeed. And those problems have not helped Laffer's reputation.

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