FRANK J. McGARR, Esq.
Arbitration and Mediation

August 11, 2010

The Honorable Milton I. Shadur
United States District Judge
United States District Court
Northern District of Illinois
Eastern Division
219 South Dearborn Street
Chicago, Illinois 60604

Via UPS Next Day

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 Shadur:

This is to report on my activities during the second quarter of 2010 as Independent Special Counsel appointed pursuant to the Fitzsimmons (Pension Fund) and Robbins and Dorfman (Health and Welfare Fund) consent decrees.

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.

Trustee Selection / Board Composition

Mr. George Westley's present term as an Employee Trustee is set to expire on March 31, 2011. On July 7, 2010, I attended a ballot counting procedure at the Funds' offices to select an individual to fill the Employee Trustee position and term set to begin on April 1, 2011 and running through March 31, 2016. The ballots returned by the Southern Trustee Selection Board, pursuant to the Funds' Statement of Procedures for Selection and Monitoring of Employee Trustees ("Procedures"), indicated that Mr. Westley has been re-elected to serve the five year term following the expiration of his present term on March 31, 2011. As Mr. Westley has already been approved by the Court overseeing the consent decrees, no further approvals by the court are required. These balloting results were reviewed and approved by the Employee Trustees at the August 10, 2010 Board Meeting pursuant to the Funds' Procedures.

Audit

At the April 20, 2010 Meeting of the Board of Trustees, the Funds' Internal Audit Department presented a report concerning its audit of 2010 pension processing. The overall conclusion of the audit was that adequate administrative and internal accounting controls surrounding this activity were operating during the testing period. Internal Audit also concluded that the controls provide a basis for reliance that pension applications are processed in accordance with Fund policies and procedures.

Pension Fund

Funding and PPA-Related Issues

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 needed 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 which were scheduled for 2006. The negotiators agreed to that allocation. Allocations of increased fringe benefit contributions to the Pension Fund were also made in 2007.

As explained in previous reports, the multiemployer plan funding rules of the Pension Protection Act of 2006 ("PPA") became effective on January 1, 2008. On March 24, 2008, the Fund's actuary certified the Fund to be in "critical status" under the PPA for the 2008 plan year; on March 31, 2009, the actuary certified that the Fund remains in critical status for the 2009 plan year, and on March 31, 2010 the actuary made the same certification with respect to the 2010 plan year. As a result of the initial critical status certification, the Trustees adopted a "rehabilitation plan" as the PPA requires for critical status plans. 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.

Staff has reported to the Trustees that as of June 2010, a vast majority of the Fund's active members were covered by collective bargaining agreements that have come into compliance with the Fund's rehabilitation plan. Almost all of the compliant employers and bargaining units have agreed to adopt the rehabilitation plan's Primary Schedule (generally requiring 7-8% annual contribution increases for five years and maintaining current benefit levels). As of the Trustees' June 8, 2010 Meeting, only 10 bargaining units, comprising a total of 229 active participants, have agreed to adopt the rehabilitation plan's Default Schedule (4% annual increases and elimination of PPA adjustable benefits). As of June 2010, approximately 15 bargaining units, comprising approximately 110 participants, have had the Default Schedule imposed on them by operation of law under the PPA, due to their failure to agree to be bound by either Primary Schedule or the Default Schedule within 180 days of the expiration of the units' last collective bargaining agreement.

Contributing employers who have not agreed to be bound by one of the Schedules created by the Rehabilitation Plan are required under the PPA to pay a non-benefit bearing surcharge to the Fund on their contractual pension contribution obligation. Under the PPA, the surcharge was 5% of the pension contribution obligation during 2008, and was increased to 10% as of January 1, 2009. Staff has reported that (1) as noted, most employers are in compliance with the Rehabilitation Plan and are *not* incurring surcharges, and (2) as of June 2010, most of the employers who are incurring the surcharges are also voluntarily paying them; those few who have refused to pay the surcharges are being pursued under the Fund's delinquent account collection procedures, including litigation where necessary. (It should be noted that surcharged employers – *i.e.*, those not compliant with the Rehabilitation Plan – are not necessarily subject to the Default Schedule under which the affected participants incur a loss of PPA adjustable benefits. Under the PPA, the Default Schedule is imposed on the bargaining parties only after the lapse of 180 days from the expiration of a non-compliant collective bargaining agreement. As reported above, only approximately 15 bargaining units, comprising approximately 110 participants, have so far incurred the Default Schedule through this PPA-mandated process.)

At the June 8, 2010 Board of Trustees Meeting, Staff also presented reports concerning certain employers and bargaining units who may have triggered "Rehabilitation Plan Withdrawals" from the Pension Fund. Under the Pension Fund's Rehabilitation Plan adopted pursuant to the PPA, a Rehabilitation Plan Withdrawal ("RPW") generally occurs where an employer ceases to have an obligation to contribute to the Fund at one or more of its locations or facilities, but continues to do the same type of work for which contributions were previously required. The consequence for a bargaining unit incurring an RPW is the loss of PPA adjustable benefits (*i.e.*, the loss of all benefits other than a contribution-based benefit payable at age 65).

The PPA also contemplates that multiemployer plans in the critical zone will annually "update" their rehabilitation plans, which presumably includes annual consideration of changes to the rehabilitation plan schedules of contributions and benefits. The Pension Fund was not required to undergo such an update process during 2009 because the Fund elected, pursuant to the Worker Retiree and Employer Recovery Act of 2008 (WRERA), to opt-out of the 2009 update requirement. The WRERA opt-out is not applicable for the 2010 plan year, and so the Trustees will engage in the PPA/rehabilitation plan update process later this year.

Although it appears the Pension Fund has reported progress in securing increased employer contributions and controlling benefits as required of “critical status” plans under the PPA, the financial information presented below makes clear that the Fund suffered serious investment losses in the general stock market and economic downturn that commenced in 2008. During 2009 the Pension Fund enjoyed a significant (but by no means complete) recovery of its 2008 investment losses; investment results through the second quarter of 2010, as depicted below, have been subject to the volatility experienced in the general markets this year. In addition, Staff has reported that, for plan year 2008, the Pension Fund was unable to satisfy the funding ratio targets that are a condition of the amortization extension granted to the Fund by the IRS in 2005 (described above, pp. 3-4). Staff has also reported, with the concurrence of the Trustees, that the Pension Fund has filed an application with the IRS requesting a waiver of the funding ratio targets established under the amortization extension, in view of the unexpected economic decline that has occurred; that application is still pending. The Trustees have also directed Staff to continue to monitor and pursue additional regulatory or legislative initiatives that may assist the Pension Fund in addressing the funding problems created by recent conditions in the general economy and stock markets.

<u>Named Fiduciaries – Goldman Sachs’ Resignation Notice and Related Consent Decree Amendments.</u>

As the Court is aware, on June 25, 2010 the Court approved the transfer of all the assets presently controlled by Goldman Sachs Asset Management LLP (as named fiduciary) to Northern Trust Global Advisors, Inc. (as named fiduciary). The Court approved this asset transfer as part of the Fund’s transition to a single named fiduciary in light of Goldman Sach’s decision to resign from its named fiduciary position. Pursuant to the Court’s June 25 Order, on August 2, 2010 all assets under the control of Goldman Sachs – comprising approximately $5.54 billion in value – were transferred to Northern Trust. As also provided in the Court’s Order, pursuant to an asset reallocation plan to be submitted to the Court for its review and subject to the Court’s approval of that plan, within approximately the next 60 days Northern Trust will transfer (1) assets comprising 5% of the Fund’s total assets to the Passive EAFE Index Account recently approved under the Consent Decree, and (2) assets comprising 5% of the Fund’s total assets to the Passive Equity [S&P] Index Account created under the Consent Decree in 2007.

Financial Information - Investment Returns

The Pension Fund’s investment return for the second quarter 2010 was (6.78)%. Of course, this return does not include data for the month of July 2010, during which the stock markets enjoyed significant gains.

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 second quarter of 2010. This comparison (showing percent returns on investment) is summarized in the following tables:

Pension Fund’s Composite Return

	2nd Quarter Ended June 30, 2010	One Year Period Ending June 30, 2010	Three Year Period Ending June 30, 2010
TUCS 1st Quartile	(4.00)	14.65	(2.82)
TUCS Median	(4.83)	13.37	(4.31)
TUCS 3rd Quartile	(5.82)	11.79	(4.99)
Fund’s Composite Return	(6.78)	15.93	(4.54)

Pension Fund’s Total Equity Return

	2nd Quarter Ended June 30, 2010	One Year Period Ending June 30, 2010	Three Year Period Ending June 30, 2010
TUCS 1st Quartile	(10.51)	16.14	(9.01)
TUCS Median	(11.10)	14.94	(9.87)
TUCS 3rd Quartile	(11.44)	14.28	(10.30)
Fund’s Total Equity Return	(10.81)	16.40	(10.32)

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

Pension Fund's Fixed Income Return

	2nd Quarter Ended June 30, 2010	One Year Period Ending June 30, 2010	Three Year Period Ending June 30, 2010
TUCS 1st Quartile	5.36	18.28	9.45
TUCS Median	3.49	14.98	8.24
TUCS 3rd Quartile	3.13	12.58	7.36
Fund's Fixed Income Return	3.14	12.62	8.24

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-to-Date as of June 30, 2010	2nd Quarter 2010	April 2010	May 2010	June 2010
Goldman-Sach's Composite Return	(3.57)	(7.51)	1.50	(6.39)	(2.66)
Benchmark Composite Return	(4.06)	(8.24)	1.36	(6.76)	(2.91)
Goldman Sach's Total Fixed Income Return	5.33	2.46	1.37	(0.52)	1.60
Benchmark Fixed Income Return	5.11	2.46	1.43	(0.45)	1.47

Goldman Sach's second quarter 2010 composite return included a (10.73)% return on U.S. equities ((12.31)% large cap and (9.44)% on small cap U.S. equities), (8.36)% on international equities and (2.41)% on real estate.

Northern Trust Global Advisors, Inc.

	Year-to-Date as of June 30, 2010	2nd Quarter 2010	April 2010	May 2010	June 2010
Northern Trust's Composite Return	(3.85)	(9.23)	1.95	(7.47)	(3.77)

Benchmark Composite Return	(5.33)	(9.51)	1.50	(7.30)	(3.83)
Northern Trust's Total Fixed Income Return	6.14	2.27	1.91	(1.53)	1.91
Benchmark Fixed Income Return	3.74	1.46	1.13	(0.74)	1.07

Northern Trust's second quarter 2010 composite return included a (11.16)% return on U.S. equities ((11.89)% large cap and (7.74)% on small cap U.S. equities), (11.71)% on international equities and (4.15)% on real estate.

The Fund's financial group reported asset allocation of the Pension Fund as a whole as of June 30, 2010 as follows: 67% equity, 29% fixed income, 2% other and 2% cash. The financial group also reported that for the second quarter of 2010 the return on the indexed fixed income account was 3.57%. For the second quarter of 2010 the passive equity account had a return of (11.41)%.

Financial Information - Net Assets
(Dollars shown in thousands)

The financial report prepared by Fund staff for the six months ending June 30, 2010 (enclosed) shows net assets as of that date of $17,983,970, compared to $19,542,042 at December 31, 2009, a decrease of $1,558,072 compared to an increase of $126,057 for the same period last year. The $1,684,129 difference is due to $1,546,564 less investment income and ($137,565) more net operating loss.

The enclosed Fund's staff report further notes that for the six months ended June 30, 2010, the Fund's net asset decrease from operations (before investment income) was $1,110,581 compared to a decrease of $973,016 for the same period in 2009, or a $137,565 unfavorable change. This change in net assets from operations (before investment income) was attributable to:

a) ($99,320) less contributions, YRC termination and a decrease in FTEs offset by increases in W/L and contribution rates,

b) ($39,905) more benefits paid, and

c) $1,660 less general and administrative expenses.

During the six months ended June 30, 2010 and 2009, the Fund withdrew $1,103,358 and $1,053,473, respectively, from investment assets to fund the cash operating deficit.

Financial Information - Participant Population

The enclosed June 30, 2010 report prepared by Fund staff further notes that the five-month average number of Full-Time Equivalent (FTE) memberships decreased 29.40% from May 2009 to May 2010 (going from 80,031 to 56,504). During that period, the average number of retirees increased 1.02% (from 212,053 to 214,222).

Named Fiduciaries

Officers of the Named Fiduciary, 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 August 10, 2010 meeting on investment expenses incurred through the second quarter of 2010. These investment expenses (fiduciary, custodial and investment management fees) totaled $29,861,981 through the second quarter of 2010 compared to $25,667,280 for the same period in 2009, a 16.3% increase.

Bankruptcies and Litigation

The Funds' 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 $86.9 million has been collected to date from Consolidated Freightways companies.

YRC

As previously reported, YRC, Inc. and its affiliates ("YRC") are trucking subsidiaries of YRC Worldwide, Inc., the product of a merger between Yellow Transportation and Roadway. YRC in recent years has been one of the largest contributing employers to both the Pension Fund and the Health and Welfare Fund. As also previously reported, the Funds' Executive Director informed the Trustees at their March 24, 2009 Meeting that YRC reported cash flow issues caused by the current decline in the general economy. As a result, YRC proposed an arrangement under which portions of its payment obligations to the

Funds would be deferred, and the Funds would be given liens or mortgages to secure the deferred obligations.[2]

In May 2009 the Funds entered a Contribution Deferral Agreement ("Deferral Agreement") with YRC. Under the Deferral Agreement, the Pension Fund agreed to defer payment of YRC's pension contribution obligations accrued during January, March, April and May of 2009 (the "Deferral Period," representing a deferral of contributions totaling approximately $83 million). The Fund's financial consultant indicated that absent deferral of these contribution obligations, YRC would be in default of loan covenants with its banks; Staff reported that such a default would risk triggering an insolvency and liquidation of YRC, which would destroy any chance of rehabilitating the employer as a healthy contributor to the Funds.

Some 25 other multiemployer pension plans in which YRC participates joined in the Deferral Agreement, but the Pension Fund is owed approximately 64% of the contributions deferred under the Agreement.

Repayment of the Deferral Period contributions is secured under the Deferral Agreement by first lien collateral on approximately 150 real estate parcels owned by YRC, plus additional second lien collateral. The Pension Fund's Staff reported (1) that this was the maximum collateral package that could be obtained from YRC and its banks to support the Deferral Period contributions, and (2) that YRC's banks (who had a first lien on virtually all the company's assets) required the Pension Fund to agree to the Deferral Agreement as a condition for the banks' release of the collateral.

The Deferral Agreement required repayment of the deferred contributions in 36 monthly installments commencing in January 2010. YRC was also scheduled under this Agreement to pay interest on the deferred contributions on a current basis commencing on July 15, 2009 and continuing on the 15th of each month thereafter. The Pension Fund's Staff has reported that YRC has made timely interest payments to the Fund of approximately $2.2 million as of December 15, 2009. In addition, Staff has reported that to date YRC has sold a portion of the first lien collateral provided by the Deferral Agreement, and the Pension Fund received approximately $10.8 million as its share of the net proceeds from these sales as a pre-payment under the Deferral Agreement.

[2] After a brief period of delinquency in its obligations to the Health and Welfare Fund in early 2009, as of May 15, 2009, YRC became current in its contribution obligations to the Health and Welfare Fund and it apparently intends to remain current in its payments to that Fund for the foreseeable future.

However, the Pension Fund's Staff and financial consultants reported that YRC was both unable and unwilling to meet its pension contribution payment obligations beyond the Deferral Period, *i.e.,* contribution obligations accrued after May of 2009. Staff also advised the Trustees that the protection of the Pension Fund's interests cautions in favor of *terminating* the participation of YRC in the Pension Fund in order to stop the accrual of further pension obligations for which the company is not able to provide funding. Accordingly, at the Trustees' July 16, 2009 Meeting, the Board formalized action to terminate YRC's participation in the Pension Fund.

The Pension Fund's Staff also reported that a few days before this formal action to terminate YRC at the Trustees' Meeting on July 16, 2009, representatives of YRC and the International Brotherhood of Teamsters reached an agreement to amend YRC's current labor agreement to eliminate the company's pension contribution obligation for the next 18 months, and to resume making those contributions in January 2011. In light of YRC's intention to return to the Pension Fund as a participating employer at a later date, and upon a recommendation from Staff, the Trustees decided at their July 16, 2009 Meeting that YRC's termination of participation in the Pension Fund should not at this time (and subject to certain conditions) be treated as a complete and permanent cessation of its obligation to contribute to the Pension Fund that would trigger withdrawal liability. For similar reasons, the Trustees resolved that YRC's termination of participation in the Pension Fund should not at this time be treated as a Rehabilitation Plan Withdrawal (*see* p. 6 above), which would reduce the pension benefits of the YRC participants.

At the September 16, 2009 Board Meeting, the Trustees also approved treating YRC's delinquent contributions for the post-Deferral Period (*i.e.*, the contribution obligations accrued during June and July 2009, prior to the July 2009 termination of YRC's Pension Fund participation – approximately $26 million) as additional deferrals subject to repayment under the Deferral Agreement. The rationale expressed by the Trustees and their consultants for permitting this additional deferral was much the same as the rationale for the original deferral: Absent the deferrals, an insolvency and liquidation of the company would apparently result, and given the security package provided under the Deferral Agreement, the Pension Fund's best collection prospect is to rely on that security and while giving the company an opportunity to re-establish strong cash flow and profitability.

The Pension Fund's Staff also reported that in mid-October 2009, YRC approached the Fund and requested the ability to postpone for at least one year the principal and interest payments that were scheduled to fall due under the Deferral Agreement commencing on January 15, 2010. YRC based this request upon its continuing cash flow difficulties, and the willingness of YRC's banks and other creditors to make comparable concessions, including significant deferrals of interest and fees owed to the banks. YRC presented this as time-sensitive issues that had to be resolved by October 27, 2009 in order to coordinate with the company's other creditors. The Fund's Staff has reported that it appeared that if the Fund were to insist that YRC make the payments scheduled to commence on January 15, 2010, the other creditor groups would withdraw the concessions they were offering to make – thus resulting in a liquidation of YRC. As a result, in a phone conference held on October 26, 2009, the Trustees approved the requested postponement of the principal and interest payments previously scheduled to commence in January 2010 under the Deferral Agreement, because the Trustees viewed a liquidation of YRC at this time as contrary to the interests of the Fund (the "Supplemental Contribution Deferral"). This decision was formalized at the Trustees' November 17, 2009 Meeting.

YRC has reported that at year-end 2009, it achieved a debt restructuring with its banks and many of its bondholders. This included an agreement from a significant bondholder group to exchange its bonds for equity positions and an agreement by the banks to defer interest and fees. The Pension Fund's agreement to the one year deferral of the commencement of the amortized pay down of YRC's unpaid contributions (as discussed above) was contingent on the achievement of this debt restructuring. The Pension Fund's Staff has reported that the final form of YRC's debt restructuring agreements entered with the company's banks and bondholders differed slightly from the agreements assumed under the Supplemental Contribution Deferral arrangement, but were still very much in the Fund's interest. Accordingly, at the February 9, 2010 Meeting of the Board of Trustees, the Trustees formally re-ratified and approved the Supplemental Contribution Deferral under the conditions of the slight modifications in YRC's overall debt restructuring.

The Pension Fund's Staff reports that the outstanding principal and interest balance currently owed by YRC under the deferral arrangements described above (net of interest payments received during 2009 and net of distributions received from the sales of assets in which the Fund had a security interest) is approximately $95 million.

At YRC's request, members of the Pension Fund's Staff have recently participated in discussions with the company and Teamster union officials concerning the company's July 2009 agreement to resume contributions to the Pension Fund in January 2011. The issue of the timing and terms of YRC's resumption of pension contribution remains a subject of discussion and analysis.

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 second quarter of 2010 is compared below with interim financial information for the same period of 2009:

	2nd Quarter Ended June 30, 2010	2nd Quarter Ended June 30, 2009
Contributions	$277,083	280,875
Benefits	249,656	256,224
TeamCare administrative expenses	7,171	7,184
General and administrative expenses	8,858	9,840
Net operating income	11,398	7,627
Investment income (loss)	(21,490)	48,027
Increase (Decrease) in net assets	(10,092)	55,654
Net assets, end of period	1,324,980	1,147,436
Five-month average participants (FTEs)	81,601	88,565

For the six months ended June 30, 2010, the Health and Welfare Fund's net asset increase from operations (before investment income) was $28,787 compared to an increase of $31,693 for the same period in 2009, or a $2,906 unfavorable change:

(a) ($16,558) less contributions, primarily due to a decrease in FTEs offset by an increase in contribution rates,

(b) $12,671 less benefits,

(c) $168 less TeamCare administrative fees, and

(d) $813 less general and administrative expenses.

Net investment income for the six months ended June 30, 2010 was $6,117 less than for the same period last year. The decrease resulted primarily from a $3,358 unfavorable change in realized/unrealized gain (loss) combined with $2,706 less interest and dividend income.

During the six months ended June 30, 2010 and 2009, the Fund transferred $34,385 and $46,445, respectively, to investments (BNY Mellon) 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 June 30, 2010 shows the investment asset allocation as 76% fixed income and 24% equity.

This report also notes that the five-month average number of Full-Time Equivalent (FTE) memberships decreased 7.86% from May 2009 to May 2010 (going from 88,565 to 81,601). During that period, the average number of retirees covered by the Health and Welfare Fund decreased by 4.48% (from 13,015 to 12,432).

<u>Article V (H)</u>

As required by Article V(H) of the Health and Welfare Fund Consent Decree, the Health and Welfare Fund has paid during the second quarter of 2010 the following for professional services and expenses for the Independent Special Counsel:

April	$661.25
May	$ 0.00
June	$402.50

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
F:340885

cc: Ms. M. Patricia Smith (w/encl.) **Via UPS Next Day**
Mr. Michael A. Schloss (w/encl.) **Via UPS Next Day**
Mr. Thomas C. Nyhan