FRANK J. McGARR, Esq.
Arbitration and Mediation

May 1, 2008

The Honorable James B. Moran **Via UPS Next Day**
United States District Judge
United States District Court
Northern District of Illinois
Eastern Division
219 South Dearborn Street
Chicago, Illinois 60604

Re: Quarterly Report of Independent Special Counsel, Chao v. Estate of Frank E. Fitzsimmons, et al., No. 78 C 342 (N.D. Ill., E.D.); Chao v. Robbins, et al., No. 78 C 4075 (N.D. Ill., E.D.); and Chao v. Dorfman, et al., No. 82 C 7951 (N.D. Ill., E.D.)

Dear Judge Moran:

This is to report on my activities during the first quarter of 2008 as Independent Special Counsel appointed pursuant to the Fitzimmons (Pension Fund) and Robbins and Dorfman (Health and Welfare Fund) consent decrees.

General Pension and Health and Welfare Fund Matters

I have attended full Board of Trustees meetings, now held every other month (with additional meetings as noted in my reports), and consulted regularly with Fund executives.

Allocation of UPS Withdrawal Liability Settlement Proceeds

As discussed in my February 1 report covering the fourth quarter of 2007, on December 26, 2007, the Pension Fund received a wire transfer from United Parcel Service, Inc. ("UPS") of $6.1 billion pursuant to a withdrawal liability settlement agreement previously approved by the Pension Fund's Board of Trustees. As the Court is aware, and as also discussed in my February 1 report, in anticipation of the receipt of this $6.1 billion payment from UPS, the Court approved certain modifications to the consent decree and to the related investment procedures and authorizations. These modifications included the establishment of a new Passive Equity Index Account to be funded in part by UPS settlement proceeds.

At the January 15, 2008 Meeting of the Board of Trustees, the Pension Fund's financial department reported that the $6.1 billion UPS settlement payment received on December 26, 2007 had been allocated as follows:

Passive Equity Index Account	-	$4.2 billion
Lehman Aggregate Fixed Income Account	-	0.9 billion
Northern Trust Global Advisors ("Northern Trust")	-	1.0 billion
Total		$6.1 billion

This allocation of the UPS settlement proceeds was in accordance with the Court's order dated December 20, 2007. As also authorized under the December 20 order, the financial department reported that Goldman Sachs Asset Management ("Goldman") transferred $1.2 billion in investment assets to the newly established Passive Equity Index Account. Finally, as authorized under the Court's January 23, 2008 Order, the control, authority and responsibility for Fund assets in the amount of approximately $2.480 billion has been transferred from Goldman to Northern Trust as court-approved Named Fiduciary. Accordingly, pursuant to these court-approved allocations made in the wake of the receipt of the UPS settlement proceeds, the financial department reported that as of February 1, 2008, the Fund's total investment assets were allocated in the following percentages:

Goldman Sachs	30%
Northern Trust	30%
Lehman Aggregate Fixed Income Account	20%
Passive Equity Index Account	20%
Total	100%

Pension Fund

Funding Status and PPA Certification Process

As previously reported, in July 2005 the Internal Revenue Service approved the Fund's request for a 10-year extension for amortizing unfunded liabilities. This extension is believed likely to defer for the near term a statutory funding deficiency. The IRS granted the request subject to certain conditions. In general terms, these IRS conditions require the Pension Fund to maintain its existing ratio of assets to liabilities through 2011, and in subsequent years to show moderate annual improvements in that funding ratio.

To meet these IRS imposed conditions, the Board of Trustees determined based on actuarial and legal advice that the Pension Fund needs increased employer contributions. At their November 8, 2005 meeting, the Board accordingly amended the Pension Plan to require such increased contributions (at a rate the Board sets) in collective bargaining agreement renewals as a condition of continued participation, and approved specific rates reflecting 7% annual increases for contracts renewing by December 31, 2006. The Fund so notified all locals and employers participating in the Fund by special bulletin dated November 28, 2005 and held extensive meetings explaining the changes to local unions and employers.

At their November 8, 2006 meeting, again as recommended by the Pension Fund's actuaries to enable the Fund to comply with the funding ratio conditions imposed by the IRS, the Board of Trustees approved 8% per year as the required contribution rate increase for all collective bargaining agreements expiring in 2007. Local unions and participating employers were notified of this rate increase in December 2006.

The Pension Fund's Board of Trustees also asked the negotiators of the United Parcel Service, National Master Freight Agreement and Carhaul agreements to allocate to the Pension Fund fringe benefit contribution increases scheduled for 2006. The negotiators agreed to that allocation. Allocations of increased fringe benefit contributions to the Pension Fund were also made in 2007.

Throughout much of 2007 and at their Meetings held in January, February and March of this year, the Trustees received advice from the Fund's staff, legal counsel and actuaries with respect to the requirements of the Pension Protection Act of 2006 ("PPA"). As the Court is aware, beginning this year, the PPA establishes categories for multiemployer pension plans that correspond to each plan's funded status. The categories are: critical status ("red zone"), endangered status ("yellow zone"), or fully-funded status ("green zone"). Under the PPA, the plan's actuary must certify the plan's status. Although in recent years the Pension Fund's assets have grown and its funded ratios have improved to a certain extent, the actuary determined that if the Pension Fund's amortization extension granted by the IRS were to be disregarded, the Pension Fund would face a statutory funding deficiency. Largely based upon this consideration, and upon the advice of Fund counsel concerning the legal impact under the PPA of an amortization extension granted prior to the January 1, 2008 effective date of that statute, on March 24, 2008, the Fund's actuary certified the Pension Fund to be in critical status.

Under the PPA, trustees of a plan in critical status must develop a "rehabilitation plan" designed to improve the funded status of the plan in accordance with PPA guidelines. Following the PPA-related briefings presented by staff, actuaries and legal counsel during 2007 and the first quarter of 2008, at the March 25, 2008 Meeting, the Board of Trustees approved a rehabilitation plan ("Rehabilitation Plan") as required by the PPA. The plan approved by the Trustees attempts to build upon and incorporate the funding improvement program instituted prior to the January 1, 2008 effective date of the PPA, and designed to ensure compliance with the conditions imposed by the pre-PPA amortization extension. In broad outline, the Rehabilitation Plan approved by the Trustees contains a "Primary Schedule," which will require each contributing employer to agree to five years of 8% annual contribution increases (7% if the increases began in 2006) in order to maintain current benefit levels for the affected bargaining unit. The PPA also requires that a rehabilitation plan contain a "Default Schedule," which must provide for the reduction in what the PPA terms "adjustable benefits." ("Adjustable benefits" under the PPA generally include all benefits other than a contribution based retirement benefit payable at age 65.) Accordingly, the Pension Fund's Rehabilitation Plan includes a Default Schedule providing for 4% annual contribution rate increases and for the loss or reduction of adjustable benefits for bargaining units electing that Schedule. The PPA also provides that if the bargaining parties have not chosen any of the schedules established by a rehabilitation plan (*i.e.*, the Primary or Default Schedule) within 180 days following the expiration of the parties' last labor agreement, the Default Schedule will be imposed as a matter of law.

The PPA requires that the Pension Fund notify the plan participants, bargaining parties and the Department of Labor that it has been certified to be in critical status. The Pension Fund's staff has reported that the required critical status notices were mailed on or before April 8, 2008. The PPA also requires that the unions and employers who are parties to labor agreements requiring contributions to the Pension Fund be provided with the Schedules (Primary and Default) of contributions and benefits approved by the Trustees as part of the Fund's Rehabilitation Plan. Staff has reported that the Pension Fund provided these Schedules to the bargaining parties on or before April 1, 2008.

Staff has also reported to the Board of Trustees that the National Master Freight Agreement ("NMFA") employers, who account for approximately 48% of the Pension Fund's contribution revenue, have agreed under the new NMFA that became effective this year to pension contribution rate increases conforming to the requirements of the Fund's Primary Schedule under its Rehabilitation Plan. Staff has also reported that a high percentage of the contributing employers whose labor agreements expired in 2006 and 2007 have agreed to provide follow-on agreements in compliance with the Fund's pre-PPA funding improvement program (requiring 7% annual increases for employers with agreements expiring in 2006 and 8% increases for employers with contracts expiring in 2007). As a result, Staff has informed the Trustees that it anticipates that most contributing employers will elect to agree to the 8% contribution increase required under the Fund's Rehabilitation Plan Primary Schedule.

Financial Information - Investment Returns

The Pension Fund's investment return for the first quarter 2008 was (6.44)%.

The Fund's financial group prepared for the Trustees a comparison of the Pension Fund's performance to the TUCS[1] universe results published for the fourth quarter of 2007. This comparison (showing percent returns on investment) is summarized in the following tables:

Pension Fund's Composite Return

	4th Quarter Ended Dec. 31, 2007	One Year Period Ending Dec. 31, 2007	Three Year Period Ending Dec. 31, 2007
TUCS 1st Quartile	0.09	10.23	11.92
TUCS Median	(0.58)	8.55	10.41
TUCS Third Quartile	(1.08)	7.64	9.41

[1]"TUCS" is the Trust Universe Comparison Service. Its Custom Large Funds Universe is composed of plans with assets exceeding $3 billion.

Fund's Composite Return	(1.58)	6.55	10.42

Pension Fund's Total Equity Return

	4th Quarter Ended Dec. 31, 2007	One Year Period Ending Dec. 31, 2007	Three Year Period Ending Dec. 31, 2007
TUCS 1st Quartile	(1.74)	10.06	13.51
TUCS Median	(2.55)	8.62	12.17
TUCS Third Quartile	(3.02)	5.14	10.54
Fund's Total Equity Return	(3.02)	6.90	12.97

Pension Fund's Fixed Income Return

	4th Quarter Ended Dec. 31, 2007	One Year Period Ending Dec. 31, 2007	Three Year Period Ending Dec. 31, 2007
TUCS 1st Quartile	3.34	7.99	5.25
TUCS Median	2.87	7.13	4.89
TUCS Third Quartile	2.31	6.46	4.69
Fund's Fixed Income Return	2.85	7.12	4.83

The Fund's named fiduciaries (Goldman Sachs Asset Management and Northern Trust Global Advisors, Inc.) submit monthly investment reports to the Trustees, summarized below (showing percent returns on investment:

Goldman Sachs Asset Management

	Year Ended Dec. 31, 2007	First Quarter 2008	Jan. 2008	Feb. 2008	Mar. 2008
Goldman-Sach's Composite Return	6.07	(8.34)	(6.48)	(0.50)	(1.49)

Benchmark Composite Return	6.08	(7.91)	(6.29)	(0.81)	(0.92)
Goldman Sach's Total Fixed Income Return	6.91	1.21	1.70	(0.23)	(0.25)
Benchmark Fixed Income Return	5.62	0.66	0.75	(0.26)	0.17

Goldman Sach's first quarter 2008 composite return included a (11.19)% return on U.S. equities ((10.91)% large cap and (12.04)% on small cap U.S. equities), (11.59)% on international equities and 1.59% on real estate.

Northern Trust Global Advisors, Inc.

	Year Ended Dec. 31, 2007	**First Quarter 2008**	**Jan. 2008**	**Feb. 2008**	**Mar. 2008**
Northern Trust's Composite Return	6.48	(9.02)	(5.42)	(2.19)	(1.66)
Benchmark Composite Return	6.99	(8.50)	(6.44)	(1.51)	(0.71)
Northern Trust's Total Fixed Income Return	5.02	(4.28)	(0.81)	(0.57)	(2.95)

Northern Trust's first quarter 2008 composite return included a (11.71)% return on U.S. equities ((10.99)% large cap and (15.47)% on small cap U.S. equities), 9.63% on international equities and 2.58% on real estate.

The Fund's financial group reported asset allocation of the Pension Fund as whole as of March 31, 2008 as follows: 66% equity, 30% fixed income, 2% other and 2% cash. The financial group also reported that for the first quarter of 2008 the return on the indexed fixed income account was 2.42%. The passive equity account was funded on December 26, 2007; performance for the first quarter of 2008 was (8.12)%.

<u>Financial Information - Net Assets</u>
(Dollars shown in thousands and do not include final year end adjustments.)

The financial report prepared by Fund staff for the three months ending March 31, 2008 shows net assets as of that date of $24,565,801, compared to $26,805,666 at December 31, 2007, a decrease of $2,239,865 compared to an increase of $107,088 for the same period last year. The $2,346,953 difference is due to $2,188,311 less investment income combined with $158,642 more net operating loss.

The Fund's staff report further notes that for the three months ended March 31, 2008, the Fund’s net asset decrease from operations (before investment income) was $465,314 compared to a decrease of $306,672 for the same period in 2007, or a $158,642 unfavorable change. This change in net assets from operations (before investment income) was attributable to:

a) ($144,455) less contributions, primarily due to the UPS withdrawal,

b) ($14,352) more benefits paid, due to increase in pensioners, beneficiaries and average monthly benefits and

c) $165 less general and administrative expenses.

During the three months ended March 31, 2008 and 2007, the Fund withdrew $404,899 and $479,419, respectively, from investment assets to fund the cash operating deficit.

Financial Information - Participant Population

The March 31, 2008 report prepared by Fund staff further notes that the two-month average number of Full-Time Equivalent (FTE) memberships decreased 36.0% from February 2007 to February 2008 (going from 143,284 to 91,681). During that period, the average number of retirees increased by 0.2% (from 211,945 to 212,437).

Named Fiduciaries

Officers of the Named Fiduciaries, Goldman Sachs Asset Management and Northern Trust Global Advisors, Inc. met with the Board of Trustees during this quarter to discuss portfolio matters including asset allocation.

The Fund's financial group reported to the Board of Trustees at their March 25, 2008 meeting on investment expenses incurred through the fourth quarter of 2007. These investment expenses (fiduciary, custodial and investment management fees) totaled

$78,707,545 through the fourth quarter of 2007 compared to $82,929,794 for the same period in 2006, a 5.1% decrease.

Bankruptcies and Litigation

The Fund's Executive Director continued to report to the Trustees on employer bankruptcies, including interim recoveries collected in the Funds' ongoing pursuit of claims for contributions and withdrawal liability against Consolidated Freightways Corporation and related entities. Approximately $59.5 million has been collected to date from Consolidated Freightways companies.

Health and Welfare Fund
Financial Information
(Dollars in thousands and do not
include final year end adjustments.)

The Health and Welfare Fund's financial summary for the first quarter of 2008 is compared below with interim financial information for the same periods of 2007:

	1st Quarter Ended Mar. 31, 2008	2007
Contributions	$ 287,777	280,519
Benefits	(251,478)	(268,410)
TeamCare administrative expenses	(7,460)	(7,189)
General and administrative expenses	(9,593)	(9,540)
Net operating income (loss)	19,246	(4,620)
Investment income (loss)	(5,198)	13,027

Increase (Decrease) in net assets	14,048	8,407
Net assets, end of period	1,101,244	916,386
Two-month average participants (FTEs)	94,879	94,333

For the three months ended March 31, 2008, the Health and Welfare Fund's net asset increase from operations (before investment income) was as follows:

(a) $7,258 more contributions,

(b) $16,932 less benefits,

(c) ($271) more TeamCare administrative fees, and

(d) ($53) more general and administrative expenses.

Net investment income for the three months ended March 31, 2008 was $18,225 less than for the same period last year. This decrease resulted primarily from $19,176 unfavorable change in realized/unrealized gain (loss) offset by $971 more interest and dividend income.

During the three months ended March 31, 2008 and 2007, the Fund transferred $26,407 and $6,107, respectively, to investments (Mellon Bank) as the operations generated positive cash flows for those periods.

The enclosed report entitled "Central States Funds Financial and Analytical Information" prepared by the Fund's financial group as of March 31, 2008 shows the investment asset allocation as 76% fixed income and 24% equity.

This report also notes that the two month average number of Full-Time Equivalents (FTE) memberships increased 0.6% from February 2007 to February 2008 (going from 94,333 to 94,879). During that period, the average number of retirees covered by the Health and Welfare Fund decreased by 12.1% (from 16,938 to 14,894).

Article V (H)

As required by Article V(H) of the Health and Welfare Fund Consent Decree, the Health and Welfare Fund has paid during the first quarter of 2008 the following for professional services and expenses for the Independent Special Counsel:

January	$276
February	$0
March	$0

I will be glad to provide additional details regarding any aspect of my activities as Independent Special Counsel. Should you have any questions or comments, please do not hesitate to contact me.

Sincerely,

Frank J. McGarr

FRANK J. MCGARR,

Enclosure

cc: Mr. Gregory F. Jacob (w/encl.) **Via UPS Next Day**
Mr. Michael Schloss (w/encl.) **Via UPS Next Day**
Mr. Thomas Nyhan
Mr. William Nellis