FRANK J. McGARR, Esq.
Arbitration and Mediation

June 3, 2011

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, Solis v. Estate of Frank E. Fitzsimmons, et al., No. 78 C 342 (N.D. Ill., E.D.); Solis v. Robbins, et al., No. 78 C 4075 (N.D. Ill., E.D.); and Solis 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 first quarter of 2011 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

Employer Trustee Ronald DeStefano's office is subject to the nominating authority of the Association of Food and Dairy Retailers Wholesalers and Manufacturers ("AFDWRM"), and to confirmation by a majority vote of the other three Employer Trustees. His term was set to expire on March 31, 2011, and in February the AFDWRM renominated Mr. DeStefano to serve a five year term (April 1, 2011 to March 31, 2016). At the March 9, 2011 meeting of the Board of Trustees, the AFDWRM's nomination of Mr. DeStefano to serve as an Employer Trustee for the 2011-2016 term was confirmed by vote of the other Employer Trustees. Mr. DeStefano's service as a Trustee was previously approved by this Court by an Order dated April 9, 2010.

Audit

At the March 2011 Board meeting, the Internal Audit Department reported on its audit of the Funds' Accounts Payable/Purchasing processing activities. The overall conclusion of the audit was that the administrative and internal accounting controls surrounding Accounts Payable/Purchasing processing are operating in accordance with Funds' policies and procedures and provide a basis for reliance on the propriety of transactions processed.

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 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. The Fund followed a similar procedure with respect to agreements expiring in 2007, but requested 8% annual increases under those agreements.

In addition, pursuant to the Fund's request, the negotiators of the United Parcel Service, National Master Freight and Carhaul Agreements allocated to the Pension Fund all fringe benefit contribution increases which were scheduled for 2006 and 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; the actuary made the same certification with respect to 2009,

2010, and 2011. 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 requires 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 March 2011, 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' March 9, 2011 Meeting, only 14 bargaining units, comprising a total of 457 active participants, have agreed to adopt the rehabilitation plan's Default Schedule (4% annual increases and elimination of PPA adjustable benefits). As of March 2011, approximately 12 bargaining units, comprising approximately 56 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 March 2011, 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.

At the March 2011 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 Trustees received reports concerning the update process at several Board meetings during 2010, and at their December 2010 meeting the Board approved an updated rehabilitation plan. The major changes introduced by this 2010 update, as compared to the original rehabilitation plan adopted by the Trustees in 2008, are as follows:

- Effective on July 1, 2011, no new retirements will be permitted unless the participant has reached a minimum of age 57.

- Effective on July 1, 2011, participants who incur a loss of adjustable *(i.e.,* pre-age 65) benefits under the Default Schedule or as a result of a Rehabilitation Plan Withdrawal will have the reductions in their age 65 benefits calculated in accordance with an actuarial equivalence table, rather than pursuant to the formula used in the past, which provided for a reduction in the age 65 benefit of a flat 6% per year for each year prior to age 65.

The Trustees also concluded that under the present economic conditions, attempting to specify *additional* employer contribution rate increases (*i.e.*, beyond the rate increases specified in the 2008 Rehabilitation Plan) in the rehabilitation plan schedules would risk irreparable harm to the financial condition of many of the Fund's

contributing employers, and would therefore also imperil the Pension Fund and run counter to the PPA's funding improvement mandate. Moreover, the Trustees decided to establish a dollar limit on the contribution increases required by the Rehabilitation Plan. As of June 1, 2011, (1) with respect to the National Master Automobile Transporter Agreement, a contribution rate of $348 per week for each full-time employee will be deemed to comply with the Rehabilitation Plan's Primary Schedule without the need for further contribution rate increases, and, (2) with respect to any other collective bargaining agreement (such as the National Master Freight Agreement), $342 per week will be deemed sufficient to achieve Primary Schedule compliance.

The Trustees concluded that these changes to the rehabilitation plan were necessary to meet the PPA requirement that the Trustees take reasonable measures, in light of the Fund's experience, to improve pension funding.

Although it appears the Pension Fund has reported some progress in requiring 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 and 2010 the Pension Fund enjoyed a significant (but by no means complete) recovery of its 2008 investment losses. 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, p. 2). Staff has also reported that in 2009 the Pension Fund 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>Financial Information - Investment Returns</u>

The Pension Fund's investment return for the first quarter 2011 was 4.24%.

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 first quarter of 2011. This comparison (showing percent returns on investment) is summarized in the following tables:

Pension Fund's Composite Return

	1st Quarter Ended Mar. 31, 2011	One Year Period Ending Mar. 31, 2011	Three Year Period Ending Mar. 31, 2011
TUCS 1st Quartile	4.52	14.98	4.03
TUCS Median	3.95	14.02	3.23
TUCS 3rd Quartile	3.43	12.75	2.32
Fund's Composite Return	4.24	14.04	4.56

Pension Fund's Total Equity Return

	1st Quarter Ended Mar. 31, 2011	One Year Period Ending Mar. 31, 2011	Three Year Period Ending Mar. 31, 2011
TUCS 1st Quartile	5.75	17.59	3.52
TUCS Median	5.34	16.42	2.48
TUCS 3rd Quartile	4.77	15.72	1.90
Fund's Total Equity Return	5.50	16.09	2.63

[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

	1st Quarter Ended Mar. 31, 2011	One Year Period Ending Mar. 31, 2011	Three Year Period Ending Mar. 31, 2011
TUCS 1st Quartile	1.48	9.49	7.86
TUCS Median	1.02	8.15	7.03
TUCS 3rd Quartile	0.72	7.33	6.57
Fund's Fixed Income Return	0.94	6.53	6.73

The Fund's named fiduciary (Northern Trust Global Advisors, Inc., which has been allocated 50% of the Fund's investment assets) submits monthly investment reports to the Trustees, summarized below (showing percent returns on investment):

Northern Trust Global Advisors, Inc.

	Year-to-Date as of Mar. 31, 2011	1st Quarter 2011	Jan. 2011	Feb. 2011	Mar. 2011
Northern Trust's Composite Return	4.87	4.87	1.31	2.74	0.74
Benchmark Composite Return	4.86	4.86	1.65	2.71	0.47
Northern Trust's Total Fixed Income Return	2.30	2.30	1.23	0.79	0.27
Benchmark Fixed Income Return	1.75	1.75	0.90	0.65	0.20

Northern Trust's first quarter 2011 composite return included a 7.25% return on U.S. equities (5.47% large cap and 9.43% on small cap U.S. equities), 1.82% on international equities and 6.96% on real estate.

The Fund's financial group reported asset allocation of the Pension Fund as a whole as of March 31, 2011 as follows: 67% equity, 30% fixed income, 2% other and 1% cash.

The financial group also reported that for the first quarter of 2011 the returns on the Fund's passive indexed fixed income accounts were as follows:

Account	First Quarter 2011 Return
Passive Indexed Equity (S&P 500) Income (25% of investment assets)	6.03%
Passive Indexed Fixed-Income (20% of investment assets)	0.33%
Passive EAFE Indexed (5% of investment assets)	3.43%

Financial Information - Net Assets
(Dollars shown in thousands)

The financial report prepared by Fund staff for the three months ending March 31, 2011 (enclosed) shows net assets as of that date of $20,087,222, compared to $19,843,959 at December 31, 2010, an increase of $243,263 compared to an increase of $306,011 for the same period last year. The $62,748 difference is due to $54,258 less investment income combined with $8,490 more net operating loss.

The enclosed Fund's staff report further notes that for the three months ended March 31, 2011, the Fund's net asset decrease from operations (before investment income) was $569,134 compared to a decrease of $560,644 for the same period in 2010, or a $8,490 unfavorable change. This change in net assets from operations (before investment income) was attributable to:

a) ($1,970) less contributions,

b) ($6,481) more benefits paid, and

c) ($39) more general and administrative expenses.

During the three months ended March 31, 2011 and 2010, the Fund withdrew $571,347 and $561,366, respectively, from investment assets to fund the cash operating deficit.

Financial Information - Participant Population

The enclosed March 31, 2011 report prepared by Fund staff further notes that the two-month average number of Full-Time Equivalent (FTE) memberships decreased 2.67% from February 2010 to February 2011 (going from 56,199 to 54,698). During that period, the average number of retirees increased 0.08% (from 214,071 to 214,243).

Named Fiduciary

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 March 9, 2011 meeting on investment expenses incurred through the fourth quarter of 2010. These investment expenses (fiduciary, custodial and investment management fees) totaled $59,249,237 through the fourth quarter of 2010 compared to $56,810,469 the same period in 2009, a 4.3% increase.

At the May 17, 2011 Meeting of the Board, Staff reported that total investment expenses (fiduciary, custodial and investment management fees) for the first quarter of 2011 were $12,753,664, compared to $15,641,030 for the first quarter of 2010, an 18.5% decrease in investment expenses (a savings of $2,887,366 for the quarter and an annualized savings of nearly $12 million). Staff attributed this decrease in investment expenses to the Fund's reversion to the single Named Fiduciary model as well as an increased allocation to indexed investment accounts (as opposed to accounts under active management by compensated investment managers), as authorized by the Court during 2010.

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 $102 million has been collected to date from Consolidated Freightways companies.

YRC

As previously reported, in recent years, YRC, Inc. and its affiliates ("YRC") have been among the largest contributing employers to both the Pension Fund and the Health and Welfare Fund.

As also previously reported, in May 2009 the Funds entered a Contribution Deferral Agreement ("CDA" or "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; subsequently, unpaid contributions accrued during June and July 2009 were also covered by the Deferral Agreement, bringing the principal amount of the deferred contributions to approximately $109 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 was secured under the Deferral Agreement by first lien collateral on approximately 150 real estate parcels owned by YRC, plus additional second lien collateral. The Deferral Agreement originally 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.

However, in mid-2009 the Pension Fund's Staff and financial consultants reported that YRC was both unable and unwilling to meet its on-going pension contribution payment obligations beyond the Deferral Period, *i.e.*, contribution obligations accrued *after* May of 2009. As a result, 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 in early July 2009, representatives of YRC and the Teamsters National Freight Negotiating Committee ("TNFNC") reached an agreement to amend YRC's then 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.

The Pension Fund's Staff also reported that in mid-October 2009, YRC approached the Fund and requested the ability to postpone for 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 and debt restructuring, including significant deferrals of interest and fees owed to the banks. On October 26, 2009, the Trustees approved the requested one-year postponement of the payments previously scheduled to commence in January 2010.

On September 24, 2010, TNFNC and YRC executed an Agreement for the restructuring of the YRC Worldwide, Inc. Operating Companies ("Restructuring Agreement"), which further revised YRC's pension contribution obligations. Under this Agreement YRC is scheduled to resume contributions to the Pension Fund in June 2011 at a rate constituting a 75% reduction from its pre-termination (pre-July 2009) rate.

On December 31, 2010 the Trustees approved a request made by YRC for a further deferral of the commencement of the repayment schedule (from January 2011 to June 2011), subject to the ability of the company to meet certain milestones in achieving an overall debt restructuring.

In February 2011, YRC asked the Fund to approve an Agreement in Principal ("AIP") relating to the planned debt restructuring. The Fund's Staff has reported that under this AIP, $237 million in bond and bank debt owed by YRC would be eliminated by means of a debt-for-equity swap, and $100 million in new financing would be provided to the company. The AIP also specifies that the funds participating in the CDA would be required to defer repayment of the contribution delinquencies until March 31, 2015, with the exception of monthly interest payments commencing in mid-2011 and any proceeds payable from sales of the funds' collateral under the CDA. On March 31, 2015 the entire unpaid CDA balance would become due and payable.

At the March 9, 2011 Meeting of the Pension Fund's Board of Trustees approved the AIP restructuring terms as outlined above, subject to certain conditions, including a negotiated increase in the rate at which interest is charged on YRC's CDA obligations to the Fund. The Trustees took this action based on Staff's recommendation and the evidence presented by the Fund's consultants and actuaries suggesting that a rejection of the AIP terms would risk triggering a bankruptcy of YRC, which would, in turn, likely place the Fund in a worse position than it would be under the proposed AIP terms.

The amended collective bargaining agreement, or "Restructuring Agreement," under which YRC is to resume pension contributions at a reduced level in June 2011 (compared to its pre-July 2009 contribution rate) expressly states that each affected multiemployer fund is to determine the benefit structure to be provided to the YRC employees in connection with the reduced contributions. At the March 9, 2011 Board Meeting, the Fund's Trustees determined it was

appropriate to accept contributions at the proposed lower rate; it appeared to the Trustees that the proposed contributions were at the highest rate that YRC could reasonably be expected to pay and that the proposed reduced contribution revenue represented an improvement from the status quo for the Pension Fund.

The Trustees also decided at their March 9, 2011 meeting that in light of the reduced contribution rate, the YRC employee unit should receive benefits equivalent in most respects to the Default Schedule under the Fund's Rehabilitation Plan. Under the Trustees determination, the YRC employees participating in the Pension Fund have incurred the loss of their pre-age 65 benefits and other benefits that are deemed "adjustable" under the PPA, except that YRC participants who were at least age 55 as of July 9, 2009 (when YRC's participation in the Fund was terminated) and who had at least 25 years of credit towards an "and-out" benefit at that time, will be allowed to retain that benefit, provided that they do not retire prior to age 62.

The Pension Fund’s Staff has reported that YRC made interest payments to the Fund of approximately $2.2 million through December 15, 2009 (when payments of interest were suspended under the revised repayment plans described above). In addition, Staff has reported that to date the Pension Fund has received approximately $25.7 million as its share of the net proceeds from sales of collateralized assets as a pre-payment under the CDA. The Fund’s Staff also reports that the outstanding principal and interest balance currently owed by YRC under the CDA is approximately $93 million.

Health and Welfare Fund
Financial Information

(Dollars shown in thousands and do not include final year-end adjustments)

The Health and Welfare Fund's financial summary for the first quarter of 2011 is compared below with interim financial information for the same period of 2010:

	1st Quarter Ended Mar. 31,	
	2011	2010
Contributions	$285,680	270,371
Benefits	235,626	237,124
TeamCare administrative expenses	7,425	7,234
General and administrative expenses	9,210	8,624
Net operating income	33,419	17,389
Investment income (loss)	24,974	29,074
Increase in net assets	58,393	46,463
Net assets, end of period	1,545,735	1,335,072
Two-month average participants (FTEs)	82,674	81,534

For the three months ended March 31, 2011, the Health and Welfare Fund's net asset increase from operations (before investment income) was $33,419 compared to an increase of $17,389 for the same period in 2010, or a $16,030 favorable change:

(a) $15,309 more contributions primarily due to an increase in contribution rates,

(b) $1,498 less benefits,

(c) ($191) more TeamCare administrative fees, and

(d) ($586) more general and administrative expenses.

During the three months ended March 31, 2011 and 2010, the Fund transferred $39,674 and $25,822, 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 March 31, 2011 shows the investment asset allocation as 75% fixed income and 25% equity.

This report also notes that the two-month average number of Full-Time Equivalent (FTE) memberships increased by 1.40% from February 2010 to February 2011 (going from 81,534 to 82,674). During that period, the average number of retirees covered by the Health and Welfare Fund decreased by 7.91% (from 12,527 to 11,536).

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 2011 the following for professional services and expenses for the Independent Special Counsel:

January	$281.75
February	$ 0.00
March	$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,

Enclosure
F:368054

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