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PERMANENT ASSIGNMENT  
TO JUDGE MARTIN ECB-412

1 Mark Brnovich  
2 Attorney General  
3 (Firm State Bar No. 14000)  
4 Lynette Evans, State Bar No. 021069  
5 Liane Kido, State Bar No. 023696  
6 Assistant Attorneys General  
7 Telephone: (602) 542-7701  
8 Facsimile: (602) 542-4377  
9 Office of the Attorney General  
10 1275 West Washington Street  
11 Phoenix, Arizona 85007  
12 consumer@azag.gov  
13 *Attorneys for Arizona Department of Insurance*

IN THE SUPERIOR COURT OF THE STATE OF ARIZONA  
IN AND FOR THE COUNTY OF MARICOPA

11 STATE OF ARIZONA, *ex rel.* LESLIE R. HESS, )  
12 Interim Director of Insurance, )  
13 )  
14 Plaintiff, )

Cause No.: CV 2016-011872

**ORDER FOR  
APPOINTMENT OF  
RECEIVER AND INJUNCTION**

15 vs. )

16 COMPASS COOPERATIVE MUTUAL )  
17 HEALTH NETWORK, INC. dba MERITUS )  
18 MUTUAL HEALTH PARTNERS, an Arizona )  
19 Corporation; and )  
20 )  
21 COMPASS COOPERATIVE HEALTH )  
22 PLAN, INC. dba MERITUS HEALTH )  
23 PARTNERS, an Arizona Corporation )  
24 )  
25 Defendants. )

24 Plaintiff, STATE OF ARIZONA, *ex rel.* LESLIE R. HESS, Interim Director of Insurance,  
25 having filed a Complaint for Appointment of Receiver and for Injunction pursuant to A.R.S. §§ 20-611  
26 through 20-616; the Defendants, Compass Cooperative Mutual Health Network, Inc. dba Meritus  
27 Mutual Health Partners (“Meritus Mutual”) and Compass Cooperative Health Plan, Inc. dba Meritus  
28 Health Partners (“MHP”), having been duly served with process or accepted same, and a hearing

1 having been held before this Court, the Court makes the following Findings of Fact and Conclusions of  
2 Law and enters the following Order:

3 **FINDINGS OF FACT AND CONCLUSIONS OF LAW**

4 1. Plaintiff is the STATE OF ARIZONA, *ex rel.* LESLIE R. HESS, Interim Director of  
5 Insurance (“Director” or “Receiver”). The Director is charged with the enforcement of Title 20,  
6 Arizona Revised Statutes, relating to the transaction of insurance business in the State of Arizona.

7 2. Defendant Compass Cooperative Mutual Health Network, Inc. doing business as  
8 Meritus Mutual Health Partners (“Meritus Mutual”) is an Arizona nonprofit corporation and was issued  
9 an Arizona certificate of authority to transact disability insurance business on May 28, 2013.

10 3. Defendant Compass Cooperative Health Plan, Inc. doing business as Meritus Health  
11 Partners (“MHP”) is an Arizona nonprofit corporation which holds an Arizona certificate of authority  
12 to transact business as a health care services organization effective May 28, 2013 pursuant to Article 9,  
13 Chapter 4 of Title 20, A.R.S.

14 4. Defendant Meritus Mutual was approved to operate as a consumer operated and oriented  
15 health plan (“CO-OP”) in the State of Arizona by the Center for Medicare & Medicaid Services  
16 (“CMS”), a division of the U.S. Department of Health & Human Services.

17 5. Defendants are under common control. Defendants have the same officers and directors,  
18 share the same home office, and share services for the adjudication and payment of claims. There are  
19 no other companies affiliated with Defendants. While one receivership is established for administrative  
20 efficiencies, all references to Defendant and/or Defendants are references to Defendant Meritus Mutual  
21 and/or Defendant MHP and the Director may take action collectively or individually under the  
22 circumstances.

23 6. The certificates of authority of Defendant Meritus Mutual and of Defendant MHP were  
24 each suspended and each Defendant was placed under the supervision of the Arizona Department of  
25 Insurance (“Department”) on October 30, 2015 in Order Summarily Suspending Certificate of  
26 Authority and Order for Supervision, Docket Nos. 15A-168-INS and 15A-169-INS (“Suspension and  
27 Supervision Orders”).

1           7.     In the Suspension and Supervision Orders, the Department determined that the  
2 continuation of the business of each Defendant was hazardous to the public or to holders of its policies  
3 pursuant to A.R.S. §20-220.01, and ordered that each Defendant suspend the issuance of new or  
4 renewed business including discontinuing all policies on or before midnight on December 31, 2015. In  
5 addition, each Defendant was placed under the Department's supervision pursuant to A.R.S. §20-169.

6           8.     Since December 31, 2015, each Defendant has ceased writing all new and renewal  
7 business, discontinued all policies, and has continued to pay claims and wind down the operations of  
8 the business in accordance with the Supervision Order.

9           9.     The risk-based capital level for each Defendant is at or below the authorized control  
10 level and the grounds for delinquency proceedings and an order of liquidation under A.R.S. §§ 20-616,  
11 20-615(10) are satisfied.

12          10.    Each Defendant is also impaired and/or insolvent under A.R.S. § 20-611(8) and the  
13 grounds for delinquency proceedings and an order of liquidation under A.R.S. §§ 20-616 and 20-615  
14 are satisfied.

15          11.    Impairment or insolvency means that the surplus of a mutual insurer shall be deemed to  
16 be impaired and the insurer shall be deemed to be insolvent when such insurer is not possessed of assets  
17 at least equal to all liabilities and required reserves together with minimum surplus. A.R.S. § 20-  
18 611(8).

19          12.    Defendant MHP's current adjusted Capital and Surplus as of December 31, 2015 is  
20 \$(43,339,133) and as of March 31, 2016 is \$(45,537,854). Thus, under A.R.S. §20-611(8), MHP is  
21 insolvent.

22          13.    Defendant Meritus Mutual's current adjusted Capital and Surplus as of December 31,  
23 2015 is \$(799,007) and as of March 31, 2016 is \$(1,350,718). Thus, under A.R.S. § 20-611(8),  
24 Defendant Meritus Mutual is insolvent.

25          14.    Grounds exist for these delinquency proceedings, entry of an order of liquidation with a  
26 finding of insolvency with respect to each Defendant and appointment of the Director as Receiver  
27 pursuant to A.R.S. § 20-616.

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**ORDER**

**IT IS THEREFORE ORDERED THAT:**

1. This Court has sole and exclusive jurisdiction over this matter pursuant to A.R.S. § 20-612, is vested with exclusive original jurisdiction of delinquency proceedings for Defendants and is authorized to make all necessary and proper orders to carry out the purposes of A.R.S. §§ 20-611 through 20-650.

2. Venue for these delinquency proceedings is proper in this Court pursuant to A.R.S. § 20-612.

3. Defendant Compass Cooperative Mutual Health Network, Inc. doing business as Meritus Mutual Health Partners ("Meritus Mutual") is declared insolvent and placed under an order of liquidation.

4. Defendant Compass Cooperative Health Plan, Inc. doing business as Meritus Health Partners ("MHP") is declared insolvent and placed under an order of liquidation.

5. Interim Director of Insurance Leslie R. Hess ("Director") is appointed as receiver and liquidator of Defendant Meritus Mutual and Defendant MHP and ordered to administer the two separate but related liquidations in a single receivership proceeding. Pursuant A.R.S. §§ 20-621 and 20-624, the Director is ordered to take immediate possession of the assets of Defendant Meritus Mutual and the assets of Defendant MHP, to administer those assets under the orders of this Court, to liquidate the business of each Defendant, to take immediate possession of the property of each Defendant, to deal with each Defendant's property and business in the Director's own name as receiver or in the name of the Defendant, and to give notice to all creditors who have claims against the the Defendant to present such claims.

6. As receiver, the Director is vested by operation of law with the title to all of the property, contracts and rights of action and all of the books and records of each Defendant, wherever located, as of the date of entry of this order directing her to liquidate each Defendant. Director shall have the right to recover the assets and reduce them to possession.

7. Under A.R.S. § 20-623.01, the Director is authorized to appoint one or more special deputy receivers to act for the receiver and may employ counsel, clerks and assistants as she deems

1 necessary. Subject to the approval of the Court, the Director shall fix the compensation of the special  
2 deputies, counsel, clerks or assistants and all expenses of taking possession of each Defendant and of  
3 conducting the proceeding and shall use the funds or assets of each Defendant to pay the respective  
4 compensation and expenses as reasonably allocated under the circumstances.

5 8. The Director is ordered to liquidate the business of each Defendant and as Receiver, to:

6 a. Collect, receive and take exclusive custody, control and possession of all records,  
7 property and assets (including subsidiaries) of any kind or nature owned beneficially or otherwise by  
8 each Defendant, with full power to use for, collect, receive and take possession of all bank accounts,  
9 goods, chattels, rights, deposits, credits, monies, lands, books and records of account and other papers  
10 and property and causes of action of each Defendant;

11 b. Conserve, hold and manage all the property and assets subject to this  
12 receivership in order to prevent to the extent possible, loss, damage, and injury to creditors and others  
13 who have done business with each Defendant; to obtain an accounting thereof, and to adjust and protect  
14 the interest of such creditors and other persons doing business with each Defendant, as approved by the  
15 Court; the Receiver may maintain property and assets of each Defendant in the investments in which  
16 such property and assets are presently held or in similar investments consistent with the present  
17 investment policy of Defendants, or may reinvest such property or assets in another manner in her  
18 discretion;

19 c. Engage and employ attorneys, accountants, appraisers, consultants, actuaries,  
20 work-out specialists, investment bankers and other persons to evaluate the property and assets subject  
21 to this receivership, and to operate the business of each Defendant, as the Receiver may deem necessary  
22 in the performance of her duties and responsibilities in discharging the authority conferred by this  
23 Order. The Receiver may, at her discretion, retain or terminate the contracts of any such persons  
24 already engaged by Defendants. All such persons so engaged, employed or retained are to be paid out  
25 of the funds, property or assets of each Defendant in the possession of the Receiver or coming into her  
26 possession. The Receiver may also retain or discharge any employees at any time, in her sole  
27 discretion, by specifically advising such employees of the termination of their employment. The  
28 Receiver may implement measures related to the discharge or retention of employees and shall take any

1 action necessary to comply with applicable federal and state laws pertaining to discharge of employees  
2 and any benefit plans of Defendants. The Receiver may, in her discretion, make a payment of day to  
3 day expenses of Defendant on-going at the date of this Order;

4 d. Make such payments and disbursements from the property and assets subject to  
5 this receivership and to incur such expenses as may be necessary and advisable in discharging her  
6 duties as Receiver, and to present to the Court from time to time an accounting of all such payments,  
7 disbursements, and expenses;

8 e. Institute, prosecute, defend, compromise, intervene in, seek stays in, or become a  
9 party to, such suits, actions or proceedings at law or in equity as may, in the Receiver's opinion, be  
10 necessary for the collection, recovery, protection, maintenance, or preservation of the property or assets  
11 subject to this receivership; and

12 f. The Receiver, in her discretion, may affirm or disavow any executory contracts  
13 to which each Defendant is a party. The entry of this Order of Receiver shall not constitute an  
14 anticipatory breach of any such contracts.

15 9. Except by leave of this Court or upon the written direction or consent of the Receiver,  
16 during the pendency of this receivership, each Defendant and all customers, principals, investors,  
17 creditors, shareholders, lessors, and other persons, except for the Receiver or her agents, seeking to  
18 establish or enforce any claim, rights or interest against or on behalf of each Defendant, and all others  
19 acting for or on behalf of such persons including attorneys, trustees, agents, sheriffs, constables,  
20 marshals and other officers and their deputies and their respective attorneys, servants, agents,  
21 employees, be and hereby are enjoined from:

22 a. Commencing, prosecuting, continuing or enforcing any claim, suit or proceeding  
23 against each Defendant or against any of its assets (including subsidiaries) for a period of 180 days  
24 from entry of this Order; the Receiver may request an extension of this provision in her discretion.

25 b. Commencing, prosecuting, continuing or enforcing any suit or proceeding in the  
26 name or on behalf of each Defendant or any of its subsidiaries;

27 c. Accelerating the due date of any obligation or claimed obligation, enforcing any  
28 lien upon, or taking or attempting to take possession of, or retaining possession of, any property of each

1 Defendant, or attempting to foreclose, forfeit, alter or terminate any interest of each Defendant in any of  
2 its property or assets, whether such acts are part of a judicial or administrative proceeding or otherwise;

3 d. Using self-help or executing or issuing or causing the execution of any court  
4 attachment, subpoena, replevin, execution or other process for the purpose of impounding or taking  
5 possession of, or interfering with, or creating, or enforcing a lien upon, any property wherever located,  
6 owned by or in the possession of each Defendant, any of its subsidiaries, or the Receiver appointed  
7 pursuant to this Order or any agents appointed by said Receiver; and

8 e. Doing any act or thing whatsoever to interfere with the taking control of,  
9 possession or management by the Receiver appointed herein of the property and assets subject to this  
10 receivership, or to in any way harass or interfere with said Receiver, or to interfere, in any manner, with  
11 the exclusive jurisdiction of this Court over the property and assets of each Defendant.

12 10. No person may serve or cause to be served upon the Receiver and any Special Deputy  
13 Receiver any legal process, including attachments, garnishments, subpoenas, writs of replevin, writs of  
14 execution and every other form of process whether described specifically herein or not, without first  
15 securing the authorization of this Court or the specific written consent of the Receiver. Any process  
16 issued in violation of this Order is void. Persons endeavoring to secure documentation from the  
17 Receiver shall, in all instances, first attempt to secure such information by submitting a formal written  
18 request to the Receiver and, if such request has not been responded to within sixty (60) days, such  
19 person may thereafter seek an order of this Court with regard to the relief requested.

20 11. All attorneys, consultants, accountants, and others employed by each Defendant to  
21 represent Defendant or its insureds, within 30 days of notice of this Order or such other time period as  
22 the Receiver shall determine, shall report to the Receiver on the name, company claim number and  
23 status of each file they are handling on behalf of each Defendant. Said report shall also include an  
24 accounting of any funds received from or on behalf of each Defendant. All attorneys, consultants,  
25 accountants and others described herein may either be retained or discharged by the Receiver in the  
26 Receiver's sole discretion.

27 12. Any servicers, agents, brokers, third-party administrators or other persons having sold  
28 policies of insurance and/or collected premiums on behalf of each Defendant shall account for and pay

1 premiums and commissions due in the normal course of business owed to each Defendant directly to  
2 the Receiver within 30 days of the date of this Order or within such other time as determined by the  
3 Receiver. Persons failing to provide such status reports may be required to appear before this Court to  
4 show cause, if any they may have, as to why they should not be required to account to the Receiver or  
5 be held in contempt of court for violation of the provisions of this Order. No servicer, agent, broker,  
6 third party administrator, managing general agent, or other person shall use premium monies owed to  
7 each Defendant for the refund of unearned premium or for any purpose other than payment to the  
8 Receiver. No servicer, agent, broker, third party administrator, managing general agent, or other person  
9 shall exercise any form of set-off, alleged set-off, lien, any form of self-help whatsoever or refuse to  
10 transfer any funds or assets to the Receiver's control without the permission of this Court.

11 13. All claims adjusters and other third parties handling claims files relating to Defendants'  
12 policies, insurance contracts or bonds shall within thirty (30) days of the date of this Order, report to the  
13 Receiver on the name, company claim number, policy or other identifying number and status of each  
14 file they are handling on behalf of each Defendant. Persons failing to provide such status reports may  
15 be required to appear before this Court to show cause, if any they may have, as to why they should not  
16 be required to account to the Receiver or be held in contempt of court for violation of the provisions of  
17 this Order. All claims adjusters and other third parties handling claims files relating to Defendants'  
18 policies, insurance contracts or bonds may be retained by the Receiver at her sole discretion.

19 14. Any bank, savings and loan association, trustee, institution or other person or entity  
20 which has on deposit, in its possession, custody or control any funds, accounts, or any other property or  
21 assets of each Defendant or its subsidiaries shall immediately transfer title, custody and control of all  
22 such funds, property or assets to the Receiver and are hereby instructed that the Receiver has absolute  
23 control over such accounts, funds, property and other assets and the Receiver may change the name of  
24 such accounts, funds, property and other assets, withdraw them from such bank, savings and loan  
25 association, trustee, other institution, person or entity, or take any lesser action necessary for the proper  
26 conduct of this receivership. No bank, savings and loan association, trustee, other institution, person or  
27 entity shall exercise any form of set-off, alleged set-off, lien, any form of self-help whatsoever or refuse  
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1 to transfer any accounts, funds, property or assets to the Receiver's control without the permission of  
2 the Receiver or this Court.

3 15. Any data processing service which has custody or control of any data processing  
4 information and records including but not limited to source documents, data processing cards, input  
5 tapes, all types of storage information, master tapes or any other recorded or electronic information of  
6 any kind relating to claimants and insureds of each Defendant or any aspect of the business of each  
7 Defendant shall transfer custody and control of such records to the Receiver, upon demand.

8 16. Each Defendant and its respective officers, directors, agents, servants, employees,  
9 attorneys, successors, accountants and assigns and those persons in active concert or participation with  
10 them and each of them shall transfer to the Receiver within ten (10) calendar days after request from  
11 the Receiver all books, records, accounts, documents or any other data of any kind or nature relating to  
12 each Defendant's business, in whatever format, electronic or otherwise, including claims files, whether  
13 open or closed, and all policyholder files and correspondence relating to claimants and insureds, and  
14 shall immediately send to the Receiver all such documents received after the date the Receiver makes a  
15 request for files and give to the Receiver a list of third parties who may be in possession of such  
16 documents.

17 17. Each Defendant and its respective officers, directors, shareholders, members,  
18 subscribers, agents, servicers, trustees, creditors, lenders, financial institutions, servants, employees,  
19 attorneys, successors, accountants and assigns, and all other persons, and those persons in active  
20 concert or participation with them and each of them, be and hereby are enjoined during the pendency of  
21 this action from directly or indirectly:

22 a. Except through and at the direction of the Receiver, transacting any of each  
23 Defendant's or any of its subsidiaries business.

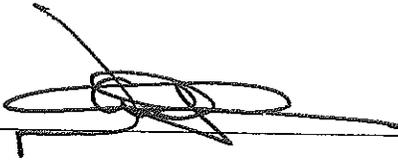
24 b. Wasting or disposing of each Defendant's and any of its subsidiaries, property or  
25 assets, or the obtaining of preferences, judgments, attachments, or other liens, or the making of any  
26 levy against each Defendant and its subsidiaries.

27 c. Destroying, secreting, defacing, transferring, or otherwise altering or disposing  
28 of any books, records, accounts or any other papers of any kind or nature of each Defendant.

1 d. Transferring, receiving, altering, selling encumbering, pledging, assigning,  
2 liquidating, or otherwise disposing of any assets, funds or property owned, controlled, or in the  
3 possession of, or in which an interest held or claimed by each Defendant, or the Receiver appointed  
4 herein.

5 e. Obstructing or interfering or refusing to cooperate with the Receiver appointed  
6 pursuant to this Order or her duly authorized agents, in the exercise of their lawful authority under the  
7 Orders of this Court.

8 DONE in Open Court this 10<sup>th</sup> day of August, 2016.

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13 Judge of the Superior Court

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