

MSRB
MUNICIPAL SECURITIES RULEMAKING BOARD

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DEC 9 1991

In the Matter of the Arbitration between	:	
BUFORD T. CASEBOLT, M.D.,	:	
	:	
	:	AWARD
v.	:	
	:	
PRUDENTIAL-BACHE SECURITIES INC. and	:	MS 91-3
GREG FULTON,	:	
	:	
Respondents.	:	

The Undersigned, pursuant to section 31 of MSRB rule G-35, hereby state as follows:

CASE SUMMARY

On June 6, 1988, Claimant purchased from Respondent Greg Fulton ("Respondent Fulton"), of the Denver office of Respondent Prudential-Bache Securities Inc. ("Respondent Prudential-Bache"), \$40,000 face amount of Castle Pines North Metropolitan District Douglas County, Colorado, General Obligation Improvement Bonds, Series 1986B, dated 7/15/86, 9.75%, due 12/1/04 ("the Bonds"). On or about December 1, 1990, the Bonds went into default and the District filed a petition under Chapter 9 of the Bankruptcy Code. Claimant alleges, among other things, that Respondent Fulton gave Claimant the following assurances regarding the Bonds at the time of sale: (1) that there were no financial problems present in the District; (2) that an eighteen hole, premium golf course was built and operational and represented an asset worth ten million dollars; and (3) that the Bonds had "double security" from ad valorem taxes and plant investment fees. Claimant alleges that, contrary to Respondent Fulton's assurances, a notice from the Board of Directors of the District to bondholders, dated October 3, 1990, states that "[f]rom approximately June, 1988 to the present, the Board of Directors of the District has been involved in extensive negotiations with a number of financial participants in an effort to restructure the District's indebtedness." Claimant also contends that no golf course existed and that plant investment fees did not represent security on the Bonds. Claimant maintains that the Bonds were misrepresented.

Respondents argue, among other things, that negotiations to restructure the District's indebtedness appear to have occurred after the sale to Claimant and at a minimum were not known by Respondents. Respondents argue that Respondent Fulton made no specific reference to a ten million dollar golf course and that Claimant misunderstood the conversation regarding the golf

course. Respondents argue that the security for the Bonds and the risks associated with the Bonds are explained in detail in the prospectus and that Claimant acknowledges receiving and reading the prospectus thoroughly. Respondents argue that Respondent Fulton relied on the prospectus and spent a significant amount of time discussing the prospectus and the Bonds with Claimant. Respondents argue that Respondent Fulton's relationship with Claimant extends over fourteen years, that Claimant's investment interests have been primarily, if not exclusively, in tax-exempt municipal bonds, and that Claimant has a portion of his portfolio in numerous other higher yield municipal bonds. Respondents argue that Claimant is a sophisticated investor who accepted the risks to obtain the high coupon. Respondents argue that Claimant is attempting to place the blame for the decline of the Denver economy, which has adversely affected the Bonds, on the Respondents, and that this is unfair and unjust.

RELIEF REQUESTED

Claimant seeks to recover, in exchange for the Bonds, his purchase price of \$39,800, plus unpaid interest at the coupon rate of 9.75% from the date of the last interest payment, June 1, 1990, to the November 6, 1991 hearing date, for a total of \$45,390.00. Claimant also seeks to recover interest on said amount at 9.75% from the hearing date to the date of payment of the award, plus out of pocket expenses of \$1,447.55, for a total claim of at least \$46,837.55.

Respondents request that the claims of the Claimant be dismissed in their entirety. Respondents also assert a counterclaim against Claimant for the costs associated with defending this action.

AWARD

On November 6, 1991, in Grand Forks, North Dakota, for approximately five hours, the undersigned arbitrators heard the controversy between the parties set forth in submissions to the arbitrators signed by Claimant on January 14, 1991 (filed with the MSRB on January 17, 1991); by Respondent Fulton on March 8, 1991; and, by Respondent Prudential-Bache on March 11, 1991. The arbitration panel, having considered the pleadings, the testimony and the evidence presented at the hearing, has determined, in full and final resolution of the issues submitted for determination, as follows:

1. The claims of the Claimant shall be dismissed in their entirety. The arbitrators unanimously find no liability on the issues of misrepresentation concerning

the golf course and the duality of security. Arbitrator Barce dissents from the majority finding of no liability on the issue of misrepresentation concerning financial problems within the District at the time of sale.

2. Respondents' counterclaim shall be dismissed in its entirety, and each of the parties shall bear its own costs and expenses.
3. The costs of the MSRB forum fees shall be borne equally by the parties in the following manner: The MSRB shall refund to Claimant \$200 of Claimant's \$400 arbitration deposit, and the remaining \$200 shall be retained by the MSRB as forum fees, pursuant to MSRB rule A-16(2). In addition, Respondents shall pay to the MSRB \$200 as forum fees, pursuant to MSRB rule A-16(2).


Bradford S. Allen


Elwood Barce


Richard M. Joseph

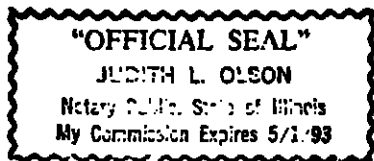
Dated: 12 - 2 - 91

STATE OF
COUNTY OF

Illinois
Lake

ss.:

On this *20th* day of *November*, 19*91*, before me personally appeared _____ to me known and known to me to be the individual described in and who executed the foregoing instrument and he duly acknowledged to me that he executed the same.

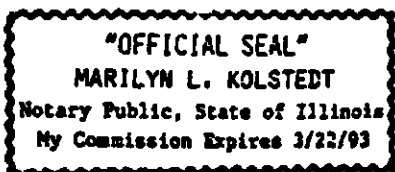


Judith L. Olson

STATE OF ILLINOIS
COUNTY OF *McHenry*

ss.:

On this *26th* day of *November*, 19*91*, before me personally appeared _____ to me known and known to me to be the individual described in and who executed the foregoing instrument and he duly acknowledged to me that he executed the same.

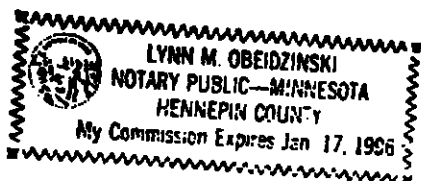


Marilyn L. Kolstedt

STATE OF
COUNTY OF

ss.:

On this *2ND* day of *DECEMBER*, 19*91*, before me personally appeared _____ to me known and known to me to be the individual described in and who executed the foregoing instrument and he duly acknowledged to me that he executed the same.



Lynn M. Obeidzinski