

DISTRIBUTION AGREEMENT

between

Darren Ellingson, in his capacity as the Special Deputy Receiver of Compass Cooperative Mutual Health Network, Inc., doing business as Meritus Mutual Health Partners, in Liquidation (“Meritus Mutual”) and Compass Cooperative Health Plan, Inc. doing business as Meritus Health Partners, in Liquidation (“MHP”) (collectively referred to as the “Meritus Companies”)

and

the Arizona Life and Disability Insurance Guaranty Fund (the “Fund”)

1 RECITALS

- 1.1 WHEREAS, each of the Meritus Companies was placed under an order of Liquidation with a finding of insolvency on August 10, 2016 entered in CV2016-011872 pending in the Superior Court of Arizona, County of Maricopa (the “Receivership Court”).
- 1.2 WHEREAS, dated March 13, 2025, the Receivership Court entered its Order re Petition No. 65 Approving Limited Claim Payments (the “Order re Claim Payments”).
- 1.3 WHEREAS, pursuant to the Order re Claim Payments, the MHP Liquidator has been ordered to pay in full Class 1 through Class 7 Creditors, leaving a remaining balance of estate assets of \$8,015,002 and 15 unpaid Class 8 General Creditor claims totaling \$52,099,268. Pursuant to the Receivership Court’s Order Approving Final Accounting and Terminating MHP Receivership, the MHP Liquidator is distributing the remaining assets to general creditor claimants at approximately 14.5% of their claims and has closed the estate. As a general creditor, Meritus Mutual is receiving approximately \$7.9 million from the MHP distribution.

- 1.4 WHEREAS, pursuant to the Order re Claim Payments, the Meritus Mutual Liquidator has been ordered to pay in full Class 1 through Class 9 Creditors, leaving a remaining balance of estate assets of approximately \$2,190,415 and 1 unpaid Class 10 Surplus Note Creditor claim totaling \$93,826,261. After receipt of approximately \$7.9 million, the combined general assets of Meritus Mutual will total approximately \$9.8 million. Accounting for the general assets owed to the Class 10 Surplus Note Creditor, at termination Meritus Mutual will still owe approximately \$83 million and Meritus Mutual will be insolvent by that amount.
- 1.5 WHEREAS, the Liquidator of Meritus Mutual anticipates seeking Court approval to terminate the Meritus Mutual receivership. After termination of the receivership, all issues will have been resolved, except for filing and any potential issues related to any unfiled federal tax returns. Subject to Receivership Court Order, all remaining tax returns will be filed as soon as possible.
- 1.6 WHEREAS, the Fund is created by statute in order to protect policyholders and beneficiaries of members, like Meritus Mutual, that become insolvent and are placed under an Order of Liquidation. The Fund has provided continuing coverage associated with the Meritus Mutual receivership, is a Class 2 Creditor against Meritus Mutual and has received general assets from Meritus Mutual as distributions for its claims.
- 1.7 WHEREAS, it is in the interests of the Fund and the Meritus Mutual estate to facilitate closing of the estate and to provide finality with respect to the distribution of general assets to creditors, including the Fund. This Distribution Agreement is necessary to

facilitate closing of the Estate and represents the best means of protecting the Fund as a creditor of the Meritus Mutual Estate.

- 1.8 WHEREAS, the Fund is authorized to enter into such contracts as are necessary or proper to carry out the provisions and purposes of its enabling act, negotiate and contract with the Liquidator to carry out the powers and duties of the Fund and to “render assistance and advice to the director, on the director’s request, concerning rehabilitation, payment of claims, continuation of coverage or the performance of other contractual obligations of” Meritus Mutual. *See* A.R.S. §§ 20-685(B)(1), 20-685(D), 20-685(H)(1), and 20-685(H)(5).
- 1.9 WHEREAS, this Distribution Agreement is being entered into at the request of the Liquidator in order to allow the Meritus Mutual estate to terminate, to allow the time period for the United States Internal Revenue Service to review the final returns to expire and then for the remaining funds to be distributed to the Class 10 Surplus Note Creditor.
- 1.10 WHEREAS, in order to permit the Meritus Mutual receivership to terminate without waiting up to three years for the IRS to respond, the Fund is willing to administer and distribute the Distribution Proceeds pursuant to the terms and provisions of this Distribution Agreement and order of the Liquidation Court;
- 1.11 WHEREAS, the Director of the Arizona Department of Insurance and Financial Institutions, in the capacity as Liquidator of Meritus Mutual, has requested that the Fund assist by entering into this Distribution Agreement concerning the performance of Meritus Mutual’s contractual obligations.

NOW THEREFORE, in consideration of the foregoing premises, and the covenants, promises and agreements set forth in this Distribution Agreement, the Meritus Mutual Liquidator and the Fund agree as follows:

2 DEFINITIONS

Unless the context clearly indicates otherwise, the following terms shall have the following meanings when used throughout this agreement.

- 2.1 Class 10 Surplus Note Creditor. “Class 10 Surplus Note Creditor” means the United States Government in its capacity as a creditor of the Meritus Companies, in the amount and at the priority level as determined by the Receivership Court.
- 2.2 Director. “Director” means the Arizona Director of Insurance & Financial Institutions, including successors, assigns and acting directors depending on the circumstances.
- 2.3 Distribution Agreement. “Distribution Agreement” means this Distribution Agreement entered into between the Liquidator and the Fund subject to Receivership Court approval.
- 2.4 Distribution Proceeds. “Distribution Proceeds” means the fund established by this Distribution Agreement in the amount of the remaining funds in Meritus Mutual’s possession on termination of the Meritus Mutual Receivership and including interest actually earned on such amounts after receipt by the Fund.
- 2.5 Effective Date. “Effective Date” means the date on which this Distribution Agreement becomes effective, which shall be the day within thirty business days of the date on

which the Receivership Court approves of this Distribution Agreement, unless otherwise agreed in writing by the Liquidator and the Fund.

- 2.6 Fund. “Fund” means the Arizona Life and Disability Insurance Guaranty Fund.
- 2.7 Liquidator. “Liquidator” means the Arizona Director of Insurance in the capacity as Liquidator of the Meritus Companies, including the Liquidator’s agents and successors.
- 2.8 Meritus Companies. “Meritus Companies” means Meritus Mutual and MHP.
- 2.9 Meritus Mutual. “Meritus Mutual” means Compass Cooperative Mutual Health Network, Inc., doing business as Meritus Mutual Health Partners, in Liquidation.
- 2.10 MHP. “MHP” means Compass Cooperative Health Plan, Inc., doing business as Meritus Health Partners, in Liquidation.
- 2.11 Receivership Court. “Receivership Court” means the action numbered CV2016-011872 pending in the Superior Court of Arizona, County of Maricopa.
- 2.12 Tax Return. “Tax Return” means the federal tax return which will be filed by Meritus Mutual and Meritus Health Plans for the year-ended 2025 and all prior years.

3 DISTRIBUTION PROCEEDS

- 3.1 **Establishment of Distribution Proceeds.** Pursuant to and conditioned upon entry of an order from the Receivership Court, the Meritus Mutual Liquidator will withhold the Distribution Proceeds.

- 3.2 **Transfer of Distribution Proceeds to Fund.** On the Effective Date, subject to the order of approval from the Receivership Court, the Meritus Mutual Liquidator shall transfer the Distribution Proceeds to the Fund.
- 3.3 **Administration of Distribution Proceeds.** The Fund shall maintain the Distribution Proceeds on deposit with a federally insured financial institution in an interest bearing account separate from its other funds, which account includes a repurchase agreement, trust agreement or similar agreement for the safety of any amounts in excess of One Hundred Thousand Dollars (\$100,000.00).
- 3.4 **Distribution of Distribution Proceeds.** Unless this Distribution Agreement has been terminated pursuant to Section 4.1 hereof, the Fund shall distribute the Distribution Proceeds by one of the following methods, at the direction of the Director:
- 3.4.1 In the event that the IRS notifies the Liquidator and/or Director that there are or may be material issues or concerns regarding any Tax Return, the Director shall reopen the Receivership Court proceedings and shall notify the Fund, in writing, of such issues or concerns. Upon the reopening of the Receivership Court proceedings, the Liquidator shall request that the Fund return the Distribution Proceeds to the Liquidator in accordance with Section 4.1. As soon as reasonably practical after receipt of that written notice, the Fund shall pay the Distribution Proceeds to the Liquidator in accordance with Section 4.1. Thereafter, the Distribution Proceeds shall be distributed in accordance with any order of the Liquidation Court and Arizona law.

- 3.4.2 Assuming that the Director has not notified the Fund under subsection 3.4.1, as soon as reasonably practicable after the first business day three years and nine months after the Effective Date, the Fund shall distribute the Distribution Proceeds to the Class 10 Surplus Note Creditor. The Fund shall transmit the Distribution Proceeds in the manner directed by the Receivership Court or as otherwise directed in writing by the Class 10 Surplus Note Creditor.
- 3.4.3 After the Fund has paid the Distribution Proceeds as provided for hereunder, the Fund shall be fully and finally released and the Fund's duties and obligations shall be deemed satisfied.
- 3.5 **Payment and Interest.** The Fund shall be paid a one-time administrative fee in the amount of twenty-five thousand dollars (\$25,000) to be paid by the Liquidator to the Fund on the Effective Date of this Distribution Agreement. In addition, the Fund shall be entitled to reimbursement from the Distribution Proceeds for any costs, fees or expenses incurred by the Fund as a result of entering into and/or implementing this Distribution Agreement.
- 3.6 **No Other Duties or Obligations.** Other than to distribute the Distribution Proceeds as specified in Sections 3.4 or 4.1 of this Distribution Agreement, the Fund shall have no duties, obligations, responsibilities or discretion related thereto. The Fund shall be acting under the powers and duties of its enabling act, providing assistance at the request of the Director and Liquidator, and subject to Receivership Court order. This Distribution Agreement does not create a trust (nor a statutory trust) as that term is defined under Arizona law and no duties or responsibilities of a trust relationship attach or arise as part

of this Distribution Agreement. This Distribution Agreement shall not create any third-party beneficiaries. Nothing in this agreement is intended or shall be construed to give any person, other than the parties hereto, any legal or equitable right, remedy or claim under or in respect of this Distribution Agreement or any provision contained herein.

3.7 **Indemnity.** The Liquidator shall indemnify and hold harmless the Fund (including its respective directors, officers, employees and agents) against any and all loss, liability and expense, including reasonable attorneys' fees and court costs, which result from or relate to the Distribution Agreement so long as the Fund acted in good faith.

3.8 **Immunity.** In addition to the immunity expressly provided to the Fund in A.R.S. § 20-693, the Fund, acting at the request of the Director and Liquidator, shall enjoy any and all protections and immunities possessed by the Director related to the Fund's role in carrying out its duties and responsibilities under this Distribution Agreement.

3.9 **Liquidator and Director Indemnity and Immunity.** Notwithstanding any provision of the Distribution Agreement, the Director and the Liquidator retain all indemnities and immunities provided under Arizona law or otherwise.

4 **GENERAL PROVISIONS**

4.1 **Termination of Distribution Agreement in order to Reopen Receivership Court Proceedings.** Either the Director or the Fund may elect to terminate this Agreement and reopen the Receivership Court proceedings at any time in their discretion. Upon reopening of the Receivership Court proceedings under this Section 4.1, unless otherwise directed by the Receivership Court to pay the Liquidator directly, the Fund shall pay the

Distribution Proceeds into the Receivership Court as an Interpleader under Rule 22 of the Arizona Rules of Civil Procedure for the Superior Courts of Arizona and provide notice to the Director and the Liquidator. Upon transfer of the Distribution Proceeds and notice to the Director, the Fund shall be released in accordance with Rule 22(b). After the Fund has paid the Distribution Proceeds under Section 3.4 or Section 4.1 hereof, the Fund shall be fully and finally released and the Fund's duties and obligations shall be deemed satisfied.

- 4.2 **Notices.** All notices, requests or other communications required or permitted to be made in accordance with this Distribution Agreement shall be in writing and shall be delivered via email to the following addressees:

Liquidator:

Darren Ellingson. Dellingson@ellingsonassociates.com

Joel Glover. Joel.Glover@faegredrinker.com

Director:

Liane Kido. Liane.Kido@difi.az.gov

Lynette Evans. Lynette.Evans@azag.gov

Fund:

Glen Gabrielson. Glen.Gabrielson@difi.az.gov

- 4.3 **Counterparts.** This Distribution Agreement may be executed in one or more counterparts, each of which shall be deemed an original but which together shall constitute one and the same instrument.
- 4.4 **Governing Law.** This Distribution Agreement shall be governed by, construed under and interpreted in accordance with the laws of the State of Arizona without giving effect to

the principles of conflict of laws thereunder. All disputes shall be resolved before the Receivership Court.

4.5 **Severability.** Any provision of this Distribution Agreement which is prohibited or unenforceable in any jurisdiction shall not invalidate the remaining provisions of this Distribution Agreement, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable any such provision in any other jurisdiction.

4.6 **Amendment.** This Distribution Agreement may be amended only by written instrument executed by the Liquidator and the Fund. Any material amendments are subject to approval by the Liquidation Court.

4.7 **Assignment.** The rights, liabilities and obligations of any party under this Distribution Agreement shall not be assigned or delegated to a person who is not a party to this Distribution Agreement without the prior written consent of all parties to this Distribution Agreement.

4.8 **Receivership Court Approval.** This Distribution Agreement shall not become effective unless and until the Receivership Court has entered an Order which is not subject to appeal that expressly approves this Distribution Agreement, with such Order including acknowledgement and adoption of the language from Sections 3.4, 3.5, 3.6 and 4.1 hereof.

4.9 **Appeal.** If the Receivership Court's order approving this Distribution Agreement is appealed, the Fund shall not distribute the Distribution Proceeds, other than to return such

funds, until the order approving this Distribution Agreement becomes final and non-appealable.

IN WITNESS WHEREOF, this Distribution Agreement has been executed as the day and year identified with each signature.

THE LIQUIDATOR

By _____ Date _____
Darren Ellingson, Special Deputy Receiver
on behalf of the Liquidator

ARIZONA LIFE AND DISABILITY
INSURANCE GUARANTY FUND

Title _____

By _____
Name: _____ Date _____

Confirmation that the Guaranty Fund's assistance and advice is requested by the Director

By _____
Maria Ailor, Interim Director of Insurance Date _____