

AWARD
NASD Dispute Resolution

In the Matter of the Arbitration Between

Claimant

Southern Michigan Bancorp., Inc.

v.

Case Number: 03-02270
Hearing Site: Troy, Michigan

Respondent

USAllianz Securities, Inc. f/k/a LifeUSA Securities,
Inc., Jefferson Pilot Securities Corporation,
Jefferson Pilot Financial, James J. Morrison
and James J. Morrison and Associates

And

Counter-Claimant

Jefferson Pilot Securities Corporation

v.

Counter-Respondent

Southern Michigan Bancorp., Inc.

And

Cross -Respondent

Jefferson Pilot Securities Corporation

v.

Cross-Respondents

James J. Morrison and James J. Morrison
and Associates

And

Third-Party Claimant

Jefferson Pilot Securities Corporation

v.

Third-Party Respondents

James Briskey, H. Kenneth Cole, William Galliers,
Noland E. Hook, Gregory J. Hull, Thomas E. Kolassa,
and Freeman Riddle

NATURE OF DISPUTE

Customer v. Members, Associated Persons and Non-Members
Member v. Customer
Member v. Associated Person and Non-Member
Member v. Non-Members

REPRESENTATION OF PARTIES

Southern Michigan Bancorp., Inc. ("Claimant") and James Briskey, H. Kenneth Cole, William Galliers, Noland E. Hook, Gregory J. Hull, Thomas E. Kolassa, and Freeman Riddle ("Third-Party Respondents") were represented by Joseph H. Spiegel, Esq., Law Office of Joseph H. Spiegel, P.C., Ann Arbor, Michigan.

USAllianz Securities, Inc. f/k/a LifeUSA Securities, Inc. ("USAllianz") was represented by Catherine A. McEnroe, Esq., Leonard Street & Deinard PA, Minneapolis, Minnesota.

Jefferson Pilot Securities Corporation ("JPSC") and Jefferson Pilot Financial ("JPF"), hereinafter collectively referred to as "Jefferson Pilot Respondents," were represented by Gary M. Saretsky, Esq., and Karen A. Gould, Esq., Hertz, Schram & Saretsky, P.C., Bloomfield Hills, Michigan.

James J. Morrison ("Morrison") and James J. Morrison and Associates ("JMA"), hereinafter collectively referred to as "Morrison Respondents," were represented by Walter L. Baumgardner, Esq., Musilli, Baumgardner & Parnell, PLLC, St. Clair Shores, Michigan.

CASE INFORMATION

The Statement of Claim was filed on or about March 28, 2003. The Submission Agreement of Southern Michigan Bancorp., Inc. was signed on or about March 24, 2003, by John H. Castle, Chief Executive Officer.

The Statement of Answer, Motion to Dismiss and Request for Attorneys' Fees and Costs was filed by USAllianz on or about December 10, 2003. USAllianz filed a Motion for Temporary Stay of Arbitration on or about June 4, 2003. The Submission Agreement of USAllianz was signed on or about December 9, 2003 by Michael D. Burns, CCO.

The Statement of Answer and Motion to Dismiss was filed jointly by the Jefferson Pilot Respondents on or about October 22, 2003. The Counter-Claim, Cross-Claim, and Third Party Claim was filed by JPSC on or about October 22, 2003.

The Statement of Answer was filed by the Morrison Respondents on or about July 7, 2003.

Claimant filed a Motion to Dismiss JPSC's Counter-Complaint and Third-Party Complaint Against Claimant's Officers and Directors on or about February 4, 2004. JPSC filed a Response to Claimant's Motion to Dismiss on or about April 8, 2004. Claimant filed a Reply to JPSC's Response to Claimant's Motion to Dismiss on or about April 12, 2004.

Claimant filed a Motion for Summary Disposition and Brief in Response to JPSC's Motion to Dismiss on or about November 19, 2005. JPSC filed a Response to Claimant's Motion for Summary Disposition on or about February 2, 2004. USAllianz filed a Response to Claimant's Motion for Summary Disposition on or about December 10, 2003. The Morrison Respondents filed a Response to Motion for Summary Judgment and Concurrence With Motion to Dismiss and Response to Cross-Claim on or about December 15, 2003.

Claimant filed a Response to USAllianz's Motion to Dismiss on or about December 26, 2003.

The Morrison Respondents filed a Motion for Summary Judgment or Dismissal on or about March 24, 2005. Claimant filed a Response to the Motion on or about April 6, 2005.

CASE SUMMARY

Claimant asserted the following causes of action: liability under 1934 Act Anti-Fraud provisions; violation of §§ 12 and 17 of the Securities Act of 1933, as amended; liability under the 1933 Act Anti-Fraud provisions; liability under Michigan blue sky law; common law fraudulent misrepresentation, negligent misrepresentation and silent fraud; breach of common law fiduciary duty; and breach of Director's fiduciary duty. Claimant asserted that James Morrison, while acting as a member of Claimant's Board of Directors, engaged in the sale of viatical contracts to Claimant without having conducted proper due diligence. Claimant further asserted that the securities were not registered and that Morrison engaged in selling away from his firms.

Unless specifically admitted in its Answer, USAllianz denied the allegations made in the Statement of Claim and asserted affirmative defenses including the following: the Statement of Claim fails to state a claim upon which relief can be granted; Claimant knowingly assumed the risk of its investment decision in exchange for a higher potential rate of return; Claimant specifically directed the viatical purchase; Claimant cannot recover against USAllianz because USAllianz had no ongoing duty to monitor Morrison's prior viatical sales.

Unless specifically admitted in their Answer, the Jefferson Pilot Respondents denied the allegations made in the Statement of Claim and asserted affirmative defenses including the following: Claimant's Statement of Claim failed to state a claim upon which relief can be granted; viaticals were not securities at the time of the disputed purchase; even if the arbitrators deem viaticals to be securities, they were exempt from any registration requirements; Claimant failed to plead fraud with the requisite particularity; and the Claimant's claims are barred by the governing statutes of limitations.

JPSC filed a Counter-Claim for indemnification, contribution, negligence, breach of contract, promissory estoppel, estoppel by deed and fraud.

JPSC filed a Cross-Claim against Morrison for indemnification, contribution, negligence, breach of contract, promissory estoppel, estoppel by deed and fraud. Respondent Morrison denied the allegations made in the Cross-Claim and asserted affirmative defenses including the following: viaticals were not securities at the time of sale, the sale of viaticals was exempt from registration at the time of sale if the viaticals are deemed to be securities, and Claimant and Cross-Claimant have failed to set forth a complaint upon which relief may be granted.

JPSC filed a Third-Party Claim against Claimant's Board of Directors for indemnification, contribution, negligence, breach of contract, promissory estoppel, estoppel by deed and fraud.

Unless specifically admitted in their Answer, the Morrison Respondents denied the allegations made in the Statement of Claim and asserted affirmative defenses including the following: failure to state a claim upon which relief can be granted; statute of limitations; waiver; estoppel; assumption of risk; contributory negligence; failure to plead with particularity; laches; and lack of consideration for guarantee of promise.

RELIEF REQUESTED

Claimant requested an award in the amount of \$274,700.00, plus rescission, interest, punitive/exemplary damages, costs, and expenses including attorneys' fees, and any such other and equitable relief as the panel deems necessary and proper.

USAllianz requested that the claims asserted against it be dismissed in their entirety and that it be awarded its costs and attorneys' fees.

The Jefferson Pilot Respondents requested that the claims asserted against them be dismissed in their entirety. In its Counter-Claim, Cross-Claim and Third-Party Claims, JPSC requested indemnification and contribution.

The Morrison Respondents requested that the claims asserted against them be dismissed in their entirety and that they be awarded their costs and attorneys' fees.

OTHER ISSUES CONSIDERED & DECIDED

Jefferson Pilot Securities Corporation and James J. Morrison did not file with NASD Dispute Resolution properly executed submissions to arbitration but are required to submit to arbitration pursuant to Rule 10301 of the NASD Code of Arbitration Procedure (the "Code") and having answered the claim, appeared (through counsel or in person) and

testified at the pre-hearings and/or hearing are bound by the determination of the arbitration panel on all issues submitted.

Jefferson Pilot Financial and James J. Morrison and Associates did not file with NASD Dispute Resolution properly executed submissions to arbitration however having answered the claim and appeared and testified (through counsel or in person) at the pre-hearings and/or hearing are bound by the determination of the arbitration panel on all issues submitted.

The United States District Court, Western District of Michigan, Southern Division, entered an Order on October 20, 2003, compelling the arbitration of this matter.

In its Order entered on September 13, 2004, the panel made the following decisions:

- 1) The Jefferson Pilot Respondent's Motion for Dismissal was granted;
- 2) USAllianz's Motion for Dismissal was granted for itself and LifeUSA Securities, Inc;
- 3) Claimant's Motion for Dismissal of the claims against James Briskey, H. Kenneth Cole, William Galliers, Noland E. Hook, Gregory J. Hull, Thomas E. Kolassa, and Freeman Riddle was granted;
- 4) Claimant's Motion for Summary Judgment was denied and dismissed with prejudice;
- 5) The Counter-Claim, Cross-Claim, and Third-Party Claims, having been rendered moot, were denied and dismissed with prejudice.

At the hearing, the panel denied the Morrison Respondents' Motion for Summary Judgment or Dismissal.

The parties have agreed that the Award in this matter may be executed in counterpart copies or that a handwritten, signed Award may be entered. In either case, the parties have agreed to receive conformed copies of the award while the original(s) remain on file with NASD Dispute Resolution ("NASD").

AWARD

After considering the pleadings, the testimony, and the evidence presented at the hearing, the undersigned arbitrators have decided in full and final resolution of the issues submitted for determination as follows:

- 1.) Respondent, James J. Morrison is solely liable for and shall pay to Claimant, Southern Michigan Bancorp., Inc., the sum of \$18,750.00 in compensatory damages;

- 2.) Claimant's claims against James J. Morrison and Associates are denied and dismissed with prejudice;
- 3.) Other than Forum Fees which are specified below, the parties shall each bear their own costs and expenses incurred in this matter;
- 4.) Any relief not specifically enumerated, including punitive damages and attorneys' fees, is hereby denied with prejudice.

FEES

Pursuant to the Code, the following fees are assessed:

Filing Fees

NASD Dispute Resolution will retain or collect the non-refundable filing fees for each claim:

Initial claim filing fee	= \$ 300.00
Counterclaim/Cross claim/Third-Party Claim filing fee	= \$ 1,000.00

Member Fees

Member fees are assessed to each member firm that is a party in these proceedings or to the member firms that employed the associated persons at the time of the events giving rise to the dispute. In this matter, the member firms are USAllianz Securities, Inc. and Jefferson Pilot Securities Corporation.

Member surcharge	= \$ 1,700.00
Pre-hearing process fee	= \$ 750.00
Hearing process fee	= \$ 2,750.00

Adjournment Fees

Adjournments requested during these proceedings:

February 23-25, 2005, adjournment requested jointly by Claimant and the Morrison Respondents (fee waived by panel)	= \$ 1,125.00
April 18-20, 2005, adjournment requested by Claimant (fee waived by panel)	= \$ 1,125.00
November 21, 2005, adjournment requested by the Morrison Respondents (fee waived by panel)	= \$ 1,125.00

Three-Day Cancellation Fees

Fees apply when a hearing on the merits is postponed or settled within three business days before the start of a scheduled hearing session:

The November 21, 2005, adjournment was requested by the Morrison Respondents on November 18, 2005. The fee was assessed to James Morrison solely by the panel. = \$ 300.00

Forum Fees and Assessments

The Panel has assessed forum fees for each hearing session conducted and each decision rendered on a discovery-related motion on the papers. A hearing session is any meeting between the parties and the arbitrator(s), including a pre-hearing conference with the arbitrator(s), that lasts four (4) hours or less. Fees associated with these proceedings are:

Two (2) Pre-hearing sessions with Panel x \$1,125.00	= \$ 2,250.00
Pre-hearing conferences: April 30, 2004	1 session
July 8, 2005	1 session
Three (3) Hearing sessions x \$1,125.00	= \$ 3,375.00
August 23, 2004	1 session
Hearing Date: November 22, 2005	2 sessions
Total Forum Fees	= \$ 5,625.00

The Arbitration Panel has assessed \$2,625.00 of the forum fees to Southern Michigan Bancorp., Inc.

The Arbitration Panel has assessed \$375.00 of the forum fees to USAllianz Securities, Inc.

The Arbitration Panel has assessed \$2,250.00 of the forum fees to James J. Morrison.

The Arbitration Panel has assessed \$375.00 of the forum fees to Jefferson Pilot Securities Corporation.

Fee Summary

Claimant, Southern Michigan Bancorp., Inc., is liable for:

Initial Filing Fee	= \$ 300.00
Forum Fees	= \$ 2,625.00
Total Fees	= \$ 2,925.00
Less payments	= \$ 1,800.00
Balance Due NASD Dispute Resolution	= \$ 1,125.00

Respondent, USAllianz Securities, Inc., is liable for:

Member Fees	= \$ 5,200.00
Forum Fees	= \$ 375.00
Total Fees	= \$ 5,575.00
Less payments	= \$ 6,250.00
Balance refunded by NASD Dispute Resolution	= \$ 675.00

Respondent, Jefferson Pilot Securities Corporation, is liable for:

Counter-Claim/Cross-Claim/Third-Party Claim Filing Fee	= \$ 1,000.00
Member Fees	= \$ 5,200.00
Forum Fees	= \$ 375.00
Total Fees	= \$ 6,575.00
Less payments	= \$ 7,700.00
Balance Refunded by NASD Dispute Resolution	= \$ 1,125.00

Respondent, James J. Morrison, is liable for:

Three-Day Cancellation Fees	= \$ 300.00
Forum Fee	= \$ 2,250.00
Total Fees	= \$ 2,550.00
Less payments	= \$ 0.00
Balance Due NASD Dispute Resolution	= \$ 2,550.00

All balances are payable to NASD Dispute Resolution and are due upon receipt pursuant to Rule 10330(g) of the Code.

ARBITRATION PANEL

Martin Brosnan - Public Arbitrator, Presiding Chair
Burton L. Ansell, Esq. - Public Arbitrator
Steven R. Briggs, CFP - Non-Public Arbitrator

Concurring Arbitrators:

/s/ Martin Brosnan

Martin Brosnan
Public Arbitrator, Presiding Chair

Signature Date

/s/ Burton L. Ansell, Esq.

Burton L. Ansell, Esq.
Public Arbitrator

11/28/05

Signature Date

/s/ Steven R. Briggs

Steven R. Briggs, CFP
Non-Public Arbitrator

11/27/05

Signature Date

11/28/05

Date of Service (For NASD office use only)

11/28/2005 11:47 FAX

NASD

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Respondent, USAllianz Securities, Inc., is liable for:

Member Fees	= \$ 5,200.00
Forum Fees	= \$ 375.00
Total Fees	= \$ 5,575.00
Less payments	= \$ 8,250.00
Balance refunded by NASD Dispute Resolution	= \$ 675.00

Respondent, Jefferson Pilot Securities Corporation, is liable for:

Counter-Claim/Cross-Claim/Third-Party Claim Filing Fee	= \$ 1,000.00
Member Fees	= \$ 5,200.00
Forum Fees	= \$ 375.00
Total Fees	= \$ 6,575.00
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Balance Refunded by NASD Dispute Resolution	= \$ 1,125.00

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Signature Date

Burton L. Ansell, Esq.
Public Arbitrator

Signature Date

Steven R. Briggs, CFP
Non-Public Arbitrator

Signature Date

Date of Service (For NASD office use only)

NASD Dispute Resolution
Arbitration No. 03-02270
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Respondent, USAIianz Securities, Inc., is liable for:

Member Fees	= \$ 5,200.00
Forum Fees	= \$ 375.00
Total Fees	= \$ 5,575.00
Less payments	= \$ 6,250.00
Balance refunded by NASD Dispute Resolution	= \$ 675.00

Respondent, Jefferson Pilot Securities Corporation, is liable for:

Counter-Claim/Cross-Claim/Third-Party Claim Filing Fee	= \$ 1,000.00
Member Fees	= \$ 5,200.00
Forum Fees	= \$ 375.00
Total Fees	= \$ 6,575.00
Less payments	= \$ 7,700.00
Balance Refunded by NASD Dispute Resolution	= \$ 1,125.00

Respondent, James J. Morrison, is liable for:

Three-Day Cancellation Fees	= \$ 300.00
Forum Fee	= \$ 2,250.00
Total Fees	= \$ 2,550.00
Less payments	= \$ 0.00
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Concurring Arbitrators:

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